



Fixed Interest



Nationwide 7.971% (callable 13/03/15) PIB - Buy

9th May 2011

Price	104p
Credit Rating	A-
Risk Rating	Medium
Running Yield	7.66%
Yield to call	6.74%

Credit Analysts View:

The Nationwide is committed to remaining mutual and carries a credit rating of A by S&P and A- by Fitch. This indicates the building society has a strong capacity to meet its financial commitments.

PIB:

The Nationwide is the largest building society in the world with origins going back to 1846. With assets of around £200bn and represented in around 900 locations across the UK, the society is the UK's second largest savings provider and third largest mortgage lender.

The building society has a robust balance sheet with a Core Tier 1 ratio of 12.2% and an industry low wholesale funding ratio of 27.8%. Residential mortgage accounts more than 3 months in arrears are just 0.68% of the loan book, compared with an industry average of 2.22%.

The Nationwide 7.971% (callable in 2015) is priced at 104p, which puts them on a yield of 7.66% and a yield to call of 6.74%. If not called in 2015 (it is at the society's discretion) it will pay the 5 year gilt rate plus 405bps, not a bad proposition either.

A Guide to the PIBS Market:

Introduction

Permanent Interest Bearing Securities (PIBS) are deferred shares issued by building societies, listed and traded on the London Stock Exchange.

As building societies are mutual organisations, they cannot raise capital via a rights issue like banks, so issuing PIBS is a way of raising money without demutualising. Generally, they have a fixed coupon and are irredeemable or callable at the issuer's option. Often, the coupon is reset to a floating rate if the call is not exercised. Holders of PIBS are actually members of the issuing building society from a legal perspective and are consequently entitled to voting rights.

Where a former building society has been taken over or converted to a PLC, the PIBS are converted to perpetual subordinated bonds (PSBs), whose characteristics are similar to PIBS.



Fixed Interest (cont)

A Guide to the PIBS Market (cont):

Security

Building societies tend to be small, conservatively-run concerns and thus are less risky than their listed brethren. They do not have to contend with a falling share price, potentially causing a run on the bank which ensures their deposits remain fairly constant even during turbulent times. Being subordinated in nature, PIBS holders rank behind all other lenders, depositors and members holding share accounts in the event of liquidation. Any repayment would be limited to par, or 100p per share. Unpaid interest is non-cumulative and PIBS are not covered by the Financial Services Compensation Scheme.

Interest

Interest is paid gross semi-annually, but only available after payments have been made on ordinary savings accounts. Payments cannot be made if it would mean that the society would breach its capital adequacy requirements.

Undated

Most PIBS are irredeemable, though some can be redeemed at a pre-set price (usually par value) on a specific date. Like undated gilts, the prices of PIBS tend to be more sensitive to movements in interest rates than bonds with a fixed redemption date. Yields are mainly affected by the perceived standing of the society in terms of financial robustness rather than whether they are callable.

Dealing

PIBS & PSBs can only be dealt in round amounts, varying from 1,000 shares up to 100,000. They are dealt for standard T+3 settlement, clean of interest. This means that the accrued interest is settled separately, as it is with bonds. No stamp duty is payable on purchases.

Anomalies

Callable PIBS can be less volatile than irredeemable PIBS close to the date at which redemption may happen, yet do not tend to have lower yields. Yields are mainly affected by the perceived standing of the society in terms of financial robustness.

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