

Nationwide Building Society

**Half-Yearly Financial Report
For the period ended
30 September 2009**



CONTENTS

	Page
Overview	3
Financial Summary	6
Chief Executive’s review	7
Business review	12
Consolidated income statement	38
Consolidated statement of comprehensive income	39
Consolidated balance sheet	40
Consolidated statement of movements in members’ interests	41
Consolidated cash flow statement	42
Notes to the Half-Yearly Financial Report	43
Additional information	61
Responsibility statement	65
Independent review report	66
Other information	67
Contacts	67

Underlying Results

Profit before tax shown on a reported and underlying basis are set out on page 12. Reported profit before tax of £143 million has been adjusted for the movement in the value of derivatives and hedge accounting of £15 million, a credit of £1 million in respect of the provision for Financial Services Compensation Scheme (FSCS) costs and a gain of £40 million relating to the acquisition of the former Dunfermline Building Society social housing portfolio, to derive an underlying profit before tax of £117 million.

Forward Looking Statements

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, we 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.

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

This document does not constitute or form part of an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by the means of a prospectus that may be obtained from the Society and will contain detailed information about the Society and management as well as financial statements.

OVERVIEW

Nationwide Building Society announced today its results for the half year ended 30 September 2009. Despite challenging market conditions, Nationwide has delivered an underlying profit of £117 million whilst maintaining a well capitalised and liquid balance sheet with a Core Tier 1 capital ratio of 12.0% and core liquidity ratio of 12.9%. The Society is the UK's leading mutual, providing consumers with a real and attractive alternative to the high street banks.

Highlights

- Solid performance in a difficult market with underlying profit of £117 million and reported profit of £143 million.
- Strong capital ratios maintained with a Core Tier 1 ratio of 12.0% and Tier 1 ratio of 15.0%.
- Second largest savings provider and third largest mortgage lender in the UK with member savings balances of £122.7 billion and residential loan assets of £128.8 billion.
- Market leading and innovative products launched including Stepped Rate Bonds, Guaranteed Combination Bond and Champion Saver account. Strong sales achieved including a 38% increase in unit sales of Investment products reflecting approximately £1 billion of customer investments in the period.
- Costs down 6% on a like-for-like basis through Portman merger synergies and business transformation.
- Stable residential arrears with 0.66% (4 April 2009: 0.64%) of accounts more than three months in arrears – just over a quarter of the industry average of 2.40%.
- Significant long term funding in wholesale markets with almost £4 billion of senior unsecured and RMBS funding completed in September and October 2009. High levels of high quality liquidity maintained - core liquidity ratio of 12.9%.

Solid performance in challenging market conditions:

- Underlying profit before tax of £117 million (30 September 2008: £322 million). Compressed margins due to the sustained low interest rate environment and increased credit impairment provisions have resulted in a reduction in profit compared with the same period last year.
- Reported profit before tax of £143 million (30 September 2008: £374 million), including the impact of hedge related fair value adjustments and a gain on the acquisition of the social housing loan portfolio of the former Dunfermline Building Society.
- Net interest margin of 0.91% (30 September 2008: 0.99%, six months to 4 April 2009: 0.88%) reflecting higher retail funding costs offset by gains from liquidity management.
- Costs down 6%, £39 million, on a like-for-like basis through Portman merger integration synergies and business transformation.
- Strong sales performance including a 38% increase in unit sales of Investment products. Almost £1 billion of customer investments in the period, including £580 million of funds invested in Guaranteed Equity Bonds.
- The Group achieved an estimated 8.3% share of the gross residential mortgage market, writing new business with an average loan to value (LTV) of 63%. Our approach to new lending has remained cautious striking an appropriate balance between our desire to support existing members, first time buyers and the wider economy, with the need to maintain a prudent lending risk profile.
- Retail funding balances reduced by £5.6 billion reflecting intense competition and uneconomic pricing within a distorted competitive landscape for retail savings. We are prepared to continue to pursue a strategy of not seeking to maximize market share while such distortions remain. We remain the second biggest retail savings provider in the UK with balances of £122.7 billion and our commitment to this market in the medium to long term is undiminished.

Strong asset quality:

- Nationwide originated residential loans continue to perform strongly with 0.66% (4 April 2009: 0.64%) of accounts more than three months in arrears at 30 September 2009, compared with the CML industry average of 2.40% as at 30 September 2009 (31 March 2009: 2.41%). Accounts in arrears continue to be just over a quarter of the level reported by the CML as a whole.
- Total impairment charge on loans and advances to customers of £317 million (30 September 2008: £74 million, six months to 4 April 2009: £320 million).

- Impairment charges include provisions relating to commercial property loans of £180 million (30 September 2008: £25 million, six months to 4 April 2009: £146 million) reflecting recessionary conditions and significant decline in property values. Cumulative impairment charges over the last two years on commercial property finance portfolios amount to approximately 2.6% of total balances whilst valuations have fallen by over 40%, demonstrating the overall quality of the portfolio and our policy of lending based on rental flows rather than solely capital values.
- The performance of the assets acquired from the mergers with Cheshire, Derbyshire and Dunfermline building societies have been satisfactory and anticipated losses remain in line with the allowances made at acquisition.
- The proportion of unsecured personal loan balances over 30 days in arrears is 7.20% (4 April 2009: 7.15%). This remains significantly less than the industry average of 19.2% (31 March 2009: 15.8%).

Well capitalised and liquid balance sheet:

- Total assets of £199 billion (4 April 2009: £202 billion).
- Strong capital ratios maintained with a Core Tier 1 ratio of 12.0%, Tier 1 ratio of 15.0% and total solvency ratio of 19.1%. (4 April 2009: 12.0%, 15.1% and 19.5% respectively).
- Predominantly retail funded balance sheet. Wholesale funding ratio increased modestly to 30.4% (4 April 2009: 28.6%) but still one of the lowest across UK banking institutions.
- The Society continues to access wholesale markets and in September 2009 Nationwide successfully issued a £700 million 10-year Senior Unsecured Bond without government backing. Since the reporting date, £3.25 billion of residential mortgage backed securities (RMBS) funding has been completed in October 2009.
- High levels of liquidity have been maintained, focusing on highly liquid government bonds and central bank reserve accounts. The core liquidity ratio at 30 September 2009 was 12.9% (4 April 2009: 12.8%).
- Improvement of £801 million in market value of Available For Sale (AFS) portfolio. Market value shortfall in AFS reserve of £1.2 billion at 30 September 2009 (4 April 2009: £2.0 billion).

Nationwide’s chief executive, Graham Beale, said:

“Market conditions continue to be challenging, with strong competition in both residential lending and retail funding markets. Our performance has been substantially affected by the low interest rate environment and the dramatic fall in commercial property valuations which have led to compression in our margin and a sustained higher level of impairments in line with our experience during the second half of last year. Nevertheless, we have remained profitable, benefiting from high quality assets and a conservative business model which allows us to withstand hostile market conditions and continue to support our members at a difficult time. As a mutual we do not seek to maximise profit and we carry high levels of capital.

“During the last six months we have followed a responsible approach, supporting the availability of credit within our core lending markets whilst also ensuring that our policy of prudent lending and cash flow management is maintained. We have elected not to chase market share in a retail savings market which is subject to serious competitive distortion and uneconomic pricing, often by institutions which benefit from actual or perceived unlimited Government guarantees. Our diverse funding capability and strong reputation mean that we are able to exercise choice in how we fund our balance sheet.

“The reform of the banking sector is now gathering pace and the recent White Paper, *Reforming Financial Markets*, the Walker Review and the raft of proposals from the FSA in relation to capital, funding and liquidity will herald an unprecedented level of change. Whilst we welcome many of the proposals and will fully support the objective of creating a more secure framework for banking regulation, we remain concerned that some of the changes could undermine the future of the building society sector which the Government has said it wants to protect. It is critical that the fundamental changes being contemplated in relation to capital adequacy do not result in restricted access to capital markets for building societies. The treatment of capital and access to inorganic capital is fundamental to the future of the mutual sector and we would encourage the FSA in particular not to back the sector into a corner by an overly rigid or super-equivalent interpretation of the EU Capital Requirements Directive. Such a policy would be, in execution if not by intention, anti mutual and we would be determined to challenge it.

“We continue to lobby the Tripartite authorities to review the way in which Financial Services Compensation Scheme levies are allocated across the industry to ensure that low risk organisations like Nationwide are not unfairly disadvantaged by the basis of allocation which does not recognise the level of risk which individual organisations pose to the system.

“Looking ahead we expect the remainder of this year and next to present a very difficult trading environment. Economic recovery is forecast to be slow and we expect interest rates to remain at their current level until at least the fourth quarter of 2010. We are also cautious on future prospects for the housing market. The growth in house prices over recent months appears to be driven by lack of supply, and growth in unemployment throughout 2010 will inevitably exert downward pressure on house prices. Notwithstanding this, our strong capital base, low risk profile and highly liquid balance sheet continues to underpin our financial strength and ability to meet our core objective of providing financial security and support to our members.”

FINANCIAL SUMMARY

	Half year to 30 September 2009	Half year to 30 September 2008	Half year to 4 April 2009	Year to 4 April 2009 (Adjusted – see Note)
Financial Performance	£m	£m	£m	£m
Underlying profit before tax	117	322	71	393
Reported profit before tax	143	374	(184)	190
Lending Volumes	£bn	£bn	£bn	£bn
Group residential – gross	5.8	10.9	8.0	18.9
<i>Group residential – gross market share</i>	8.3%	8.2%	10.6%	9.0%
Group residential – net	(1.7)	1.0	0.6	1.6
Commercial – gross	0.8	1.2	1.0	2.2
Commercial – net	0.1	0.3	0.3	0.6
Consumer finance – net unsecured lending	-	(0.1)	-	(0.1)
Savings Volumes	£bn	£bn	£bn	£bn
Retail savings deposits movement	(5.6)	4.6	(0.1)	4.5
Net (outflow)/ receipts	(6.1)	3.1	(1.4)	1.7
Key Ratios	%	%	%	%
Cost to income ratio – underlying basis	59.5	58.9	61.2	60.0
Cost to income ratio – reported basis	58.1	56.4	65.4	60.9
Net interest margin	0.91	0.99	0.88	0.93
	30 September 2009			4 April 2009 (Adjusted)
Balance Sheet	£m			£m
Total assets	199,042			202,353
Loans and advances to customers	154,214			155,469
Member savings balances	122,675			128,292
Total shares, deposits and loans (SDLs)	183,331			186,413
Total regulatory capital	9,702			9,690
Asset Quality	%			%
Proportion of residential mortgage accounts 3 months+ in arrears:				
Nationwide originated	0.66			0.64
Nationwide originated plus acquired*	0.83			0.80
Average indexed loan to value of residential mortgage book	50			52
Average loan to value of new residential lending	63			60
Commercial accounts 3 months+ in arrears:				
Nationwide originated	2.34			1.62
Nationwide originated plus acquired*	2.60			1.87
Percentage of unsecured personal loan accounts 30 days+ in arrears	7.20			7.15
Key Ratios	%			%
Solvency ratio (Basel II)	19.1			19.5
Tier 1 ratio	15.0			15.1
Core Tier 1 ratio	12.0			12.0
Wholesale funding ratio	30.4			28.6
Core liquidity ratio	12.9			12.8
Loan to deposit ratio **	116.1			112.4

* 'Acquired' relates to assets acquired from Derbyshire, Cheshire and Dunfermline building societies

** The loan to deposit ratio represents loans and advances to customers divided by (shares + other deposits + amounts due to customers).

Note: The 4 April 2009 Income Statement has been adjusted to reflect changes made to the initial accounting for the acquisition of core parts of Dunfermline. The adjustments relate to the estimation of the fair values of assets and liabilities acquired on 30 March 2009 and the consequent gain on business combination reported within statutory profit before tax (but excluded from underlying profit) in the prior year. The results for the comparable period to 30 September 2008 are unaffected by the adjustment. Further details are provided in Note 2 and Note 16.

CHIEF EXECUTIVE'S REVIEW

Solid performance in challenging market conditions

Whilst there have been some early signs of improvement in the economy, market conditions have remained challenging in the financial services sector. The low interest rate environment and competition for retail funding have compressed net interest margins, and the impact of the recession is leading to higher impairment charges, particularly for commercial lending as a result of falls in capital values and business failures. Together these factors have led to a significant reduction in the Group's profitability compared with the corresponding period last year.

However, although the difficult trading environment has affected Nationwide's results for the six months to 30 September 2009, we have delivered a solid performance, with a pre-tax reported profit of £143 million (30 September 2008: £374 million) and an underlying operating profit of £117 million (30 September 2008: £322 million), demonstrating the ability of the Group's prudent business model and strong customer franchise to withstand extremely challenging markets. These results have been supported by gains from management of our liquidity portfolio. Our capital ratios remain strong with a Core Tier 1 ratio of 12.0% and Tier 1 ratio of 15.0% (4 April 2009: 12.0% and 15.1% respectively).

The results reflect not just the environment in which we are operating but also Nationwide's commitment to support our members with the provision of long term good value. During the period the net interest margin has absorbed the costs of our 'Base Mortgage Rate (BMR) cap' (BMR was our standard variable rate for mortgage products originally reserved before 29 April 2009). This means that all fixed and tracker mortgages reserved with Nationwide before 29 April 2009 revert to a variable rate which is guaranteed to be no more than 200 basis points over the Bank of England Base rate, by comparison with Standard Variable mortgage rates generally available from other lenders which are typically around 1.5% higher than this. The guarantee, in place since 2001, derived from the adoption of a mortgage CAT (charges, access and terms) standard which represented the Government's view of industry best practice at that time. We estimate the annual cost of maintaining BMR at this level relative to other rates charged in the market is in excess of £450 million in the current year.

In addition, for borrowers with tracker mortgages which were subject to an interest rate floor of 2.75%, we have on a discretionary basis continued to waive the contractual floor and instead applied a revised floor of 2%. As a mutual we will continue to manage the business with a clear focus on the needs of our members, accepting reduced profitability which arises from the exceptional interest rate environment and which we are able to sustain as a well capitalised low risk institution.

We have continued to integrate acquired businesses to deliver improved customer service and drive cost efficiency. The Portman merger integration is now complete and cost synergies of £78 million, amounting to approximately 58% of the Portman cost base, have been delivered. We are also making good progress on the more limited integration of Cheshire, Derbyshire and Dunfermline operations and expect to deliver cost synergies of £18 million being approximately 16% of their aggregate cost base by the end of the current financial year.

On a like-for-like basis, costs in the period are 6% lower than the corresponding prior year level. This reduction reflects on-going merger integration synergies and other transformation, including outsourcing of some non-customer facing activity, and includes the benefit of less reliance on contractors and temporary workers as well as natural turnover without replacement.

Reported profit includes a £40 million gain on acquisition of the former Dunfermline Building Society social housing portfolio. This was acquired in June 2009 and did not form part of the original acquisition of core parts of the Dunfermline Building Society in March 2009. Reported profit also includes a negative movement in the fair value of derivatives net of related hedge accounting adjustments of £15 million, compared with a positive movement of £58 million in the comparable period last year.

