

Pillar 3

Lessons learned

-
- About Nationwide
 - What is Pillar 3?
 - Pillar 3 at Nationwide
 - Learning points
 - Future developments

About Nationwide

- Nationwide...
 - largest building society in the world (c.£190bn assets underlying)
 - third largest mortgage lender in the UK (c.£126bn residential property)
 - second largest retail savings provider in the UK (c.£121bn underlying balances)
 - over 18,000 employees
 - three regional brands (Derbyshire, Cheshire and Dunfermline building societies)
 - Retail savings franchise in Republic of Ireland and Isle of Man.

Derbyshire
Building Society

CHESHIRE
BUILDING SOCIETY

 **DUNFERMLINE**
SCOTLAND'S BUILDING SOCIETY

 **Nationwide UK**
Ireland

 **Nationwide**
International

Nationwide is a mutual organisation which serves its members rather than shareholders.

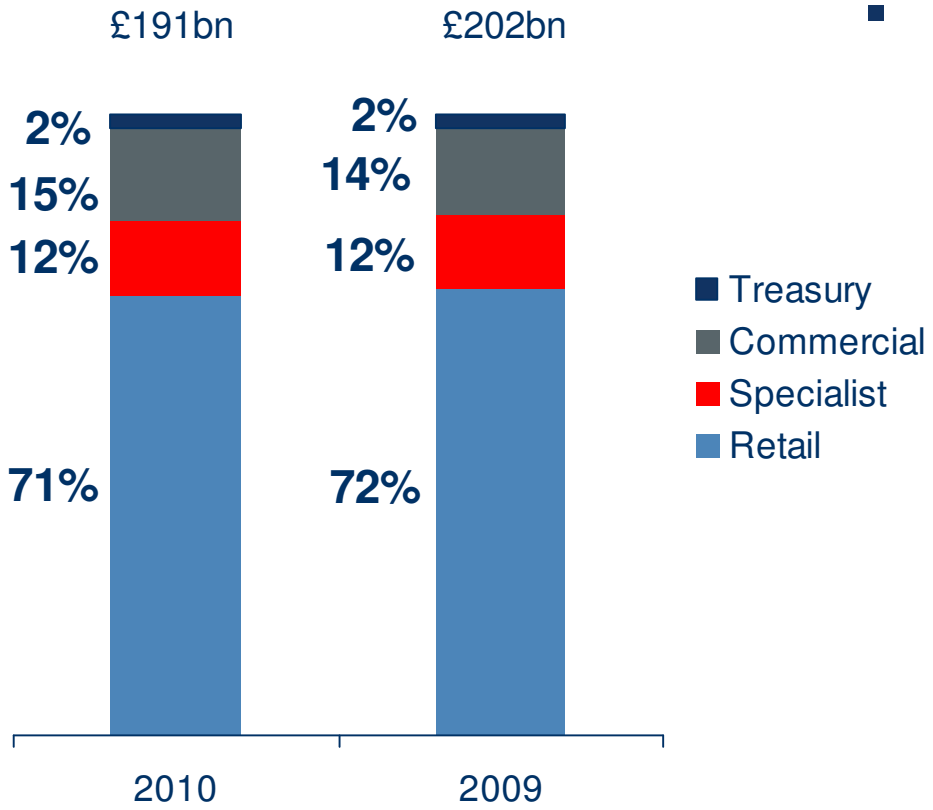
Nationwide operations

- Nationwide...
 - retail products include:
 - mortgages, current accounts, personal loans;
 - savings, investment accounts
 - commercial lending includes Housing Associations, offices, shops
 - sells insurance products (provided by a third party)
 - has its own Treasury function.



Nationwide serves 15 million members and has a relationship with one in every four households in the UK.

Balance sheet assets



- Prudent approach to lending



As a financial organisation we must hold liquidity to cover short-term demands, and capital to give underlying security for the longer term

