

Nationwide's Response to the Results of the Bank of England Stress Test

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The Bank of England's findings confirm our own analysis that we are able to withstand a severe economic downturn. The PRA has confirmed that Nationwide is not required to submit a revised capital plan or take additional actions as a result of this stress test exercise, which has demonstrated the resilience and financial strength of our business.

The stress prescribed by the PRA incorporated a severe UK economic downturn, including an unprecedented fall in residential property prices of 35% and a near doubling in unemployment to 11.8%. The Building Societies Act requires us to maintain a minimum of 75% of our balance sheet secured against residential property and therefore a stress of this nature would inevitably have a significant impact on us, particularly as we are one of the largest mortgage lenders in the UK.

The results of the test confirm that under these extreme stress conditions, Nationwide would remain profitable, with a minimum stressed CET1 ratio of 6.7% (net of allowable management actions agreed by the PRA), substantially above the 4.5% regulatory benchmark. The reduction in the Society's CET1 ratio in the stress scenario results primarily from the impact of an unprecedented house price reduction on model risk weights rather than capital losses.

Since the effective date of the stress test, the Group has continued to strengthen its capital position as a result of strong profitability and de-leverage of certain legacy assets, improving our actual CET1 ratio by 3.3% to 17.6% as at 30 September 2014. On a conservative basis, we estimate that after allowing for this subsequent improvement in our capital strength, our minimum stressed CET1 ratio would increase from 6.7% to 8.1%.

Nationwide recognises the value of industry-wide stress testing and continues to support the financial stability objectives of the Financial Policy Committee and the Bank of England.

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