Well capitalised and liquid balance sheet

Nationwide has a strong balance sheet with good quality assets, robust capital ratios and a high level of liquidity. As a building society, our balance sheet reflects our focus on retail funding and prudent lending and during the period we have continued to actively manage our balance sheet to respond to the challenging market conditions. In particular, we have carefully controlled the level and quality of lending undertaken, and have adjusted our mix of funding to mitigate the impact of the current high cost of new retail balances.

We continue to be predominantly funded through retail deposits and remain the second largest savings provider in the UK. As a result we are less reliant on the wholesale markets than many of our listed competitors, but we nevertheless maintain a substantial and diverse wholesale funding capability and during the period we have issued a \$4 billion bond secured under the Government's credit guarantee scheme, and successfully raised funding via a £700 million 10 year senior unsecured bond without government backing. In addition, since the period end, we have raised a further £3.25 billion of RMBS funding. These transactions place Nationwide at the forefront of the re-activation of long term wholesale funding markets and demonstrate the strength of our reputation for financial security and prudent lending in wholesale as well as retail markets.

We have maintained a high level of liquidity on the balance sheet, and have managed this portfolio to increase both the quality and liquidity of the assets held in light of current and proposed regulatory guidelines. At 30 September 2009 we had a liquidity portfolio of £31.1 billion (4 April 2009: £31.1 billion); 55% of the portfolio is held in sovereign exposures, compared with 48% as at 4 April 2009 and over 97% (4 April 2009: 99%) is rated A or better. The strength of our core liquidity ratio has been maintained at 12.9% (4 April 2009: 12.8%).

Our capital ratios are strong and compare very favourably with those reported by the major banks. At 30 September 2009, the Group's Core Tier 1 capital ratio, on an IRB basis, was 12.0% and the Tier 1 ratio was 15.0%. (4 April 2009: 12.0% and 15.1% respectively). There is significant debate driven by regulatory authorities around the world in relation to the appropriate level of capital for major financial institutions. We will continue to monitor this but emphasise the fact that our current capital ratios are well in excess of existing regulatory requirements and averages across the industry.

Strong asset quality

We continue to adopt a prudent approach to lending, and our asset quality remains high. During the period we have sought wherever possible to support the availability of credit within retail markets but at the same time to manage carefully the quality of new lending we undertake. As a result the average loan to value of new residential lending has increased moderately to 63% from 60% whilst the indexed LTV for the portfolio as a whole has reduced to 50% from 52% reflecting positive House Price Index (HPI) movements over the last six months.

For Nationwide originated loans, the proportion of mortgage accounts three months or more in arrears was 0.66% (4 April 2009: 0.64%), compared with an industry average of 2.40% as at 30 September 2009 (4 April 2009: 2.41%). Our arrears position continues to be markedly better than industry average. Our prime residential mortgage book accounts for 86% (4 April 2009: 86%) of residential mortgage loans. The proportion of mortgage accounts three months or more in arrears on prime mortgages originated by Nationwide was 0.50% at 30 September 2009 (4 April 2009: 0.49%). For specialist lending, the proportion of Nationwide originated mortgage accounts three months or more in arrears reduced in the period to 2.39% (4 April 2009: 2.45%).

Mortgage assets acquired through the mergers with Derbyshire and Cheshire and the purchase of Dunfermline's prime residential assets were fair valued on a basis that made allowance for anticipated losses over the full remaining life of the loans. The acquired assets have performed in line with expectation to date and we continue to expect the fair value adjustments provided at the time of acquisition to be sufficient to cover future losses on these portfolios.

The recessionary economic environment has contributed to increased levels of business failures, weak tenant demand and significantly reduced investor appetite within the UK commercial property market. As a result, capital values have fallen by approximately 40% from their peak in the middle of 2007. These conditions have resulted in

increased default within our commercial loan portfolio with the proportion of Nationwide originated commercial loans more than three months in arrears at 30 September 2009 increasing to 2.34% (4 April 2009: 1.62%) and the value of arrears on these cases amounting to £37 million (4 April 2009: £17 million). We have made a prudent assessment of all impaired cases and have booked a total provision charge of £180 million during the first half of the year, compared with £146 million during the second half of 2008/09. We believe accumulated impairment charges on our commercial property portfolio over the last two years of approximately 2.6% of balances compare favourably with industry experience, and given the extremely adverse environment demonstrates the lower risk nature of the lending we undertake in our commercial business.

As with residential loans, the performance of our acquired commercial loans has been in line with the prudent expectation incorporated into our fair value assessment and we do not currently expect significant unprovided losses to arise on these portfolios.

Business flows

Whilst the mortgage market has shown some signs of recovery over recent months, total UK gross lending in the six months to 30 September 2009 was almost 47% lower at £70.5 billion compared with £132.2 billion a year ago. During the period we have continued to lend in a prudent manner, focusing our support on prime residential lending to existing customers and first time buyers. In addition we have continued to lend at attractive margins to good quality Buy to Let borrowers. Gross residential lending was £5.8 billion (30 September 2008: £10.9 billion) representing a market share of 8.3%.

The retail savings market has been challenging, with strong competition from certain institutions who in the past have secured the majority of their funding on the wholesale markets as well as some institutions for whom wholesale market access has become difficult due to ratings downgrades. Furthermore, the size of the market has been contracting, as consumers choose to pay down their debt or seek higher returns from investment products with equity linked returns.

Nationwide's business model combines a significant retail savings franchise with strong wholesale funding capability, underpinned by a reputation for prudent management of our business. Accordingly we have been able to exercise choice in our source of funding during a period when markets have been disrupted and retail markets in particular have been subject to competitive distortions. We have therefore restricted our pricing in retail markets to a level which we feel is economic and sustainable in the medium term and have accepted a net reduction in retail savings balances of £5.6 billion during the period as a result. With total retail savings balances of £122.7 billion at 30 September 2009 we remain the second biggest provider of retail savings in the UK and our commitment to this market in the medium to long term remains undiminished.

In the period we have developed and launched a number of innovative savings products, including our 'Champion Saver', a branch based savings account which automatically tracks the average of the best rates of equivalent savings products and provides an additional bonus of 1.1%. In addition we have used our regional brands – Cheshire, Derbyshire and Dunfermline – to offer different savings products and access different markets. However with the bank base rate at 0.5%, many investors are seeking alternatives to traditional savings products, and are turning to equity related investments. As a consequence, sales of Guaranteed Equity Bonds (GEBs) have proved popular, increasing by over 400% to 59,500 compared with 11,300 product sales in the first half of 2008/09 and resulting in £580 million of funds invested by customers in the period compared with £65 million in the first half of 2008/09.

Changing regulatory environment

The banking crisis has prompted the Government to recommend a number of measures to reform UK banking regulation. Nationwide welcomes reform and hopes it will bring stability to the industry moving forward.

We are supportive of the Treasury's White Paper, *Reforming Financial Markets*, as it acknowledges the importance of having a healthy and vibrant mutual sector. We look forward to working with the Tripartite to ensure adopted

legislation and regulatory changes meet the needs of the building society sector, including ensuring the availability of access to Core Tier 1 capital instruments. The treatment of capital and access to inorganic capital is fundamental to the future of the mutual sector and we would encourage the FSA in particular not to back the sector into a corner by an overly rigid or super-equivalent interpretation of the EU Capital Requirements Directive. Such a policy would be, in execution if not by intention, anti mutual and we would be determined to challenge it.

We also continue to lobby for a review of the basis of allocation of Financial Services Compensation Scheme (FSCS) costs across the industry. Avoidance of “moral hazard” and creation of a framework which promotes responsible behaviours is an important principle which is embedded in a number of proposals for the future regulation of financial markets. It is difficult to understand how the current basis of allocation which targets costs on retail funded institutions as opposed to those with a higher risk profile is consistent with this approach.

From a consumer perspective the recent publication by the FSA of the Mortgage Market Review has raised important issues in relation to consumer protection and what constitutes responsible lending. We believe there are important changes which could sensibly be made to restrict bad lending practices. However it is also important to ensure that changes do not result in unintended consequences by encouraging borrowers to abrogate their responsibilities or preventing responsible lenders from providing mortgage finance to self-employed borrowers purely because of their employment status.

The economy has begun to stabilise but significant challenges remain

The economic outlook has improved over the last half year, with most indicators suggesting the UK is likely to emerge from recession in the near future. However, economic recovery is expected to be slow, and it is likely to take several years before UK GDP reaches its pre-recession level of output. The need to stabilise public finances will impose a significant constraint on economic growth, as government spending falls and higher taxes impact on household disposable incomes. Although the most recent labour market figures have been better than expected, unemployment is likely to continue increasing well into next year.

In light of the large amount of spare capacity left by the recession and the sluggishness of the economic recovery, inflationary pressures are likely to remain subdued. As a result, the Bank of England base rate is expected to remain at or near its current level for most of 2010. Low interest rates have underpinned the housing market by improving mortgage affordability and keeping mortgage arrears and possessions lower than they would otherwise have been.

Housing turnover has begun to slowly recover from extreme lows and house prices have risen by 2% year on year. Much of the increase in prices this year has been caused by an unusually low level of properties available for sale rather than a robust recovery in house purchase transactions. Housing demand remains constrained by high unemployment and tight credit conditions, and it would therefore not be surprising to see future setbacks in house prices particularly if a more natural level of property supply returns to the market or interest rates rise more quickly than anticipated.

The UK household deposit market continues to face significant challenges, as deteriorating employment conditions make it difficult for households to save. In addition, the very low level of interest rates is leading many households to prioritise debt reduction over deposit accumulation. The market is therefore likely to show a very low level of savings balance growth for the rest of this year and well into 2010. This accentuates the need for sustained recovery in long term wholesale funding markets which will be necessary to support availability of credit and the repayment of Government sponsored funding schemes due to mature during 2011/12. Whilst we have now seen early signs of renewed activity in long term wholesale markets, there is still a long way to go before we can feel confident about their recovery.

Outlook

We expect the current economic, market and interest rate conditions to continue to present a challenging trading environment for the Group for the remainder of the current financial year and throughout 2010/11.

The Society has chosen not to compete for retail savings at uneconomic rates over the period but nevertheless the higher cost of retail funding is likely to have a proportionately greater impact on the margin in the second half of the current financial year and the following year. This higher cost of funding is partially offset by improved lending margins although the rate of asset re-pricing is low and is likely to remain so until interest rates start to rise.

Our asset quality remains strong. For residential lending, mortgage borrowers have continued to benefit from the low interest rate environment, and we have not yet seen the rising level of unemployment flowing through to mortgage arrears as previously anticipated. However, we do expect the level of mortgage arrears to trend higher as the full impact of rising unemployment crystallises and if base rates begin to rise as expected towards the end of 2010, we expect impairment charges on residential loans to rise from the current relatively benign level.

In contrast, in relation to commercial lending, the difficult economic conditions have already led to a number of tenant and business failures, and reduced demand and consequent lack of investor appetite means that very substantial falls in capital values have already taken place, with the Investment Property Databank (IPD) index recording a fall of 44% between June 2007 and July 2009. However there are early signs that the commercial market has begun to stabilise. We do not expect to see further significant falls in security values and an end to recessionary conditions in the near term should signal that the bottom of the commercial property market has been reached, which would support the view that the run rate of impairment charges on commercial lending should not increase from the levels experienced in the first half of the year. It is however emphasised that this outlook of no further deterioration in commercial provisioning is heavily dependent on avoiding a ‘double dip’ economic scenario.

In summary therefore, the continuation of ongoing margin compression and exposure to both retail and commercial impairment charges which we do not expect to abate significantly in the short term means that we expect profitability in the second half to be lower than that achieved in the year to date.

Nationwide has delivered a resilient performance in light of the current economic conditions and as a mutual, without the need to pay a dividend to shareholders, we are well placed to tolerate lower levels of profitability. We will continue to adopt a prudent and responsible approach to business which will enable us to continue to support our members through these difficult times.

Graham Beale
Chief Executive
19 November 2009

BUSINESS REVIEW**INCOME STATEMENT OVERVIEW**

Profit before tax on a reported basis and underlying basis are set out below. Certain aspects of the results are presented to reflect management's view of the Group's underlying performance.

Underlying profit before tax equates to reported profit before tax adjusted for the impact of movements in the value of derivatives and hedge accounting, a £1 million credit relating to the Financial Services Compensation Scheme (FSCS) and a gain of £40 million on the acquisition of the former Dunfermline Building Society social housing portfolio, further information on which is provided in Note 17. The comparative periods additionally include an adjustment for gains on business combinations and transformation costs.

Half year to 30 September 2009

	As reported £m	FSCS costs £m	Movements on derivatives and hedge accounting £m	Gain on portfolio acquisition £m	Underlying £m
Net interest income	891	-	-	-	891
Other income	218	-	-	(40)	178
Fair value adjustments	(15)	-	15	-	-
Total income	1,094	-	15	(40)	1,069
Administrative expenses	561	-	-	-	561
Depreciation and amortisation	75	-	-	-	75
Impairment losses on loans and advances to customers	317	-	-	-	317
Provisions for liabilities and charges	(1)	1	-	-	-
Impairment losses on investment securities	(1)	-	-	-	(1)
Profit before tax	143	(1)	15	(40)	117

Half year to 30 September 2008

	As reported £m	FSCS costs £m	Movements on derivatives and hedge accounting £m	Transformation costs £m	Underlying £m
Net interest income	880	-	-	-	880
Other income	185	-	-	-	185
Fair value adjustments	58	-	(58)	-	-
Total income	1,123	-	(58)	-	1,065
Administrative expenses	572	-	-	(6)	566
Depreciation and amortisation	61	-	-	-	61
Impairment losses on loans and advances to customers	74	-	-	-	74
Provisions for liabilities and charges	3	-	-	-	3
Impairment losses on investment securities	39	-	-	-	39
Profit before tax	374	-	(58)	6	322

Year to 4 April 2009 as adjusted	As reported £m	FSCS costs £m	Reported profit Pre FSCS costs £m	Movements on derivatives and hedge accounting £m	Transformation costs £m	Gains on business combinations *	Underlying £m
Net interest income	1,758	-	1,758	-	-	-	1,758
Other income	494	-	494	-	-	(135)	359
Fair value adjustments	10	-	10	(10)	-	-	-
Total income	2,262	-	2,262	(10)	-	(135)	2,117
Administrative expenses	1,252	-	1,252	-	(107)	-	1,145
Depreciation and amortisation	126	-	126	-	-	-	126
Impairment losses on loans and advances to customers	394	-	394	-	-	-	394
Provisions for liabilities and charges	249	(241)	8	-	-	-	8
Impairment losses on investment securities	51	-	51	-	-	-	51
Profit before tax	190	241	431	(10)	107	(135)	393

* Gains on business combinations at 4 April 2009 represent the net identifiable assets of Cheshire and Dunfermline at the dates of the respective merger and acquisition, minus consideration in respect of those transactions. The gain relating to the Dunfermline acquisition was determined provisionally in the 2009 Annual Report and Accounts and has therefore been adjusted – further detail is provided in Notes 2 and 16. Further details of the gain arising on Cheshire are given in Note 49 of the 2009 Annual Report and Accounts.