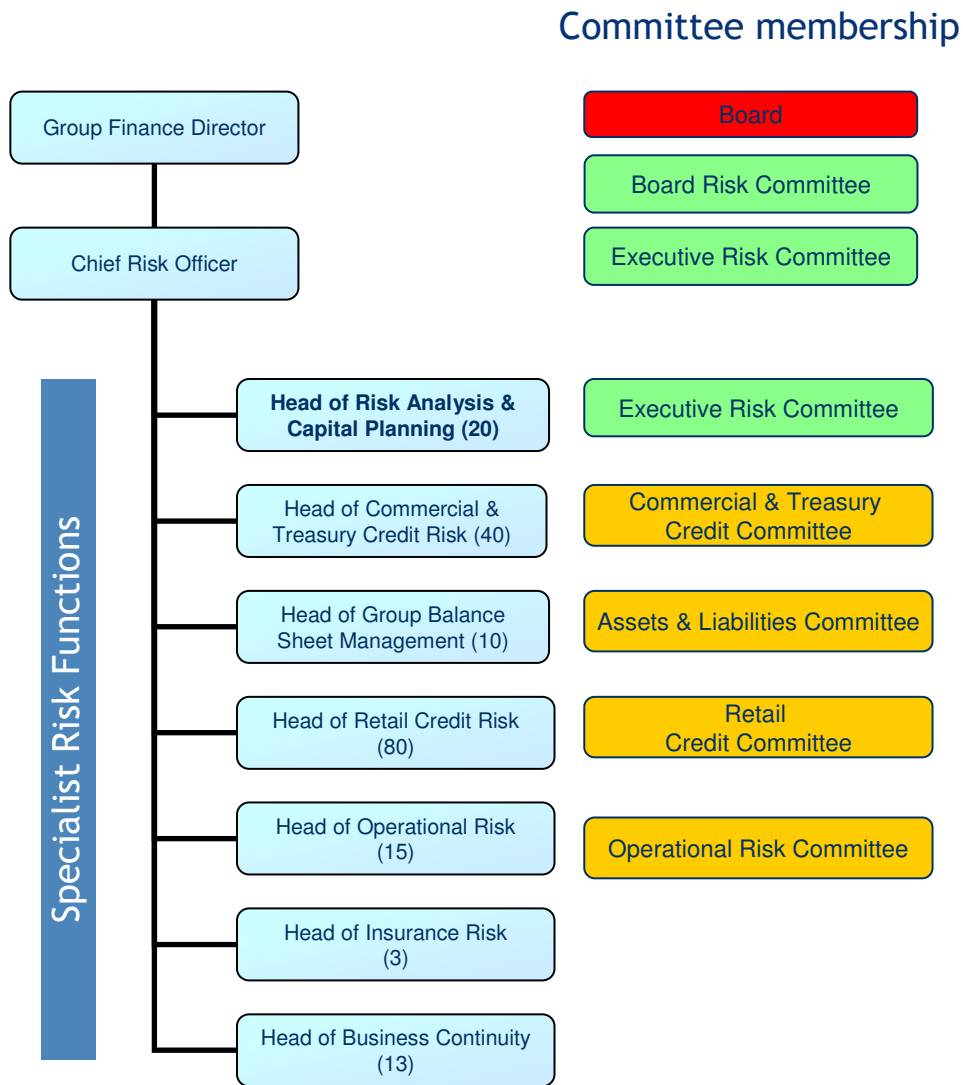
Risk Management in Nationwide



Three lines of defence model is applied to all risks

Second line: governance and oversight

Risk Management in Nationwide



The Division under the Chief Risk Officer provides oversight and governance in specialist risk teams that operate independently of business streams.

- Risk functions provide specialist support to the risk committees and the business
- Specialist risk functions provide independence from business streams
- Risk functions monitor key limits and triggers day-to-day