Profit

A Summary Income Statement on an underlying basis is as follows:

	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m	Year to 4 April 2009 £m
Net interest income	891	880	1,758
Other income	178	185	359
Total income	1,069	1,065	2,117
Expenses	636	627	1,271
Impairment losses on loans and advances	317	74	394
Impairment losses on investment securities and other provisions	(1)	42	59
Underlying profit before tax	117	322	393

Underlying profit for the half year was £117 million (30 September 2008: £322 million), up 65% on the second half profit for 2008/09 of £71 million. This demonstrates a solid performance under difficult market conditions which have resulted in continued margin compression and rising impairment charges, particularly in commercial lending. The results have been supported by gains from management of our liquidity portfolio.

PERFORMANCE BY INCOME STATEMENT CATEGORY

Net interest income

Net interest income, at £891 million is £11 million higher than the comparable period to 30 September 2008.

	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m	Year to 4 April 2009 £m
Net interest income	891	880	1,758
Weighted average total assets	200,061	181,750	189,624
	%	%	%
Net interest margin	0.91	0.99	0.93

The Group's net interest margin declined in 2008/09 from 0.99% in the first six months to 0.88% in the second six months resulting in an overall full year net interest margin of 0.93%. In our year end results announcement, we anticipated that our margin would continue to trend downwards, albeit at a reduced rate, due to the impact of the low base rate environment, the intense competition for retail funds and the continuing disruption in the wholesale funding markets.

The net interest margin for the six months to 30 September 2009 of 0.91% was slightly better than the second half 2008/09 margin of 0.88%. However, the net interest margin has been supported in the period by gains of £75 million, amounting to the equivalent of 8bps on our margin ratio, arising from the management of our liquidity portfolio. Without these gains the net interest margin would have reduced by 5bps compared with the second half of 2008/09, largely reflecting increased cost of retail funding. This has been partly offset by wider spreads on new mortgage pricing, however, the overall impact of this has been limited as liabilities continue to reprice significantly faster than the asset side of the balance sheet.

The net interest margin also reflects the fact that customers continue to benefit from our decision to implement the mortgage tracker floor when base rates reached 2%, 0.75% below their contractual floor limit of 2.75%. In addition an increasing number of customers are also benefiting from our guarantee that our BMR mortgage will be no more than 2% above Bank of England base rate. We estimate the annual cost of maintaining BMR at this level relative to other rates charged in the market is in excess of £450 million in the current year.

Other income

Underlying other income at £178 million was £7 million lower than the comparative period (30 September 2008: £185 million). The six months to 30 September 2009 includes £8 million of income from Cheshire, Derbyshire and Dunfermline whilst the comparative period included £14 million of non-recurring investment income. Adjusting for these two factors, underlying income was broadly in line with the comparative period.

The increase in the sale of life and investment products in the period has led to growth in commission earned on these products. However this has been offset by lower commission and profit share from payment protection insurance policies as a result of both lower sales and an increase in unemployment claims.

Expenses

	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m	Year to 4 April 2009 £m
Employee costs:			
• Wages and salaries	239	234	465
• Social security costs	21	20	40
• Pension costs	37	51	94
	297	305	599
Other administrative expenses	264	261	546
Depreciation and amortisation	75	61	126
	636	627	1,271

Total expenses amounted to £636 million representing an increase of 1% over the comparable period. The mergers with Cheshire and Derbyshire, and acquisition of Dunfermline have added an extra £48 million to the underlying cost base in the period. Adjusting for these additional costs, underlying expenses on a like-for-like basis have decreased by 6%. This is despite a £14 million increase in the depreciation charge reflecting our increased investment in the business in recent years.

The overall decrease in expenses has been achieved through delivery of the synergies arising from the merger in 2007 with Portman Building Society together with further headcount reductions across the Group. We are confident that we will deliver cost synergies of approximately £18 million from our more recent mergers with Derbyshire, Cheshire and Dunfermline by the end of the current financial year.

Our underlying cost income ratio for the period was 59.5% (30 September 2008: 58.9%).

Impairment losses on loans and advances

	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m	Year to 4 April 2009 £m
Prime	5	(2)	4
Specialist	40	7	87
Residential lending	45	5	91
Commercial lending	180	25	171
Other secured lending	28	-	18
Total secured lending	253	30	280
Unsecured lending	64	44	114
	317	74	394

Over the first half, the charge for impairment losses on loans and advances was significantly more than for the same period last year but slightly lower than the £320 million charge for the second half of 2008/9. The underlying quality of both secured and unsecured lending remains relatively strong but is inevitably affected by recessionary conditions, rising unemployment and falling asset values in the commercial sector.

The charge of £45 million on residential primarily relates to specialist lending. The specialist charge has halved compared with the six months to 4 April 2009 as increases in provisions required on arrears and possessions cases have been partly offset by increasing property valuations. The charge on the prime book was just £5 million as modest arrears and lower average LTV's continue to contain the provision requirement. Residential impairment provisions held on balance sheet increased by 24% to £149 million over the first half giving a coverage ratio against

Nationwide Building Society – Half-Yearly Financial Report

total balances of 0.12% (4 April 2009: 0.10%) and against balances more than three months in arrears of 12.7% (4 April 2009: 10.7%). In the same period balances more than three months in arrears increased by only 4%.

In our commercial lending division, difficult market conditions resulted in an increase in commercial loan defaults and a charge over the first half of £180 million (30 September 2008: £25 million, six months to 4 April 2009: £146 million). The increase in defaults has for the most part been triggered by tenant failures and our borrowers' subsequent inability to service loans. Provision charges on these defaulted loans have increased due to the significant falls experienced in commercial property values. The overall level of provision for commercial as a percentage of Nationwide originated assets at 30 September 2009 is 1.75% (4 April 2009: 0.92%) and the provision coverage ratio against balances more than three months in arrears is 57% (4 April 2009: 62%). We have seen a concentration of exposure to losses in the subordinated element of the portfolio with impairment charges during the first half of the year of £50 million (30 September 2008: £5 million, six months to 4 April 2009: £58 million). The total gross value of this element of the portfolio is £246 million, of which £113 million is now fully provided, and therefore the Group's exposure to further risk on these subordinated assets is limited.

The charge of £28 million (30 September 2008: £nil, 4 April 2009: £18 million) for "other secured lending" is in respect of a portfolio of European commercial loans acquired by Treasury Division and is therefore classified within the Head Office Functions and Other Operations business segment. The portfolio is managed on our behalf by a leading European manager.

The £64 million charge for unsecured lending is broadly in line with the £70 million charge for the second half of 2008/9. Asset quality of our unsecured books remains strong reflecting our cautious approach and prudence in our underwriting.

Impairment losses on investment securities and other provisions

	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m	Year to 4 April 2009 £m
Treasury investments	(1)	39	51
Other provisions	-	3	8

The Treasury investments impairment charge of £51 million in the year to 4 April 2009 included £34 million in respect of Washington Mutual, £3 million in respect of Lehman Brothers and £12 million in respect of our exposure to the Icelandic banks.

In the six months to 30 September 2009, the impairment provision on the exposures to one of the Icelandic banks has been reduced following receipt of an initial cash distribution from the administrators. Although future impairment charges on AFS assets cannot be ruled out no further provisions have been required in the year to date.

Other provisions in the year to 4 April 2009 represent allowances made in respect of various customer claims.

Derivatives and hedge accounting

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any valuation movements being taken to the income statement. Derivatives are only used to limit the extent to which the Group will be affected by changes in interest rates, exchange rates or other market indices. Derivatives are therefore used exclusively to hedge risk exposures and are not used for speculative purposes.

The £15 million charge (30 September 2009: £58 million gain) relating to fair value adjustments on derivatives and hedge accounting represents the net fair value adjustment (after matching it with offsetting adjustments in the fair valuation of the related hedged items) on derivative instruments that are matching risk exposures on an economic basis. Some income statement volatility arises on these items due to accounting ineffectiveness of designated

Nationwide Building Society – Half-Yearly Financial Report

hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The charge, in so far as it relates to ineffectiveness, is primarily due to short term timing differences in cashflows and interest rate reset dates between the derivative instruments and the hedged assets and liabilities. The impact can be volatile, and this has been markedly so at various points during the difficult market conditions, but over time the impact will trend to zero and has been excluded in reporting the Group's underlying performance.

Our over the counter (OTC) derivatives are undertaken with counterparties that meet our conservative policy for rating thresholds and satisfy our low risk appetite. These derivatives are subject to master netting agreements (giving the Group a legal right to set-off derivative assets and liabilities with the same counterparty) and our usual practice is to regularly cash collateralise marked to market movements. As a consequence we consider that no credit valuation adjustment has been required on OTC derivative assets nor has any debit valuation adjustment (to reflect changes in market pricing of our own debt) been taken on OTC derivative liabilities.

Taxation

The effective tax rate is 28.4% (4 April 2009: 23.1%) compared with the standard rate of tax of 28% (4 April 2009: 28%) and reflects the tax charge accruing on the profits for the year to date. The rate is increased by non deductible expenditure and unutilised losses arising overseas. The effects of these are largely offset by the release of provisions in respect of prior periods. As trading conditions are expected to continue to be difficult in the second half of the year, reduced profitability could result in unutilised losses and disallowable expenditure having a larger effect on the full year rate than at the half year.

BALANCE SHEET

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products with residential mortgages accounting for 83.5% of our total loans and advances to customers, commercial lending 14.6%, and consumer finance 1.5%. The mix of lending has remained broadly consistent with that reported at 4 April 2009.

Loans and advances to customers	30 September		4 April	
	2009 £bn	%	2009 £bn	%
Prime residential mortgages	110.4	71.6	111.9	72.1
Specialist residential mortgages	18.4	11.9	18.2	11.7
Total residential mortgages	128.8	83.5	130.1	83.8
Commercial lending	22.5	14.6	22.1	14.2
Other lending	0.6	0.4	0.6	0.4
Consumer Finance	2.4	1.5	2.4	1.6
Gross balances	154.3	100.0	155.2	100.0
Impairment provisions	(0.7)		(0.4)	
Fair value adjustments for micro hedged risk	0.6		0.7	
Total	154.2		155.5	

Residential

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet includes prime mortgages totalling £4.9 billion which were brought onto our balance sheet following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios.

Specialist residential mortgages are made up of £15.3 billion of advances made through our Specialist Lending brands, The Mortgage Works UK plc (TMW) and UCB Home Loans Ltd (UCB), and £3.1 billion arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline brands. Loans were advanced primarily in the Buy to Let

Nationwide Building Society – Half-Yearly Financial Report

and self-certification markets. Buy to Let mortgages make up 64% of total specialist lending, 25% relates to self-certification mortgages, 8% relates to near prime and just 3%, amounting to approximately £0.5 billion, relates to sub prime, of which £0.4 billion was acquired as part of the mergers with Derbyshire and Cheshire and has been subject to rigorous fair value assessment.

Gross prime lending in the period amounted to £4.9 billion (30 September 2008: £9.5 billion, six months to 4 April 2009: £7.2 billion). Specialist lending in the period of £0.9 billion (30 September 2008: £1.4 billion, six months to 4 April 2009: £0.8 billion) has been lent almost exclusively in the Buy to Let sector with insignificant amounts of self-certified lending and no sub or near prime lending.

We have continued to focus on affordability and loan to value (LTV) ratios in underwriting loans during the year. The average LTV of residential mortgages completed has been 63% (full year 2008/09: 60%), whilst the average indexed LTV of residential mortgages at 30 September 2009 has fallen to 50% (4 April 2009: 52%).

Loan to value analysis:

	30 September 2009	4 April 2009
	%	%
Total book		
<50%	54	51
50% - 60%	10	9
60% - 70%	9	9
70% - 80%	9	9
80% - 90%	8	8
90% - 100%	7	8
> 100%	3	6
	100	100
Average LTV of stock (indexed)	50	52
Average LTV of new business*	63	60

* The loan to value for new business now excludes further advances.

The table below shows that over the first half of the year, on Nationwide originated lending, we have seen a small increase in prime arrears and a reduction in specialist arrears compared with a broadly static industry measure. Overall, we have maintained our very favourable position to the industry on both originated business and lending including acquired loans.

Cases 3 months or more in arrears as % of total book	30 September 2009	4 April 2009
	%	%
Nationwide self originated mortgages:		
Prime	0.50	0.49
Specialist	2.39	2.45
Nationwide self originated mortgages	0.66	0.64
Including effect of acquired societies:		
Prime	0.52	0.51
Specialist	3.76	3.72
Group – including acquired loans	0.83	0.80
Industry average	2.40	2.41

The percentage of cases 3 months or more in arrears as a percentage of the total book for prime mortgages is now based on the CML definition, which calculates months in arrears by dividing the arrears balance by the latest contractual payment. Previously, arrears had been based on the number of missed payments, and so 4 April 2009 comparatives have been restated accordingly. The effect of the restatements has been to increase the 4 April 2009 figures for Nationwide self originated mortgages and Group mortgages by 4 bps.

Nationwide Building Society – Half-Yearly Financial Report

Residential mortgage assets acquired with Cheshire, Derbyshire and Dunfermline's brands were fair valued on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £37 million of losses have been written off and, as reported at 4 April 2009, we continue to believe it is unlikely that these loans will contribute any significant losses to the Group in excess of the fair value allowance made at the time of acquisition. Accordingly in evaluating the Group's exposure to losses, as well as the quality of its underwriting process, it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

The number of Group borrowers in possession, including acquired societies, of 1,133 represents 0.080% of the total portfolio (4 April 2009: 0.087%). As Buy to Let landlords may have more than one property, possession measures are slightly higher on a property basis but, at 1,355 properties, representing 0.095% of our book (4 April 2009: 0.100%), this compares very well with the industry measure of 0.164% (4 April 2009: 0.214%). Excluding the impact of acquired societies, our position relative to the industry is even more favourable. The table below shows possessions as a percentage of book for both originated and acquired residential mortgages.

Possessions as % of total book (number of borrowers)	30 September 2009 %	4 April 2009 %
Nationwide self-originated mortgages:		
Prime	0.023	0.021
Specialist	0.529	0.500
Nationwide self-originated mortgages	0.065	0.058
Including effect of acquired societies:		
Prime	0.024	0.022
Specialist	0.610	0.741
Group – including acquired loans	0.080	0.087

Possessions as % of total book (number of properties)	30 September 2009 %	4 April 2009 %
Nationwide self-originated:		
Prime	0.023	0.021
Specialist	0.645	0.602
Nationwide self-originated mortgages	0.081	0.072
Including effect of acquired societies:		
Prime	0.024	0.022
Specialist	0.698	0.795
Group – including acquired loans	0.095	0.100
Industry average	0.164	0.214

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is demonstrated by the number of properties taken into possession compared with the total for the industry. During the first half of the current financial year, 720 Nationwide originated properties have been taken into possession representing only 3.12% of properties taken in by the industry as a whole against our par share of all cases of 12.07%. This compares with the experience for the whole of 2008/09 when 941 properties, representing 2.12% of the total for the industry, were taken into possession compared with our par share of 12.18%.

Commercial

Excluding assets acquired via the mergers with Derbyshire and Cheshire, our commercial lending portfolio of £21.1 billion comprises £12.7 billion secured on commercial property ("Property Finance"), £7.1 billion advanced to Registered Social Landlords and £1.3 billion under the Private Finance Initiative (PFI). The £0.4 billion increase in Commercial balances over the first half arises on the acquisition of the social housing portfolio of the former Dunfermline Building Society. There are currently no arrears of three months or more on the Registered Social Landlord and PFI portfolios. Our Property Finance portfolio is well diversified by industry type and by borrower

Nationwide Building Society – Half-Yearly Financial Report

and we have only modest exposure to development finance with total balances of £133 million, and a total further commitment of £68 million, to three high quality office developments in the centre of London.

The commercial portfolio includes £246 million of subordinated exposures of which £113 million are impaired and fully provided for. The Group's residual exposure to subordinated loans is therefore restricted to the unprovided balances of £133 million (6 cases) which are currently fully performing.

The number of Nationwide originated commercial property cases more than three months in arrears increased significantly over the first half of the year from 179 cases at 4 April 2009 to 248 at 30 September 2009. This equates to 2.34% of commercial originated accounts (4 April 2009: 1.62%). Total arrears balances on these cases at 30 September 2009 were £37 million (4 April 2009: £17 million). Robust arrears management is carried out by dedicated teams who, supported by daily arrears reporting, maintain a focus on early intervention to maximise economic value and mitigate losses.

Commercial mortgage assets totalling £1.4 billion acquired through mergers with Cheshire and Derbyshire and acquisition of Dunfermline social housing portfolio have been fair valued in the same way as described for residential assets above, including a credit risk adjustment of £179 million for anticipated losses over the remaining life of the loans. To date, £5 million of realised losses have been written off and we continue to believe that these loans are unlikely to contribute any significant losses to the Group beyond allowances already made through fair value adjustments.

Although we continue to expect difficult market conditions, and further impairment provisions, we remain confident that our book, which is primarily focused on low risk lending, will perform better than most and this, combined with proactive management, will ensure Commercial continues to make a positive long term contribution to the Group.

Other lending

Other lending includes £354 million of secured European commercial loans and £296 million of unsecured lending relating to a student loan portfolio. The European commercial loan book contains eight defaulted loans which have been provided for and there is no significant impairment on the student loan portfolio. This lending is included within the Head Office Functions and Other Operations business segment, as the portfolios were acquired by Treasury Division.

Consumer Finance

In consumer finance, the balance of accounts more than 30 days in arrears has remained broadly static and our performance compared with the industry remains favourable. For Personal Loans and Credit Cards, the table below shows our arrears levels are significantly better than averages for the industry (FLA and APACS):

Percentage of accounts more than 30 days in arrears	30 September 2009		4 April 2009*	
	NBS %	Industry %	NBS %	Industry %
Personal loans	7.20	19.2	7.15	15.8
Credit cards	5.70	7.55	5.70	8.06

* Industry numbers for Personal Loans and Credit cards for the prior period have been restated by the FLA and APACS respectively.

Funding

The Society has a strong and well diversified funding base and continues to be predominately funded by retail savings. Given the relative cost of alternative funding sources the Group has chosen to modestly increase wholesale funding over the last six months with a corresponding reduction in retail savings balances. As a consequence retail savings balances have reduced in the period by £5.6 billion to £122.7 billion and wholesale funding has increased to

Nationwide Building Society – Half-Yearly Financial Report

£55.9 billion at 30 September 2009 (4 April 2009: £53.7 billion). The wholesale funding ratio has risen from 28.6% at 4 April 2009 to 30.4%.

The following tables analyse the change in the makeup of the wholesale funding portfolio.

Wholesale Funding portfolio mix	30 September 2009 %	4 April 2009 %
Repo and other secured agreements	20.4	25.8
Deposits	13.6	12.4
Certificates of deposit	16.0	16.6
Commercial paper	13.5	9.9
Covered bonds	16.6	17.9
Medium term notes	17.4	16.1
Other non-retail	2.5	1.3
Total	100.0	100.0

The modest increase in wholesale funding has coincided with improved funding conditions and confidence in the global wholesale markets. Against this backdrop the Group has increased the duration and range of its wholesale funding book through increased US and European commercial paper funding. This strategy has enabled the Group to reduce its reliance on shorter duration instruments such as short dated repo.

The Group has also been active in the long term debt capital markets. Long term debt issuance helps the Group extend the maturity profile of its wholesale funding portfolio and demonstrates the strength of institutional support for the Group.

In August 2009 the Group issued US\$4 billion of 3 year fixed and floating rate bonds under the Government's Credit Guarantee Scheme. This was complemented in September with the issuance of a £700 million 10 year fixed rate bond ending the Group's absence since 2005 from the long term sterling capital markets. Since the half year end the Group has also managed to raise £3.25 billion of 5 and 7 year funding through the issue of fixed and floating rate residential mortgage backed securities (RMBS) through the Silverstone Master Trust vehicle.

The increased use of long term funding is reflected in the split between long term (i.e. > 1 year remaining maturity) and short term funding. Despite the run off of existing long term funding, the Group's short term:long term funding ratio has remained fairly consistent at 68%:32% at 30 September 2009 compared with 67%:33% as at 4 April 2009. Since the completion of the RMBS transaction referred to above this ratio has improved to 63%:37%.

Our short and long term credit ratings from the major rating agencies at 19 November 2009 are as follows:

	Long Term	Short Term	Subordinated	Outlook
Standard and Poors	A+	A-1	BBB+	Negative
Moody's	Aa3	P-1	Baa3	Stable
Fitch	AA-	F1+	A	Negative
DBRS	AA	R-1 (middle)	AA (low)	Negative

More information on our management of funding and liquidity risk is included in the Principal Risks section on page 35.

Treasury Assets

Group treasury assets at 30 September 2009 were £34.5 billion (4 April 2009: £34.5 billion). These assets are held in two separate portfolios; the liquidity portfolio and the investment portfolio. At 30 September 2009 the liquidity portfolio totalled £31.1 billion (4 April 2009: £31.1 billion) with the investment portfolio totalling £3.4 billion (4 April 2009: £3.4 billion).

Nationwide Building Society – Half-Yearly Financial Report

We have continued to manage the liquidity portfolio to increase the quality and liquidity of the assets held, with 55% of the portfolio held in sovereign exposures compared with 48% as at 4 April 2009. Over 97% of our liquidity portfolio is rated A or better with 78% rated AA or above (4 April 2009 – 99% rated A or better, 78% rated AA or above).

The following table shows an analysis of the on balance sheet liquidity portfolio at 30 September 2009:

Liquidity Portfolio	30 September 2009 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2009 £bn
Bank of England	3.5	100	-	-	-	100	-	-	-	8.2
Loans to financial institutions	4.2	1	42	52	5	91	-	2	7	4.7
Other (including items in transit and clearing accounts)	-	-	-	-	-	-	-	-	-	0.4
Non AFS Assets	7.7									13.3
Gilts	7.4	100	-	-	-	100	-	-	-	4.7
Non Domestic Government bonds	4.1	100	-	-	-	-	18	82	-	-
Supranational bonds	2.0	100	-	-	-	-	5	95	-	1.9
Residential mortgage backed securities (RMBS)	2.6	99	1	-	-	40	-	53	7	2.7
Covered bonds	0.9	86	14	-	-	-	3	90	7	0.9
Floating rate notes	5.4	19	21	50	10	37	3	49	11	6.6
Certificates of deposit and commercial paper	1.0	-	-	100	-	100	-	-	-	1.0
AFS Assets	23.4									17.8
Total liquidity portfolio	31.1	68	10	19	3	60	3	34	3	31.1

Ratings are obtained from Standard and Poors in the majority of cases, from Moody's if there is no Standard and Poors rating available and internal ratings are used if neither is available.

The residual weighted average life of the loans to financial institutions, floating rate notes, certificates of deposit/commercial paper referred to above are 1 day, 22 months and 31 days respectively. (4 April 2009: 9 days, 30 months, and 15 days respectively).

The transition of the liquidity portfolio towards holding a greater balance of sovereign exposures highlights the considerable strides the Group is making towards meeting the asset buffer requirements outlined in the FSA's new liquidity guidelines for BIPRU firms – "Strengthening Liquidity Standards". The movement towards full adoption of the wider requirements of the new liquidity regime will be a key area of focus for the Group in the coming months.

The treasury investment portfolio was originally established to generate additional income for the Group. The fair value of the portfolio is unchanged at £3.4 billion as redemptions and paydowns totalling £0.4 billion were offset by an equivalent increase in the value of assets. Over 93% of the investment portfolio is rated A or better (4 April 2009: 97%) with over 73% rated AA or better (4 April 2009: 76%). In light of current market conditions we have not actively sought to expand the portfolio and we manage the existing portfolio to minimise potential risk.

Nationwide Building Society – Half-Yearly Financial Report

The following table shows an analysis of the investment portfolio at 30 September 2009:

	Investment Portfolio (All AFS Assets)	30 September 2009 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2009 £bn
(i)	Collateralised debt obligations (CDO)	0.1	-	6	-	94	-	100	-	-	0.1
(ii)	Collateralised loan obligations (CLO)	0.5	100	-	-	-	26	74	-	-	0.5
(iii)	Commercial mortgage backed securities (CMBS)	0.5	89	7	-	4	49	12	39	-	0.6
(iv)	Corporate bond portfolio	0.2	-	23	62	15	26	20	54	-	0.2
(v)	Credit card backed securities	0.3	98	-	-	2	43	57	-	-	0.3
(vi)	Financial institutions including subordinated debt	0.6	-	20	72	8	21	34	38	7	0.6
(vii)	Other corporate bonds	-	-	41	59	-	100	-	-	-	-
(viii)	Residential mortgage backed securities (RMBS)	0.3	47	16	20	17	53	42	5	-	0.2
(ix)	US student loan	0.7	98	1	1	-	-	100	-	-	0.7
(x)	Other investments	0.2	48	11	30	11	23	40	33	4	0.2
	Total	3.4	64	9	20	7	26	53	19	2	3.4

Ratings are obtained from Standard and Poors in the majority of cases, from Moody's if there is no Standard and Poors rating available, and internal ratings are used if neither is available. Where exposures exist with a UK branch of a non-UK counterparty these have been recorded as UK exposures.

An independent monthly review is undertaken by Risk Management Division on the current and expected future performance of all treasury assets. A governance structure exists to identify and review under performing assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are impaired where there is objective evidence that current events and/or performance trends will result in a loss.

There have been no material changes to the profile of the investment portfolio, which remains substantially as disclosed at the end of the last reporting period. The portfolio has experienced a small amount of negative rating migration, as a result of the ongoing implementation of rating agency methodology changes and continued collateral deterioration, particularly in the CMBS and US RMBS holdings. However, the overall credit profile remains strong and none of the assets are considered impaired.

The Group is not materially exposed to monoline insurers and only holds monoline wrapped bonds with a fair value of £75 million. These are included within the appropriate portfolios in the tables. As the bonds are traded explicitly with the benefit of this enhancement, any deterioration in the credit profile of the monoline insurer is reflected in the market prices and therefore in the carrying amount of these securities. £69 million of this exposure is to Ambac, £5 million to MBIA and £1 million is to FGIC. Based on our impairment analysis, only one bond totalling £1.3 million, insured by MBIA, would need to be considered for immediate impairment if the monoline counterparties were to default.

Nationwide Building Society – Half-Yearly Financial Report

- (i) The CDO exposure of £56 million is made up of four investments. Two are backed by US Prime RMBS (81%), one CDO of US ABS was purchased as part of a SIV restructure (6%) and we own one US Trust Preferred CDO (13%). There is no direct exposure to commercial real estate CDOs or synthetic CDOs.
- (ii) CLOs comprise £496 million of AAA rated assets. Although corporate default rates continue to rise, our senior positions in these structures and our focus on selection of strong managers has provided some protection from downward rating migration.
- (iii) 89% of the CMBS portfolio is AAA rated and is exposed to established commercial real estate markets with the bulk of our holdings in the UK and Germany. Underlying collateral consists of office, retail, industrial and warehouse exposures with experienced sponsors supporting the underlying loans. The CMBS portfolio includes limited exposure to leisure markets.
- (iv) The £180 million corporate bond portfolio includes £111 million of assets where the credit risk has been fully hedged by entering into credit default swaps (CDS) with a European financial institution (rated by S&P, Moody's and Fitch as A+, Aa1 and AA- respectively).
- (v) The credit card portfolio is 98% AAA rated and is performing in line with expectations.
- (vi) Of the £617 million held with financial institutions, £427 million is classified as subordinated debt, of which approximately 96% is from UK or European issuers.
- (vii) The other corporate bonds of £26 million are whole business securitisations. Although these benefit from monoline insurance wraps from Ambac we anticipate full repayment without any assistance from the wrap provider.
- (viii) Total investment holdings in RMBS are £250 million. Total US exposure within this portfolio is £105 million of which £62 million is rated AAA. The US exposure is made up of £41 million Prime First Lien and £64 million Alt A. Due to deteriorating economic conditions, there has been some ongoing rating migration, particularly for the US holdings as detailed in the table above.
- (ix) The US student loan portfolio comprises 68% FFELP (Federal Family Education Loan Programme) originated loans which are 98% guaranteed by the US Government, and 32% Alternative Student Loans. 98% of the student loan portfolio is AAA rated.
- (x) Included within other investments category are £42 million of unrated coupon strips, underpinned by A or above rated financial institutions, £46 million of lease receivables of which 87% are AAA rated, £17 million of other European consumer finance loans all of which are AAA rated, £21 million of auto finance ABS all of which is AAA rated, and £34 million structured notes issued by funding vehicles, of which 72% are AA rated insurance companies and 28% is A rated.

Available For Sale Reserve

Out of a total £34.5 billion of treasury assets held in the liquidity and investment portfolios, £26.8 billion are held as available for sale (AFS) and under IFRS they are marked-to-market through reserves. In the majority of cases, assets are fair valued using quoted market prices (including broker quotes) or prices obtained from counterparties. For short term highly liquid assets, discounted cash flow valuation models using observable market data are used.

The fair value movements of AFS assets that are not impaired have no effect on the Group's profit for the period or its regulatory capital. The assets have been carefully reviewed based upon latest performance data and no additional impairment has been booked in the first half of the year. We continue to believe that we will recover full value for substantially all of them on maturity. Non-AFS balances are predominately short term loans to financial institutions or deposits with the Bank of England.

As at 30 September 2009 the balance on the AFS reserve improved to £1,208 million negative, net of tax (4 April 2009: £2,009 million negative). The improvement in the AFS reserve is due to a number of factors. The most significant contributor has been the improvement in the market value of the Group's holding of Gilts. The Group has increased holdings of Gilts over the last 2 years as it has sought to improve the quality of its liquidity holdings and respond to emerging guidance from regulators on the composition of liquidity. Since the last reporting date, the portfolio has increased further corresponding with a reduction in the balance in the Bank of England reserve account. The market value of the Gilts has improved in part due to market movements that are a direct consequence of the Bank of England's policy of Quantitative Easing. Market prices on RMBS and senior unsecured floating rate notes have also improved reflecting the improved conditions in global credit markets. The investment portfolio also experienced a positive AFS movement of £0.4 billion but the fair value of this portfolio was unchanged as rising valuations were offset by amortisations and redemptions.