Risk Management in Nationwide

Head of Risk
Analysis & Capital
Planning

Senior Manager
Framework & Strategy
Dr Martin Davies

Risk Consultant
Gemma Clatworthy
CIRM

Forecasting

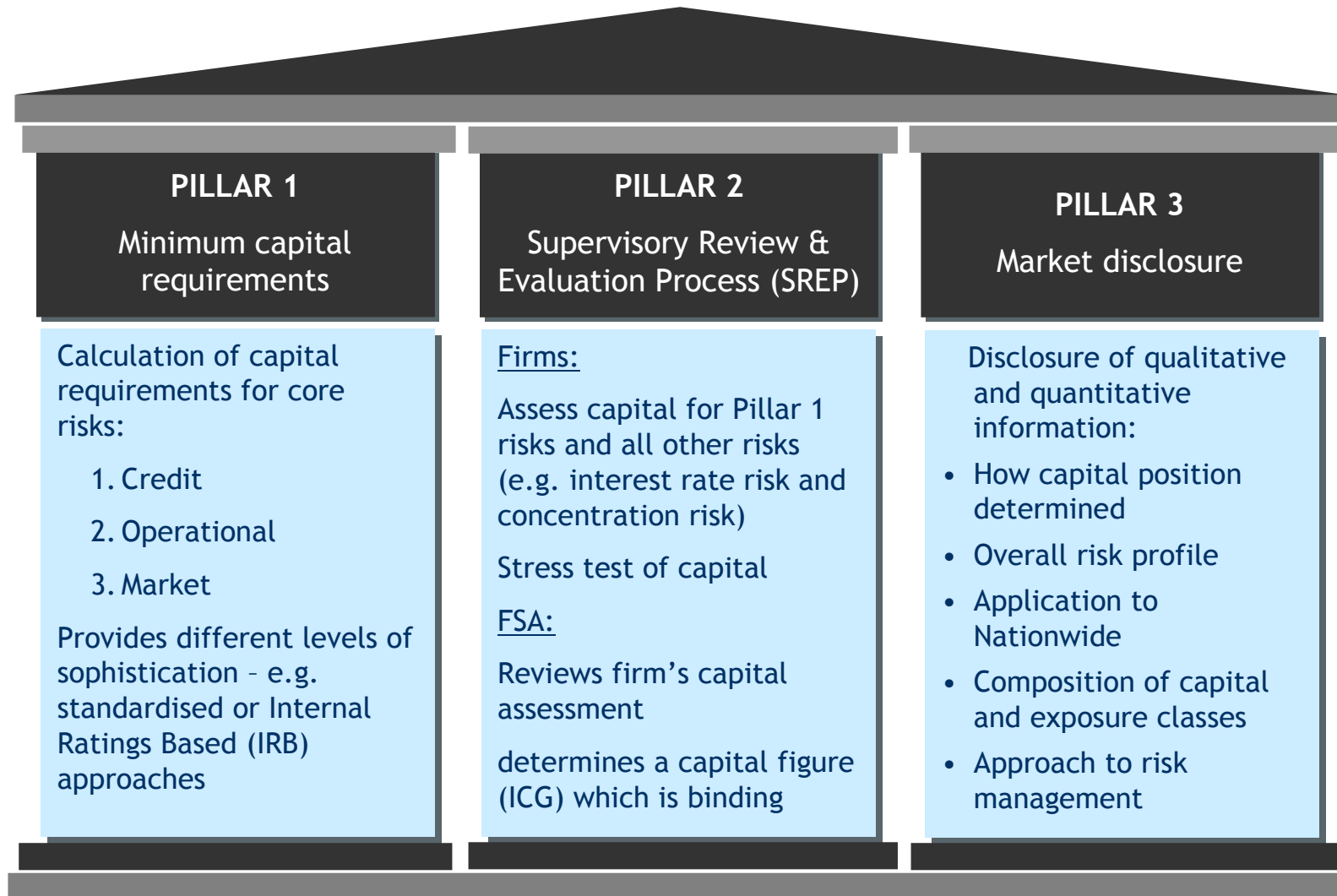
Reporting

Modelling

Regulatory Capital

- Pillar 3
- Internal Capital Assessment
- Group Risk Management Policy Statements
- Risk Appetite
- Regulatory developments
- Board and Executive Risk Committees

What is Pillar 3?



What is Pillar 3?

- Introduced as risk disclosures about Pillar 1 regulatory capital requirements and risk management
- It was intended as a publication “by the market, for the market” with little intervention by the regulator to promote market discipline
- The original disclosures included:
 - Credit risks
 - Operational risk
 - Interest rate risk
- Does not include wider risks (Pillar 2)
- Is not full financial statements