	Cumulative AFS Reserve 30 September 2009 £bn	Fair Value on balance sheet 30 September 2009 £bn	Cumulative AFS Reserve 4 April 2009 £bn	Fair Value on balance sheet 4 April 2009 £bn
Gilts and Supranational bonds	(0.6)	13.5	(0.4)	6.6
Residential mortgage backed securities (RMBS)	0.5	2.6	0.7	2.7
Covered bonds and floating rate notes	0.2	6.3	0.4	7.5
Certificates of deposit and commercial paper	-	1.0	-	1.0
Liquidity portfolio	0.1	23.4	0.7	17.8
Collateralised debt obligations (CDO)	0.1	0.1	0.1	0.1
Collateralised loan obligations (CLO)	0.1	0.5	0.2	0.5
Commercial mortgage backed securities	0.4	0.5	0.3	0.6
Corporate bond portfolio	-	0.2	-	0.2
Credit card backed securities	-	0.3	0.1	0.3
Financial institutions including sub debt	0.1	0.6	0.2	0.6
Residential mortgage backed securities (RMBS)	0.2	0.3	0.3	0.2
US student loan	0.2	0.7	0.3	0.7
Other investments	0.1	0.2	0.1	0.2
Investment Portfolio	1.2	3.4	1.6	3.4
Negative AFS reserve before hedge accounting and taxation	1.3		2.3	
AFS Assets		26.8		21.2
Hedge accounting adjustment for interest rate risk	0.4		0.5	
Taxation	(0.5)		(0.8)	
Negative AFS reserve	1.2		2.0	

Nationwide Building Society – Half-Yearly Financial Report

In October 2008, the IASB issued an amendment to IAS39, allowing assets to be reclassified from AFS to loans and receivables. Nationwide has not reclassified any assets in this way.

FINANCIAL SERVICES COMPENSATION SCHEME

Following the transfer of Bradford & Bingley's savings business to Abbey and similar issues with Icelandic banks, London Scottish plc and the transfer of core parts of Dunfermline Building Society to the Group, claims have been triggered against the FSCS. The Society will therefore be required to pay levies in respect of those claims based upon its share of protected deposits.

A provision of £258 million was raised in the year ended 4 April 2009 in respect of these levies. At the year end the provision related primarily to the interest on loans that the FSCS received from HM Treasury for a period of three years from the date on which the claim against FSCS crystallised, in order to meet the claims against it. This element of the provision will vary over time, as it is based on assumptions regarding interest rates, the capital amounts outstanding on the loans and Nationwide's share of protected deposits.

A further provision charge has been recognised in the period to 30 September 2009 relating to Nationwide's estimated share of compensation costs in respect of shortfalls in recovery of assets, as more information on the potential level of these costs has become available. These compensation costs arise where the amount recovered by the FSCS from the assets of the defaulting institutions is less than the amount due to HM Treasury to repay the loan associated with that institution. At 30 September 2009, the provision charge for compensation costs has been offset by the reduction in the provision relating to loan interest as a result of changes in applicable market rates and other factors more fully discussed in Note 8. However, as more information becomes available regarding compensation costs, it is possible that Nationwide will have to bear further significant costs either in the second half of this year or in future years.

The Society recognises the importance of deposit protection in engendering confidence in all deposit takers, thereby promoting financial stability. However, as a prudently run organisation we believe it is highly regrettable that the cost of failure of banks who took on substantially greater levels of risk than we are prepared to should continue to be borne by Nationwide's members. We have continued to lobby the Tripartite authorities to review the way in which FSCS levies are allocated across the industry to ensure that low risk organisations such as Nationwide are not unfairly disadvantaged by a basis of allocation which does not recognise the level of risk which individual institutions pose to the system.

For further information see Note 8.

CAPITAL STRUCTURE

Capital is held by the Group to protect its depositors, to cover its inherent risks, to provide a cushion for unexpected losses, and to support the development of the business. In assessing the adequacy of its capital resources, the Group considers its risk appetite, the material risks to which the Group is exposed, and appropriate management strategies required to manage those risks. The Group is required to manage its capital in accordance with the rules issued by its regulator, the Financial Services Authority (FSA). Since 1 January 2008 the Group has complied with the EU Capital Requirements Directive (Basel II). From 4 April 2009 the Group calculated its capital requirements using Internal Ratings Based (IRB) approaches for credit risks.

At 30 September 2009, and throughout the period, the Group complied with the capital requirements that were in force. The following table shows the Group capital position as at 30 September 2009 on an IRB basis. As at 30 September 2009, the Group's regulatory capital stood at £9.7 billion (4 April 2009: £9.7 billion) with the total solvency ratio remaining strong at 19.1% (4 April 2009: 19.5%). The Tier 1 and Core Tier 1 solvency ratios stood at 15.0% and 12.0% respectively (4 April 2009: 15.1% and 12.0%).

Nationwide Building Society – Half-Yearly Financial Report

	30 September 2009 IRB	4 April 2009 IRB Adjusted (Note 1)
	£m	£m
Tier 1		
General reserve (Note 1)	6,141	6,218
Permanent Interest Bearing Shares (Note 2)	1,508	1,526
Pension fund net deficit add back (Note 3)	388	167
Intangible assets (Note 4)	(204)	(211)
Deductions from Tier 1 capital (Note 5)	(233)	(186)
	7,600	7,514
Tier 2		
Revaluation reserve	69	69
Subordinated debt (Note 2)	2,174	2,233
Collective impairment allowance	92	60
Deductions from Tier 2 capital (Note 5)	(233)	(186)
	2,102	2,176
Total capital	9,702	9,690
Risk weighted assets – Pillar 1 (Note 6)		
Retail mortgages	13,618	13,559
Commercial loans	18,778	18,751
Treasury	9,391	9,065
Other	4,519	4,702
Operational Risk	4,328	3,704
Market Risk	65	37
	50,699	49,818
Key capital ratios:		
Total capital	9,702	9,690
Core Tier 1 (%) (Note 7)	12.0	12.0
Tier 1 ratio (%) (Note 7)	15.0	15.1
Total capital (%) (Note 7)	19.1	19.5
Tier 2 to Tier 1 ratio (%)	27.7	29.0

Notes

- (1) The comparative figures for 4 April 2009 have been updated to reflect the changes to the initial accounting for the acquisition of the core parts of Dunfermline on 30 March 2009. Further details on the acquisition including the amendment made to provisional fair values established at the time of acquisition are given in Note 16.
- (2) Permanent Interest Bearing Shares and subordinated debt include any fair value adjustments arising from micro-hedging and adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet.
- (3) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next 5 years, less associated deferred tax.
- (4) Intangible assets do not qualify as capital for regulatory purposes.
- (5) Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with FSA guidance.
- (6) The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline Societies) and unsecured lending; Foundation IRB for treasury portfolios (other than corporates); and the Standardised approach for all other credit risk exposures.
- (7) Solvency ratios are calculated as relevant capital divided by Risk Weighted Assets. Core Tier 1 relates to Tier 1 capital excluding Permanent Interest Bearing Shares.

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

The Group operates Final Salary, Career Average Revalued Earnings (CARE) defined benefit arrangements and defined contribution arrangements.

The total net retirement benefit liability measured under IAS 19, including the Nationwide Pension Fund and the former Portman, Derbyshire and Cheshire Building Societies arrangements is £586 million (4 April 2009: £331 million). The increase in the net liability reflects an increase in the measurement of the IAS 19 liabilities, partly offset by increases in the market values of the funds' assets. For further information see Note 12.

We have been actively managing our retirement benefit liability and, over the last few years, have taken a number of steps to contain the deficit:

- Final Salary arrangements closed to new members since 2001 and CARE arrangements closed in May 2007;
- Employee contributions (for Nationwide final salary arrangements) increased from 5% to 7%;
- Special contributions of £200 million were paid in the period 2005/06 - 2007/08; and
- The Trustees continue to work closely with their advisors to optimise the investment strategy for the schemes' assets.

We will continue to review our options to manage the schemes in a responsible way. Following the last full triennial valuation of the Nationwide Pension Fund as at 31 March 2007 a plan was developed to clear the deficit by 2013. The next full triennial valuation will be carried out as at 31 March 2010.

PERFORMANCE BY BUSINESS STREAM

Nationwide classifies its business streams as follows:

Retail

- Prime residential mortgage lending;
- Specialist residential mortgage lending;
- Consumer finance;
- Retail funding;
- Protection and investments;
- General insurance;
- Distribution channels supporting these product divisions.

Commercial

- Commercial lending;

Head Office Functions and Other Operations

- Treasury group operations and income generation activities;
- Capital;
- Items classified as being non-attributable to our core business areas.

The Specialist lending business, which was previously grouped with Commercial lending as 'Non Retail', has been transferred to the Retail business sector to reflect the fundamental nature of the lending which is in respect of residential property to private individuals or landlords. In addition a portfolio of European commercial loans and a student loan portfolio held by Treasury division have been reclassified from Commercial and Retail respectively to Head Office Functions and Other Operations. Comparative results have been restated accordingly.

The contribution to underlying profit before tax by each of these business streams is set out in the table below.

	Half year to 30 September 2009 Underlying £m	Half year to 30 September 2008 Underlying £m	Year to 4 April 2009 Underlying £m
Retail	150	173	214
Commercial	(98)	53	(17)
Head office functions and other operations	65	96	196
Total contribution before tax	117	322	393

RETAIL BUSINESS STREAM

	Half year to 30 September 2009 Underlying £m	Half year to 30 September 2008 Underlying £m	Year to 4 April 2009 Underlying £m
Total income	834	808	1,625
Expenses	577	585	1,199
Impairment and other provisions	107	50	212
Contribution from Retail	150	173	214

The contribution from the Retail business stream has reduced in the period to £150 million (30 September 2008: £173 million).

Total income has increased by 3% to £834 million and includes income from Regional Brands as a result of mergers with Cheshire, Derbyshire and Dunfermline. Further business related growth in income has been partly offset by margin compression as a result of the low interest rate environment and increased retail funding costs.

Despite the additional increase in cost base from the mergers, total expenses have fallen demonstrating our continued focus on cost reduction.

The retail impairment charge of £107 million has increased for both secured and unsecured lending provisions as outlined on page 15. Although significant, the impairment charge is lower than that incurred in the second half of 2008/09 of £162 million largely because the rate of growth of arrears has slowed and the direction of travel in house prices has reversed with house price increases of approximately 2% year on year thus moderating the level of anticipated loss on arrears and possession cases.

Following the mergers with Cheshire, Derbyshire and Dunfermline, the Society now has a customer base of over 15 million people. We provide a wide range of personal financial products and are committed to strengthening and deepening the relationship with our customers.

Residential mortgage lending

The housing and mortgage market have shown some signs of recovery over recent months. Total UK gross lending in the six months to 30 September 2009 was almost 47% lower at £70.5 billion compared with £132.2 billion a year ago driven by a reduction in remortgage business. Gross residential lending, including specialist lending was £5.8 billion (30 September 2008: £10.9 billion) representing a market share of 8.3%.

In the prime residential lending market, we have continued to lend in a prudent and responsible manner, fine tuning our range to those sectors of the market that we believe, at any given time, offer the optimal mix of risk and reward.

Nationwide Building Society – Half-Yearly Financial Report

At the same time we continue to focus on supporting first time buyers and our existing customers (whether moving house or staying in their property) through a range of preferentially priced innovative products.

We enable high quality customers to move house even where they are in negative equity. We continue to provide individual support and forbearance for customers experiencing payment difficulties even if they are not yet in arrears and we do not make a monthly charge to customers in arrears where we have an agreed payment plan in place. Nationwide remains the most trusted high street mortgage lender.

Our specialist lending activities remain focused on quality segments of the Buy to Let market. Here, lending activity is concentrated on a small number of key brands including The Mortgage Works. Gross lending in the specialist market is down 79% on the previous year although there are signs of returning confidence with increasing numbers of experienced landlords looking to grow their portfolios. The rental market is seeing void periods falling and growing numbers of landlords are seeing increases in achievable rents. These factors combined with historically low mortgage rates for existing borrowers means that arrears levels have eased. We are not active in the adverse credit or self certified markets.

Consumer Finance

Our current account is central to our retail customer strategy and plays a pivotal role in developing and retaining lasting customer relationships. As we adopt a ‘challenger’ role to larger players in the market, we are focusing on the switcher market. During the period we opened 162,000 new current accounts, increasing our account base to just under 4.9 million accounts (4 April 2009: 4.8 million).

The Society continues with its commitment to a positive order of payments on its credit cards, and is working closely with government departments to ensure they fully understand the benefit to consumers. In the six months to 30 September 2009 we opened 64,000 new accounts, taking the total account base to 1.3 million accounts.

In August and September 2009, prime Nationwide FlexAccount customers applying for a personal loan have received a market leading APR across all our sales channels. Our risk based pricing ensures that new business lending is both profitable and of high quality.

Retail Funding

Retail deposits continue to be the Group’s primary source of funding for retail lending activity, with a strategy of providing good long-term savings value and security to our members.

The low interest rate environment makes it harder for retail savers to drive income from their savings. We recognise this and have continued to develop our range of products to better meet their needs. During the six months we have launched a number of market leading and innovative products including Stepped Rate Bonds, Guaranteed Combination Bond (a savings bond partnered with a Guaranteed Equity Bond); and Champion Saver (a branch based notice account).

The market for retail deposits has continued to grow in competitiveness during the year whilst actually shrinking in size. We have seen a reduction in savings balances of £5.6 billion in the first half of the year. Given that we are able to raise money in the long-term wholesale markets, we have been prepared to accept an outflow of savings balances rather than pay too high a price for short fixed rate retail funds.

Protection & Investments

The first half of the year has seen an increase of 35% in sales of Protection and Investment products. During the period, we have invested in expanding our product range with 15 new investment funds, an investment bond, an ISA variant of the Guaranteed Equity Bond (GEB) and a Guaranteed Combination Bond, all delivered since February 2009. This has led to a period of exceptional sales growth with GEB Annual Premium Equivalent (APE) increasing by almost 9 times compared with the period to 30 September 2008.

Nationwide Building Society – Half-Yearly Financial Report

Protection APE has grown by 55% on the comparable period, driven by an increase in the proportion of mortgages sold with life and critical illness cover.

General Insurance

General Insurance continues to deliver a strong non-margin income stream for the Group. At 30 September 2009, we had a book size of 2 million general insurance covers which generated net income of over £50 million. That is despite the depressed residential mortgage lending market, which has historically been an important source of opportunities for general insurance. This is as a result of marketing and retailing activity over the last 2 years which have focused on the sale of standalone insurance products, as well as mortgage related insurance products.

The distribution deal with Liverpool Victoria for car, travel, commercial and Buy to Let insurances commenced on 1 December 2008 and in the subsequent ten month period nearly 100,000 policies have been sold.

Distribution channels

Our distribution channels have performed well despite increasingly challenging trading conditions and Group Distribution has focused on further improving service standards and productivity. The most notable success has been in Protection and Investment where sales volumes have increased by 35% compared with the first half of 2008/09. Customer satisfaction has again increased for the branch network, internet bank and telephone channels.

Investment continues in all channels, underpinning Nationwide's long standing commitment to its retail customers combined with the need to maintain a focus on enhancing commercial performance.

The branch network remains the most popular channel of choice for our customers. The Society continually assesses the structure and shape of the branch network to ensure that it responds optimally to the needs of our members. In some branch sites we have invested to increase capacity. Elsewhere, we have closed five sites since April where local member usage failed to justify the cost of a branch. Protection and Investment activity has increased significantly primarily as a consequence of important enhancements to our proposition including a wider range of high performing funds.

Our telephone businesses continue to make excellent progress and serve to both enhance customer choice and drive down the Group's cost to serve. A First Contact Resolution team was established to take ownership of customer issues and resolve them using a "one and done" model. In addition a Quality Assurance programme was implemented to target call quality. As a result, complaint volumes have declined considerably.

Strong internet bank sales have been driven primarily by the performance in the personal loans market where the internet channel share has increased to 32%. Internet bank transactions are up 12% year on year and the Online Managed Account Transfer process has proved popular since its launch in April 2009.

Nationwide was named Best Overall Online Provider and Best Online Personal Loan Provider in the Your Money Awards 2009, for the second year running. Latest benchmarking data shows Nationwide is the leading player in our peer group for sales of savings and mortgages online. Work is underway to plan for further investment in a next generation Internet Bank, to deliver a new user interface and greater flexibility.

Nationwide continued to establish its position as the lender of choice in the intermediary mortgage market through the brands of Nationwide for Intermediaries (NFI) and The Mortgage Works (TMW). The re-structuring of our intermediary sales operations earlier this year led to the creation of Group Intermediary Sales which, in turn, has led to internal cost savings complemented by increased intermediary satisfaction, as evidenced by numerous industry awards and improved service perception. Notable awards include Business Moneyfacts (Best Buy to Let Mortgage Provider for TMW), Mortgage Advice Bureau (Best Intermediary Lender Overall for NFI) and Sesame (Best Prime Lender also for NFI). In addition TMW has been voted number one for service in the NMG Broker Satisfaction Survey.

COMMERCIAL

	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m	Year to 4 April 2009 £m
Total income	100	98	192
Expenses	18	20	38
Impairment and other provisions	180	25	171
Contribution from Commercial	(98)	53	(17)

The Commercial business stream made a loss in the period as a result of the increased impairment charge in the period.

Commercial Lending income is in line with the same period last year as although drawdowns on new lending have been slower than expected, income levels have been supported by the widening of margins and by fees, particularly the repricing of maturing loans and where restructures have been agreed with borrowers.

The Division has completed its internal restructure and delivered an ongoing reduction in the cost base.

Continued difficult market conditions have resulted in an increase in commercial loan defaults. Over the last six months the individual impairment charge was £173 million compared with £139 million in the second half of last year. The principal drivers of provisions in the commercial portfolio are covenant breaches on LTV's as a result of falls in capital values; reduced tenant demand either as a result of tenant failure or reduced ability to cure void periods at the end of lease terms, and business failures on owner occupied properties.

Although UK commercial property values started to increase in the third quarter of 2009, particularly for prime property, the average fall from their peak in June 2007 has been in the region of 44%. This market has traditionally relied on debt-financing but the global banking crisis has led to reduced availability to the sector limiting trading activity and depressing capital values.

The performance of the core society originated loan portfolio has continued to deteriorate as anticipated in the first half of 2009/10 as a result of the ongoing impact of the UK recession. There is some evidence of the market stabilising, however the first quarter of 2010 is considered a key period to assess tenant performance following Christmas trading.

Having tightened new lending criteria and reduced volume targets in 2008/09, the Commercial Division has continued to focus on loss mitigation through arrears management, debt restructures and loan reviews during the first half of 2009/10. All new lending has been in lower risk sectors on a very selective basis to take advantage of widening margins.

Excluding assets acquired via the mergers with Derbyshire and Cheshire, the commercial lending portfolio of £21.1 billion comprises £12.7 billion secured on commercial property ("Property Finance"), £7.1 billion advanced to Registered Social Landlords and £1.3 billion under the Private Finance Initiative.

The Property Finance portfolio is diverse both in terms of sectors and geographic spread and is considered to have a low risk profile within the industry with no equity exposure or house builder exposure. Higher risk exposure to development and subordinated debt is limited to £133 million and £246 million respectively. Development exposures are to 3 high quality London office projects all of which are performing assets. Subordinated debt exposures have experienced impairment due to the nature of their structures and individual provisions of £113 million have been made against these exposures.

Registered Social Landlords and Private Finance Initiative portfolios have not experienced any losses and there are no (non-technical) arrears at 30 September 2009. Both of these books continue to experience low credit risk due to the involvement of Government in regulating Registered Social Landlords and providing income streams to Private Finance Initiative projects.

HEAD OFFICE FUNCTIONS AND OTHER OPERATIONS

	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m	Year to 4 April 2009 £m
Total income	135	159	300
Expenses	41	22	34
Impairment and other provisions	29	41	70
Contribution from Head office functions and other operations	65	96	196

Contribution from Head Office Functions and Other Operations was £65 million (30 September 2008: £96 million).

Total income is £24 million lower than the comparative period, despite including a £75 million gain from the management of the liquidity portfolio, reflecting lower interest earned on surplus capital and a reduction in the benefit accruing to the Group of the differential between Libor and bank base rate.

Administrative expenses have increased in the period reflecting higher investment spend and higher project depreciation.

The impairment charge in the period to 30 September 2009 includes £28 million (30 September £0 million, 4 April 2009: £18 million) which relates to loan losses on a portfolio of European commercial loans as outlined on page 16. There has been a small release of £1 million against investment securities compared with a charge in the prior period (30 September 2008: £39 million, 4 April 2009: £51 million). The remaining charge in current and comparative periods relates to the portfolio of student loans.

PRINCIPAL RISKS

The Disclosure and Transparency Rules (DTR 4.2.7R) require that a description of the principal risks and uncertainties are given in the Half-Yearly Financial Report for the remaining six months of the financial year. Nationwide's principal inherent risks are described below and a fuller summary is given in the Risk Management and Control section on pages 23 to 30 of the 2009 Annual Report and Accounts. Additional information on risk is also provided in the Pillar 3 disclosure available at www.nationwide.co.uk/about_nationwide/results_accounts.

The Chief Executive's Review and the Business Review in this Half-Yearly Financial Report comment on the primary risks and uncertainties affecting Nationwide for the remaining six months of the year. These risks and uncertainties, and how Nationwide is mitigating them, are summarised below.

Risk Management Framework

Nationwide seeks to manage appropriately all the risks that arise from its activities. The most significant risks to which the Group is exposed are credit risk and liquidity and funding risk. Other principal risks inherent within our business are market risk, pension risk, and operational risk.

There is a formal structure for monitoring and managing risks across the Group comprising a risk appetite agreed by the Board, detailed risk management policies, and independent governance and oversight of risk. Further details of the Group's risk management framework are provided on pages 23 to 25 of the 2009 Annual Report and Accounts.

Credit risk

Credit risk is defined as the risk that a borrower or counterparty fails to pay the interest or to repay the capital on a loan. Credit risk arises from residential mortgages, unsecured lending, commercial lending, and the liquid and other investments held by Treasury Division. Nationwide is also exposed to counterparty credit risk in relation to derivatives.

Market background

The key drivers of credit risk for residential mortgages and unsecured lending include the slowdown in the UK economy leading to higher unemployment, deterioration in household finances, and further contraction in the UK housing market resulting in falls in security values. Further economic slowdown and the extent to which there is any fall in house prices in the second half of the year will affect the level of impairment losses. Despite the deterioration in the last 18 months, arrears performance across the secured retail portfolios has stabilised. Although we consider our portfolios well placed to show continued resilience, we remain cautious going forward given the high levels of unemployment and the potential for base rate changes in future years, which may affect customer affordability levels.

Our principal commercial lending exposure is in the property investment sector. During a period of significant falls in property values, our policy of focusing our lending assessment on the strength and robustness of the rental income streams available to service our debt, rather than collateral values, has stood us in good stead. Under difficult economic conditions, however, borrowers' ability to fulfil their commitments is increasingly exposed to the risk of tenant failures, lower demand and occupancy levels, increased void periods and associated costs. These factors, when combined with reduced collateral values, have had a significant adverse effect on impairment losses. The extent of impairment losses in the coming period will be determined by the degree that these conditions continue.

Following a period of volatility and dislocation, wholesale credit markets have improved in recent months. This has been reflected in a significant positive movement in mark-to-market adjustments in the Group's portfolio of Available for Sale assets since the year end. The improvement supports our expectation of moderate incidence of impairment in our liquidity and investment portfolios.

Risk Management response

The Group's comprehensive credit risk management methods and processes are part of the Group's overall governance framework to measure, mitigate and manage credit risk within its risk appetite. As a mutual, the Group maintains a low risk appetite as evidenced by the quality of our balance sheet, which is documented in the Balance Sheet section of the Business Review.

In respect of our residential mortgage businesses, the focus will remain on the quality of the business we write. We will continue to closely monitor applicant quality, affordability and loan to value profiles. In the light of current market conditions, we will continue to keep credit criteria under review in respect of both the borrower and secured property and will further tighten lending criteria if appropriate. Regarding our specialist lending, we have not sought to increase our business levels despite significantly reduced competition in this market; we will continue this strategy into the second half of the year. We remain cautious about unsecured portfolios, given the current stage of the economic cycle, and will continue to prioritise quality of lending ahead of volume targets.

In respect of our commercial lending, we remain open for new business although, given the continuing economic uncertainty, we continue to adopt a cautious approach. We operate within a framework of relatively conservative credit criteria that focuses on lower risk sectors and prioritises the quality of lending over volume. We have also significantly increased resources and emphasis on the proactive management of our existing portfolio. Through these and other actions we are continuing to develop our arrears management and recovery functions and processes, our portfolio management and stress testing capabilities, and thus to enhance our ability to identify and respond appropriately to emerging risk issues.

The Group has increased the quality of its liquidity portfolio by increasing the weighting to sovereign exposures and this will be maintained. Given current market conditions, we have not sought to expand the Group's treasury investment portfolio and we will continue to manage the existing portfolio to minimise potential risk for the foreseeable future.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is not able to meet its obligations as they fall due, or can do so only at excessive cost. In order to ensure that the Group continues to meet its funding obligations and maintain or grow its business generally, the Group has developed comprehensive liquidity policies, with the Group's operations funded primarily from retail sources supported by a well-diversified wholesale funding capability.

Market background

Increased risk of impairment of mortgage debt and deterioration in asset quality generally, combined with more rigorous assumptions applied by the rating agencies, has had significant consequences for financial institutions. For those institutions with lower quality assets and weak capital ratios, rating downgrades have restricted their access to wholesale markets and increased their reliance upon retail savings. For those institutions with higher quality assets, enhanced investor confidence has permitted an increased volume and maturity in both secured and unsecured wholesale funding. We expect this market trend to continue for the remainder of the financial year.

Nationwide, as a leading UK mortgage lender and savings institution, has been impacted by these developments. Increased competition and costs for retail savings, significantly influenced by institutions that are pursuing retail funding to replace potentially unavailable wholesale funding, has required the Group to be selective in its participation. Further details on our levels of retail funding are provided in the Chief Executive's Review on page 9. At times it has been appropriate for the Group to take advantage of its continuing ability to raise funds in the wholesale markets in preference to retail funding given its relative reputational strength.

Risk Management response

The period has been one in which management has maintained its focus on current and future funding strategy. We have continued to enhance our methodologies for defining and measuring appetite for liquidity and funding risk to support this.

Internal methodologies for calculation of liquidity and funding risks are fully independent of financial accounting, and are able to recognise movements and encumbrances of collateral. Asset categories within our primary calculation of liquidity are consistent with regulatory proposals (FSA PS09/16 Strengthening liquidity standards).

Liquidity is managed against formal risk limits using a number of stress scenarios. Our formal liquidity limits have been increased further during the period, raising the minimum level of liquidity that is held. Liquidity stress scenarios are based upon forward liquidity ladders that extend for several weeks. These scenarios and forward periods are now being revised to be consistent with regulatory proposals.

Secured transactions have been undertaken to increase Group liquidity through the receipt of both cash and other highly liquid assets. Collateral delivered to counterparties has included self-issued covered bonds, retail mortgage asset backed securities from our Silverstone programme, other liquid investments issued by third parties, and segregated pools of mortgage assets. Cash proceeds have been obtained from secured transactions in the money markets, through repurchase transactions and Bank of England Open Market Operations, and in the capital markets through structured borrowings. The Group made early use of the Bank of England Special Liquidity Scheme and the Credit Guarantee Scheme.

Executive management meets on a frequent basis to review the business plans and liquidity position of the Group; this will continue until wholesale markets stabilise. The maturity profile and refinancing of funding transactions will continue to be a significant factor within business decisions.

Around 70% of the Group's funding remains from retail sources and we continue to be perceived as a safe harbour for savings. In the face of increased levels of competition for retail savings, we continue to enhance our savings range to maintain our competitive position.

With benefit from the UK Government's financial support package for the sector we are experiencing improvements in availability of funding and duration. It is likely to take some time for a return to more normal

Nationwide Building Society – Half-Yearly Financial Report

market conditions but, providing conditions continue to improve, we will pursue a prudent increase in the average duration of our funding.

Market risk

Market risk is the risk of changes in value of, or income arising from, the Group's assets and liabilities as a result of changes in interest rates, exchange rates, or other market indices. This also encompasses basis risk. The principal risk Nationwide is exposed to is interest rate risk.

Interest rate risk

Market background

Interest rate risk arises from the mortgage, savings and other financial services products that we offer. The varying interest rate features and maturities on these products, and the use of wholesale funds to support these products, create exposures to interest risks. This is due to the imperfect matching of interest rates between different financial instruments and the timing differences on the re-pricing of assets and liabilities. This risk is managed through the use of appropriate financial instruments including derivatives.

The contractual terms of products and transactions determine the flexibility to manage net interest margin. Following substantial falls in Sterling interest rates, this flexibility has been constrained by a natural floor, at zero percent for savings rates, and a contractual ceiling for certain mortgage rates, relative to the base rate.

The sudden lowering of interest rates has also exposed the Group to changes in customer behaviour, driven by associated changes in the financial dynamics of transactions, with respect to drawdown of mortgage applications and early repayment of fixed rate mortgages.

The Group's exposure to mismatch between base rate and LIBOR-linked balances has reduced during the period reflecting increased customer preference for tracker and Base Mortgage Rate (BMR) mortgages, and for fixed rate savings bonds.

Risk Management response

The interest earned on the Group's free reserves has been protected through our policy of investing such balances with an interest rate maturity profile of several years.

Risks relating to products are mitigated through appropriate restrictions in product terms and conditions, application and offer procedures, as well as close analysis of the product pipeline. In addition, Treasury Division uses derivative instruments in managing various aspects of market risk. In doing so it complies with the Building Societies Act 1986 which limits our use of derivatives to the reduction in exposure to changes in interest rates, exchange rates or other factors defined by the Act.