Pillar 3 Content

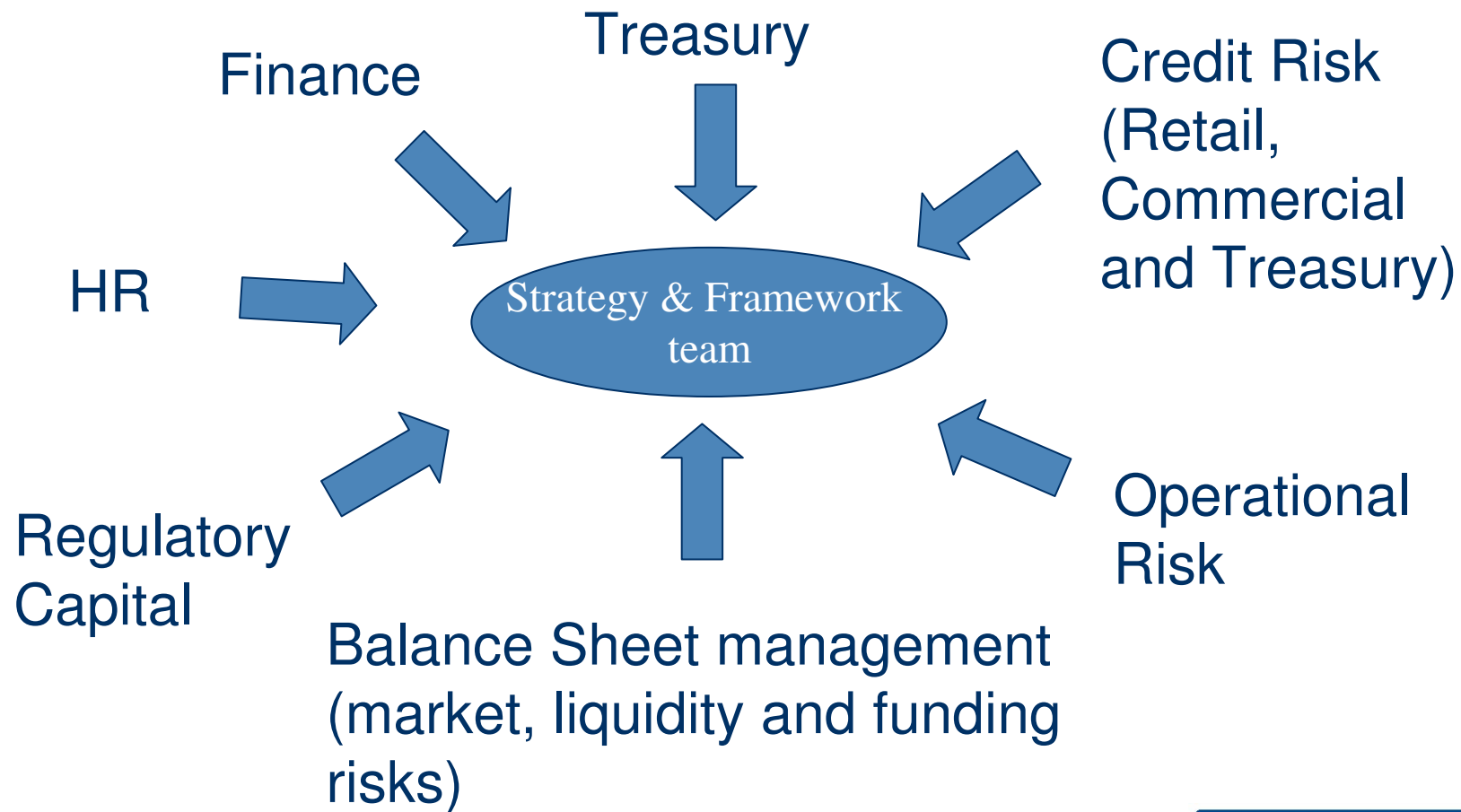
- Governed by BIPRU 11 rules and guidance
- Early iterations were open to interpretation
- Slavishly following can lead to a disjointed document
- Flexibility as to where disclosures are made
 - Separate document
 - AR&A
 - Published hardcopy
 - Internet site

Who reads Pillar 3?

- The primary audience is analysts and ratings agencies.
- Always want more!
- Peers who also prepare Pillar 3
- Limited interest from customers

Pillar 3 at Nationwide

- Several contributors across different divisions



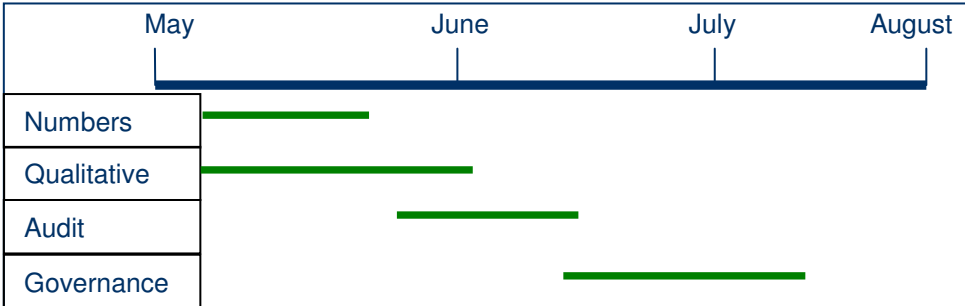
Pillar 3 at Nationwide

First iteration:

- One of the first out (due to year end 4 April)

- Driven by Finance

- Close project management



- Project plan, timelines, key milestones

- Internal audit involved

Pillar 3 at Nationwide

Developments since the first iteration:

- Review other disclosures – by the market, for the market
- Peer comparison of detail and qualitative
- British Bankers' Association (BBA) Pillar 3 working party
- Community of European Supervisors (CEBS – now the European Banking Authority) reviews of AR&A and P3
- CEBS guidelines for best practice

Learning points

- Communication, Co-operation, Co-ordination
- Involve people early
- Cross-organisational working
- Automation
- Quality checking
- Governance, reviews and committees
- Timing – within 3 months of year-end

Future developments

- Pillar 3 could end up as “catch all”:
 - Expecting to have to expand liquidity section
 - Remuneration (more extensive and detail than AR&A)
- Basel III
- Stress Testing

Thank you

Questions?