Currency risk

Market background

Foreign exchange risk arises from movements in the foreign exchange market adversely affecting the value of the Group's foreign currency holdings and planned future cash flows. A proportion of treasury funding and investment activity is undertaken in foreign currencies and some commercial loans are denominated in Euros.

Risk Management response

Foreign currency exposure is hedged on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels. Management committees and the Assets and Liabilities Committee specifically set and monitor limits on the level of currency exposure.

Taking foreign currency derivatives into account, and in line with building society prudential guidance, the Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

Pension obligation risk

The Group has funding obligations for a number of defined benefit schemes, the most significant being the Nationwide Pension Fund ('the Fund'), which is closed to new entrants. Pension risk is the risk that the value of the Fund's assets, together with ongoing employer and member contributions, will be insufficient to cover the projected obligations of the Fund over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The projection of the Fund's obligations includes estimates of mortality, inflation and future salary rises, the actual out-turn of which may differ from the estimates. The Fund is also exposed to possible changes in Pension legislation.

To mitigate these risks, management, together with the Trustees of the Fund, regularly review reports prepared by the Fund's independent actuaries to assess these risks and take appropriate actions which may, for example, include adjusting the investment strategy and/or contribution levels.

Operational risk

Nationwide has adopted the standardised approach to operational risk and has applied the industry standard definition: "the risk of loss arising from the inadequate or failed processes, people or systems or from external events". This has been aligned to the Group's integrated corporate risk map and ensures that there is effective oversight, monitoring and reporting of the key operational risk exposures facing Nationwide classified under 11 categories, which include legal and regulatory risk. Further details of Nationwide's exposure to contingent liabilities some of which arise from operational risks are provided in Note 15.

Following the crisis in financial markets over the period since August 2007, governments and regulators around the world are putting forward proposals to enhance regulation of the financial markets which will drive significant change affecting all major institutions.

As part of this process here in the UK, Government proposals in the White Paper, *Reforming Financial Markets*, together with FSA proposals in relation to management of funding and liquidity risk, as well as a revised capital adequacy framework for financial institutions, are likely to have a significant impact on the industry.

The long term outcome of the proposals is difficult to predict with certainty at this stage but it will be important that considerations relevant to maintaining the relative strength of the mutual sector are properly reflected in new legislation and regulatory requirements. Of particular importance is the need to ensure that building societies' access to capital markets to support financial stability and growth is maintained, and that limits relating to wholesale funding and liquidity for building societies do not undermine the competitive position of the mutual sector relative to publicly quoted banks. We will continue to monitor developments in this regard.

Signed by

Mark Rennison
Group Finance Director
19 November 2009

CONSOLIDATED INCOME STATEMENT
For the half year ended 30 September 2009

	Notes	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Adjusted) £m
Interest receivable and similar income	3	2,416	5,098	9,250
Interest expense and similar charges	4	1,525	4,218	7,492
Net interest income		891	880	1,758
Fee and commissions income		175	168	359
Fee and commissions expense		(3)	(1)	(4)
Income from investments		-	14	16
Other operating income	5	46	4	123
(Losses)/gains from derivatives and hedge accounting		(15)	58	10
Total income		1,094	1,123	2,262
Administrative expenses	6	561	572	1,252
Depreciation and amortisation		75	61	126
Impairment losses on loans and advances to customers	7	317	74	394
Provisions for liabilities and charges	8	(1)	3	249
Impairment (gains)/losses on investment securities		(1)	39	51
Profit before tax		143	374	190
Analysed as:				
• Profit before tax, FSCS levies, transformation costs, gains on business combinations and portfolio acquisition		102	380	403
• FSCS levies		1	-	(241)
• Transformation costs and gains on business combinations and portfolio acquisition		40	(6)	28
Profit before tax		143	374	190
Taxation		41	104	44
Profit after tax		102	270	146

The audited 4 April 2009 Income Statement has been adjusted to reflect changes made to the initial accounting for the acquisition of core parts of the Dunfermline Building Society. Further information is given in Notes 2 and 16.

Results relating to the acquisition of Derbyshire, Cheshire and core parts of the Dunfermline building societies are included with effect from the date of completion of the acquisitions, 1 December 2008, 15 December 2008 and 30 March 2009 respectively.

The gain on portfolio acquisition of £40 million at 30 September 2009 relates to the acquisition of the former Dunfermline Building Society social housing portfolio on 30 June 2009. Gains on business combinations of £135 million at 4 April 2009 related to the acquisition of the Cheshire Building Society and core parts of the Dunfermline Building Society.

Transformation costs totalling £107 million at 4 April 2009 related to the acquisition of Derbyshire and Cheshire building societies, core parts of the Dunfermline Building Society and other costs relating to restructuring parts of our business.

The accounting policies and notes on pages 43 to 60 form an integral part of this condensed consolidated half-yearly financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 30 September 2009

	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Adjusted) £m
Profit after tax	102	270	146
Other comprehensive income:			
Available for sale investments:			
Fair value movements taken to equity	1,184	(606)	(2,216)
Amount transferred to income statement	(72)	28	4
Taxation	(311)	162	621
	801	(416)	(1,591)
Revaluation of property:			
Revaluation before tax	-	-	(72)
Taxation	-	-	20
	-	-	(52)
Actuarial loss on retirement benefit obligations:			
Actuarial loss before tax	(249)	(36)	(321)
Taxation	70	10	90
	(179)	(26)	(231)
Cash flow hedge amortisation	-	(1)	(2)
Total comprehensive income	724	(173)	(1,730)

CONSOLIDATED BALANCE SHEET
As at 30 September 2009

	Notes	30 September 2009 (Unaudited) £m	30 September 2008 (Unaudited) £m	4 April 2009 (Adjusted) £m
ASSETS				
Cash and balances with the Bank of England		3,336	10,993	8,205
Loans and advances to banks		4,364	5,564	5,033
Investment securities – available for sale	9	26,840	21,514	21,223
Derivative financial instruments		5,323	2,673	5,859
Fair value adjustment for portfolio hedged risk		2,803	358	3,408
Loans and advances to customers	10	154,214	144,271	155,469
Investments in equity shares		81	71	81
Intangible fixed assets		204	124	211
Property, plant and equipment		956	857	886
Investment properties		9	15	9
Accrued income and expenses prepaid		102	103	743
Deferred tax assets		584	120	866
Other assets		226	49	360
Total assets		199,042	186,712	202,353
LIABILITIES				
Shares		122,675	118,379	128,292
Deposits from banks	9	11,759	17,636	13,283
Other deposits		5,483	3,687	5,673
Due to customers		4,707	3,939	4,371
Debt securities in issue		38,707	31,952	34,794
Fair value adjustment for portfolio hedged risk		115	47	239
Derivative financial instruments		5,205	975	5,986
Other liabilities		556	907	671
Provisions for liabilities and charges	8	222	14	271
Accruals and deferred income		276	241	354
Subordinated liabilities	11	2,174	1,768	2,233
Subscribed capital	11	1,508	1,256	1,526
Current tax liabilities		67	7	51
Retirement benefit obligations	12	586	69	331
Total liabilities		194,040	180,877	198,075
General reserve		6,141	6,547	6,218
Revaluation reserve		69	121	69
Available for sale reserve		(1,208)	(834)	(2,009)
Cash flow hedge reserve		-	1	-
Total reserves & liabilities		199,042	186,712	202,353

The audited 4 April 2009 Balance Sheet has been adjusted to reflect changes made to the initial accounting for the acquisition of core parts of the Dunfermline Building Society. Further information is given in Notes 2 and 16.

CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS
For the half year ended 30 September 2009 (unaudited)

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Cash flow reserve £m	Total £m
At 5 April 2009 (adjusted)	6,218	69	(2,009)	-	4,278
Profit for the period	102	-	-	-	102
Net movement in available for sale reserve	-	-	801	-	801
Net actuarial loss on retirement benefit obligations	(179)	-	-	-	(179)
Total comprehensive income	(77)	-	801	-	724
At 30 September 2009	6,141	69	(1,208)	-	5,002

For the half year ended 30 September 2008 (unaudited)

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Cash flow reserve £m	Total £m
At 5 April 2008	6,303	121	(418)	2	6,008
Profit for the period	270	-	-	-	270
Net movement in available for sale reserve	-	-	(416)	-	(416)
Net actuarial loss on retirement benefit obligations	(26)	-	-	-	(26)
Cash flow hedge amortisation	-	-	-	(1)	(1)
Total comprehensive income	244	-	(416)	(1)	(173)
At 30 September 2008	6,547	121	(834)	1	5,835

For the year ended 4 April 2009 (adjusted)

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Cash flow reserve £m	Total £m
At 5 April 2008	6,303	121	(418)	2	6,008
Profit for the year	146	-	-	-	146
Net movement in available for sale reserve	-	-	(1,591)	-	(1,591)
Revaluation of property	-	(52)	-	-	(52)
Net actuarial loss on retirement benefit obligations	(231)	-	-	-	(231)
Cash flow hedge amortisation	-	-	-	(2)	(2)
Total comprehensive income	(85)	(52)	(1,591)	(2)	(1,730)
At 4 April 2009	6,218	69	(2,009)	-	4,278

The 4 April 2009 profit for the year has been adjusted to reflect changes made to the initial accounting for the acquisition of core parts of Dunfermline. Further information is given in Notes 2 and 16.

Nationwide does not use cash flow hedge accounting. The cash flow hedge accounting reserve arose from the merger with Portman. The balance taken on at 28 August 2007 has now been fully amortised.

CONSOLIDATED CASH FLOW STATEMENT
For the half year ended 30 September 2009

	Notes	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Adjusted) £m
Cash flows from operating activities				
Profit before tax		143	374	190
Adjustments for:				
• Non-cash items included in profit before tax	13	426	141	493
• Changes in operating assets	13	2,796	(817)	(11,416)
• Changes in operating liabilities	13	(3,457)	7,539	9,425
• Interest paid on subordinated liabilities		(42)	(43)	(102)
• Interest paid on subscribed capital		(46)	(40)	(127)
• Taxation		16	83	69
Net cash flows from operating activities		(164)	7,237	(1,468)
Cash flows from investing activities				
Purchase of investment securities		(10,698)	(8,815)	(14,681)
Sale and maturity of investment securities		6,119	11,787	18,159
Purchase of property, plant and equipment		(135)	(105)	(205)
Sale of property, plant and equipment		4	4	4
Sale of investment properties		-	-	2
Purchase of intangible fixed assets		(10)	(5)	(61)
Cash and cash equivalents acquired on transfer of engagements		-	-	2,761
Net cash flows from investing activities		(4,720)	2,866	5,979
Cash flows from financing activities				
Maturity of subordinated liabilities		(15)	(325)	(325)
Net cash flows from financing activities		(15)	(325)	(325)
Net (decrease)/increase in cash		(4,899)	9,778	4,186
Cash and cash equivalents at start of period		13,398	9,212	9,212
Cash and cash equivalents at end of period	13	8,499	18,990	13,398

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

1 Reporting period

These results have been prepared as at 30 September 2009 and show the financial performance for the period from and including 5 April 2009 to this date.

2 Basis of preparation

This condensed consolidated half-yearly financial report for the half year ended 30 September 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 4 April 2009, which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies adopted by the Group in the preparation of its 2009/10 half-yearly financial report and those which the Group currently expects to adopt in its annual accounts for the year ended 4 April 2010 are consistent with those disclosed in the annual accounts for the year ended 4 April 2009 except as detailed below. The accounting policies and disclosures adopted reflect the Group's current view of best practice. Copies of the 4 April 2009 annual accounts are available at www.nationwide.co.uk/about_nationwide/results_and_accounts/2008-2009.

In the first half of the financial year, the Group adopted the following significant IFRS and IFRIC pronouncements:

- IFRS 8 'Operating segments': IFRS 8 replaces IAS 14, 'Segment reporting', and requires the reporting of information on operating segments based on how financial information is reported and evaluated internally. The Group has reviewed its processes of internal reporting of operating segments to chief operating decision makers for the purposes of allocating resources to segments and assessing segmental performance. Further details on the changes are given in Note 14.
- IAS 1 'Presentation of financial statements': Adoption of the revised standard has amended the presentation of the financial statements. The effect has been to replace the statements of recognised income and expense and movements in reserves with a statement of comprehensive income and a statement of movements in members' interests. There has been no change to the recognition, measurement or disclosure of transactions and events resulting from the adoption of the revised IAS 1.
- IAS 23 'Borrowing costs': The revised IAS 23 eliminates the option to recognise all borrowing costs immediately as an expense to the extent that they relate to assets that take a substantial time to get ready for intended use or sale. The revised standard requires such costs to be capitalised. This is in accordance with the Group's current policy. The Group has reviewed the revised standard with reference to the ongoing investment in systems and infrastructure and will continue to capitalise directly attributable interest. In the period ended 30 September 2009 the Group capitalised £3 million on this basis.

In addition to the above, certain non-derivative financial liabilities relating to the sale of Guaranteed Equity Bonds (GEBs) sold by the Group on behalf of Legal & General, included within other deposits, have been designated at fair value upon initial recognition in the balance sheet. Changes in fair value are recognised through the income statement. The GEBs are economically matched using equity-linked derivatives, which do not meet the requirements for hedge accounting. Recording changes in fair value of both the derivatives and the related liabilities through the income statement most closely reflects the economic reality of the transactions. In so doing, this accounting treatment eliminates a measurement inconsistency that would otherwise arise from valuing the GEBs at amortised cost and the derivatives at fair value.

Also, during the period ended 30 September 2009 the Group adopted a number of amendments to standards and interpretations which did not have a significant effect on the consolidated financial statements. These are described on pages 58 to 59 of the 2009 Annual Report and Accounts.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

2 Basis of preparation (continued)

At 30 September 2009, a number of amendments to standards and interpretations were neither effective for this financial year nor adopted by the EU. The Group does not expect adoption of any of these amendments to have a significant effect on the consolidated financial statements.

IFRS is subject to ongoing review and endorsement by the EU or possible amendment by interpretative guidance from the International Accounting Standards Board and is therefore subject to change. In addition practice may develop with regard to interpretation and application of the standards or further standards may be introduced with the option for early adoption. We will update our results for any such changes should they occur. The Group's full year Annual Report and Accounts may, therefore, be prepared in accordance with different accounting policies to those used in this document.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Details of critical accounting estimates are provided on pages 66 and 67 of the 2009 Annual Report and Accounts.

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are discussed in the Business Review, including the Principal Risks section of the Half-Yearly Financial Report.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern.

The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting for preparing accounts.

Related party transactions

The Group has had no material or unusual related party transactions during the half-year to 30 September 2009. Related party transactions for the half-year to 30 September 2009 are therefore similar in nature to those for the year ended 4 April 2009. Full details of the Group's related party transactions for the year to 4 April 2009 can be found in the 2009 Annual Report and Accounts.

Business combinations

The Society acquired the Derbyshire and the Cheshire building societies on 1 December 2008 and 15 December 2008 respectively and core parts of the Dunfermline Building Society on 30 March 2009. Details of the accounting adopted for the business combinations are provided in Notes 1, 49 and 50 of the 2009 Annual Report and Accounts. The comparative figures include the results of these business combinations with effect from their completion dates.

The former Dunfermline Building Society social housing portfolio was not part of the original acquisition on 30 March 2009. This portfolio was acquired on 30 June 2009. Further information is given in Note 17.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

2 Basis of preparation (continued)

Adjustment to audited 4 April 2009 comparative information

As the acquisition of core parts of the Dunfermline Building Society took place on 30 March 2009, immediately prior to the 4 April 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for the Dunfermline was thus determined provisionally in the 2009 Annual Report and Accounts. In accordance with IFRS 3 (2008 Revised) adjustments to the provisional amounts disclosed in the 2009 Annual Report and Accounts have been recognised as if the final accounting for the business combination had been completed at the acquisition date. The audited comparative information for 4 April 2009 has thus been adjusted. The impact on the 4 April 2009 consolidated income statement is to reduce other operating income and profit before tax by £22 million, to reduce taxation by £6 million and to reduce profit after tax by £16 million. Further information is given in Note 16.

3 Interest receivable and similar income

	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Audited) £m
On loans fully secured on residential property	2,828	3,517	6,916
On other loans	416	559	1,083
On investment securities	527	651	1,249
On other liquid assets	30	139	261
Other interest receivable	5	4	-
Foreign exchange difference	7	1	-
Net (expense)/income on financial instruments hedging assets	(1,455)	153	(410)
Expected return on pension assets	58	74	151
	2,416	5,098	9,250

Interest receivable on loans fully secured on residential property and interest receivable on other loans are net of amortisation of fair value adjustments relating to the acquisitions of Derbyshire, Cheshire and core parts of Dunfermline building societies.

Interest receivable on investment securities in the period to 30 September 2009 includes £72 million of gains on the sale of investment securities (30 September 2008: £9 million, 4 April 2009: £33 million). The gains in the current period include £75 million from the sale of Gilts which were achieved as a result of market movements that were driven in part by the Bank of England's policy of Quantitative Easing.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

4 Interest expense and similar charges

	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Audited) £m
On shares	1,215	2,682	4,724
Subscribed capital	47	40	85
On deposits and other borrowings			
• Subordinated liabilities	47	42	93
• Other	221	535	1,130
Debt securities in issue	449	735	1,376
Foreign exchange difference	-	-	4
Net (income)/expense on financial instruments hedging liabilities	(523)	114	(61)
Pension interest cost	69	70	141
	1,525	4,218	7,492

Interest expense on shares held by individuals, deposits and other borrowings, subscribed capital and debt securities in issue includes amortisation of fair value adjustments relating to the acquisitions of Derbyshire, Cheshire and core parts of Dunfermline building societies.

5 Other operating income

	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Adjusted) £m
Gain on portfolio acquisition	40	-	-
Gains on business combinations	-	-	135
Rental income	3	4	7
Profit/ (loss) on revaluation and sale of fixed assets	-	2	(25)
Other	3	(2)	6
	46	4	123

More information on the gains on business combinations and portfolio acquisition is provided in Notes 16 and 17.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

6 Administrative expenses

	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Audited) £m
Employee costs:			
• Wages and salaries	239	234	465
• Social security costs	21	20	40
• Pension costs	37	51	94
	297	305	599
Other administrative expenses	264	267	653
	561	572	1,252

Administrative expenses include £107 million at 4 April 2009 and £6 million at 30 September 2008 of transformation costs which include £32 million at 4 April 2009 and £6 million at 30 September 2008 directly relating to business combinations. The remaining transformation costs relate to restructuring parts of our business.

7 Impairment losses on loans and advances to customers

	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Audited) £m
Impairment charge for the period			
Loans fully secured on residential property	52	5	93
Loans fully secured on land	173	25	169
Other loans	92	44	132
	317	74	394
Impairment provision at the end of the period			
Loans fully secured on residential property	157	42	123
Loans fully secured on land	359	54	192
Other loans	197	134	155
	713	230	470

These provisions have been deducted from the appropriate asset values in the balance sheets.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

8 Provisions for liabilities and charges

	FSCS £m	Other Provisions £m	Total £m
At 5 April 2009	258	13	271
Provisions utilised	(48)	-	(48)
Credit for the period	(1)	-	(1)
At 30 September 2009	209	13	222
At 5 April 2008	-	16	16
Provisions utilised	-	(5)	(5)
Charge for the period	-	3	3
At 30 September 2008	-	14	14
At 5 April 2008	-	16	16
Acquired on acquisitions:			
• Derbyshire	7	-	7
• Cheshire	6	-	6
• Dunfermline	4	-	4
Provision utilised	-	(11)	(11)
Charge for the year	241	8	249
At 4 April 2009	258	13	271

Financial Services Compensation Scheme

Based on its share of protected deposits, the Group pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. In 2008 a number of institutions were declared in default by the FSA. The FSCS has met the claims by way of loans received from HM Treasury. The terms of these loans are interest only for the first three years and the FSCS will seek to recover the interest cost, together with ongoing management expenses, by way of annual levies on member firms over this period. The FSCS has, in turn, acquired the rights to the realisation of the assets of these financial institutions. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the financial institutions to fully repay the HM Treasury loans. To the extent that the loans have not been repaid in full by 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury. The FSCS will then levy the industry (including Nationwide) accordingly.

In addition, in April 2009 HM Treasury issued a Notification to the FSCS under the Banking Act 2009 requiring a contribution to the resolution costs of the failure of the Dunfermline Building Society. The timing and size of any actual payments by the FSCS under the Notification and the consequent need for levies on the industry, is unclear.

In the year ended 4 April 2009, the Group made a provision for £258 million, being the Group's estimated share of the levies which it will incur in respect of the period of the initial three year loan facility from HM Treasury relating to the 2008 defaults. At that time, the Group provided no amount for its estimated share of potential compensation costs as these could not be reliably estimated.

In the period the Group has adjusted its estimates of both elements of the provision. The Group's estimated share of the levies which it will incur in respect of the period of the initial three year loan facility from HM Treasury has been re-estimated based on the Group's estimated share of protected deposits, the FSCS's latest estimates for the industry's levies for scheme years 2009/10, estimated capital amounts outstanding on the HM Treasury loans and estimated future Libor rates in respect of levies for subsequent scheme years. The amounts do not take account of any levies which may be payable from any refinancing after the maturity of the initial 3 year loan facility as any such amounts cannot currently be reliably estimated.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

8 Provisions for liabilities and charges (continued)

The Group has also recognised a charge in the period relating to its estimated share of potential compensation costs resulting from asset recovery shortfalls on the failures of Heritable Bank Plc, London Scottish Bank Plc, Landsbanki Islands hf (Icesave) and Kaupthing Singer & Friedlander Limited (Edge). These charges have been calculated based on the Group's estimated share of protected deposits, the FSCS's estimates of anticipated asset recoveries and estimated future Libor rates. A £Nil compensation cost has been recognised in respect of the failure of Bradford & Bingley plc as currently available information indicates that the recovery of Bradford & Bingley assets is likely to cover the repayment of the HM Treasury loan.

The amounts described above do not take account of any levies which may be payable relating to any resolution costs under the Banking Act 2009 Notification in respect of the Dunfermline Building Society as any such amounts cannot currently be reliably estimated. However management have an expectation that further compensation costs will emerge.

As further information is provided by the FSCS scheme the Group will continue to refine its estimate of the amount it will ultimately be required to pay to the FSCS.

Other provisions

Other provisions have been made in respect of various customer claims. It is expected that the liability will predominantly crystallise over the next 12 – 24 months.

9 Investment securities – available for sale – sale and repurchase arrangements

Investment securities with a carrying value of £6,386 million (30 September 2008: £9,816 million, 4 April 2009: £5,795 million) have been sold under sale and repurchase agreements. These assets have not been de-recognised as the Group has retained substantially all the risks and rewards of ownership. The proceeds of all repurchase agreements of £9,926 million (30 September 2008: £15,414 million, 4 April 2009 £11,054 million) are included within deposits from banks.

At 30 September 2009 the Group does not hold any collateral under reverse sale and repurchase agreements.

At 30 September 2008 the Group held collateral with a fair value of £3,652 million under reverse sale and repurchase agreements (4 April 2009: £578 million). These transactions were conducted under the terms that are usual and customary to standard stock lending, securities borrowing and reverse repurchase agreements. The Group was permitted to sell or repledge the assets received as collateral in the absence of their default. The Group was obliged to return equivalent securities. At 30 September 2008 there was no collateral repledged (4 April 2009: £546 million).

The Group does not recognise securities received under reverse sale and repurchase agreements on the Group balance sheet.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

10 Loans and advances to customers

	30 September 2009 (Unaudited) £m	30 September 2008 (Unaudited) £m	4 April 2009 (Adjusted) £m
Loans fully secured on residential property	137,910	128,659	138,781
Loans fully secured on land	11,497	11,367	11,750
Other loans	4,197	4,172	4,219
	153,604	144,198	154,750
Fair value adjustment for micro hedged risk	610	73	719
	154,214	144,271	155,469

Loans fully secured on land include £340 million (30 September 2008: £313 million, 4 April 2009: £374 million) of loans which are fully secured on residential property but are classified as ‘loans fully secured on land’ in accordance with the Building Societies Act 1997.

A detailed analysis of loans and advances to customers is given below:

	30 September 2009 (Unaudited)		30 September 2008 (Unaudited)		4 April 2009 (Adjusted)	
	£bn	%	£bn	%	£bn	%
Prime residential mortgages	110.4	71.6	106.5	73.7	111.9	72.1
Specialist residential mortgages	18.4	11.9	14.4	10.0	18.2	11.7
Total residential mortgages	128.8	83.5	120.9	83.7	130.1	83.8
Commercial lending	22.5	14.6	20.9	14.4	22.1	14.2
Other lending operations	0.6	0.4	0.3	0.2	0.6	0.4
Consumer finance	2.4	1.5	2.4	1.7	2.4	1.6
Gross balances	154.3	100.0	144.5	100.0	155.2	100.0
Impairment provision	(0.7)		(0.2)		(0.4)	
Fair value adjustment for micro hedged risk	0.6		-		0.7	
Total	154.2		144.3		155.5	

Certain loans and advances to customers are used to secure debt securities in issue (funding) as follows:

	30 September 2009 (Unaudited)		30 September 2008 (Unaudited)		4 April 2009 (Audited)	
	Assets pledged £m	Secured funding £m	Assets pledged £m	Secured funding £m	Assets pledged £m	Secured funding £m
Covered bonds	36,644	9,472	26,986	9,483	38,130	9,408
Securitisations and other secured lending	30,524	1,499	20,845	1,498	29,401	1,498
	67,168	10,971	47,831	10,981	67,531	10,906

Pledged assets include those available to Nationwide Covered Bonds LLP, Silverstone Master Trust and other funding vehicles, even where they have not yet been used to provide collateral to support external funding transactions. Secured funding disclosed above, however, is that obtained from issuance to external counterparties and does not include self issuances that may be used in the future as collateral for repo and other similar type operations. As a result, the relationship between pledged assets and secured funding above is not representative of the haircut applied to collateral values in determining the available level of funding.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

10 Loans and advances to customers (continued)

The Society established Nationwide Covered Bonds LLP in November 2005. The LLP provides security for issues of covered bonds made by the Society to external counterparties and also for the purpose of creating collateral.

The Society established the Silverstone Master Trust securitisation structure on 16 July 2008. Notes are issued by Silverstone Master Issuer plc to the Society or external counterparties and also for the purpose of creating collateral.

All of the assets pledged are retained on the Group's balance sheet as the Group retains substantially all the risks and rewards relating to the loans. After the balance sheet date an external issuance was made from the Silverstone Master Trust. Further information is given in Note 18.

11 Subordinated liabilities and subscribed capital

	30 September 2009 (Unaudited) £m	30 September 2008 (Unaudited) £m	4 April 2009 (Audited) £m
Subordinated liabilities			
Subordinated notes	2,082	1,752	2,116
Fair value adjustment for micro hedged risk	102	22	127
Unamortised premiums and issue costs	(10)	(6)	(10)
	2,174	1,768	2,233
Subscribed capital			
Permanent interest bearing shares	1,415	1,235	1,415
Fair value adjustment for micro hedged risk	141	30	161
Unamortised premiums and issue costs	(48)	(9)	(50)
	1,508	1,256	1,526

All of the Society's subordinated notes and permanent interest bearing shares (PIBS) are unsecured. The Society may, with the prior consent of the FSA, redeem some of the subordinated notes early. The PIBS are repayable, at the option of the Society, with the prior consent of the FSA.

The subordinated notes rank pari passu with each other and behind claims against the Society of all depositors, creditors and investing members. The PIBS rank pari passu with each other and behind claims of the subordinated notes. The claims of the PIBS holders in a winding-up or dissolution of the Society would be restricted to the principal amount of the PIBS together with the interest accrued.

On 7 May 2009, the Group, with the consent of the FSA, redeemed early a £15 million subordinated loan at a cost of £15 million.

12 Retirement benefit obligations

The Group's net retirement benefit obligation at 30 September 2009 totalled £586 million (30 September 2008: £69 million, 4 April 2009: £331 million). The change reflects an increase in the measurement of Fund liabilities partly offset by a rise in the market values of Fund assets. The primary reason for the increase in the value of the liabilities is a decrease in the discount rate to 5.5% (30 September 2008: 6.9%, 4 April 2009: 6.5%).

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

13 Notes to the cash flow statement

	Half year to 30 September 2009 (Unaudited) £m	Half year to 30 September 2008 (Unaudited) £m	Year ended 4 April 2009 (Adjusted) £m
Non-cash items included in profit before tax			
Net increase in impairment provisions on loans	243	18	258
Impairment (gains)/ losses on investment securities	(1)	39	51
Depreciation and amortisation	75	61	126
(Profit)/loss on sale of fixed assets	-	(1)	3
Interest on subordinated liabilities	47	42	93
Interest on subscribed capital	47	40	85
Loss on the revaluation of land and buildings	-	-	16
Loss on the revaluation of investment properties	-	-	6
Losses/(gains) from derivatives and hedge accounting	15	(58)	(10)
(Gains) on business combinations	-	-	(135)
	426	141	493
Changes in operating assets			
Loans and advances to banks	569	47	(325)
Investment securities	(968)	364	(543)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	1,126	(318)	(7,085)
Deferred tax assets	282	(10)	(659)
Loans and advances to customers	1,012	(1,485)	(2,483)
Other operating assets	775	585	(321)
	2,796	(817)	(11,416)
Changes in operating liabilities *			
Shares	(5,617)	4,563	4,490
Deposits from banks, customers and others	(1,378)	5,485	856
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	(905)	(179)	4,769
Debt securities in issue	3,913	(1,820)	356
Retirement benefit obligations	255	29	298
Other operating liabilities	275	(539)	(1,344)
	(3,457)	7,539	9,425
Cash and cash equivalents			
Cash and balances with the Bank of England	3,336	10,993	8,205
Loans and advances to other banks repayable in 3 months or less	4,162	5,410	4,262
Investment securities with a maturity period of 3 months or less	1,001	2,587	931
	8,499	18,990	13,398

* Changes in other operating liabilities include movements in the Group's wholesale funding balances of deposits from banks, other deposits and debt securities in issue. These are considered operating activities as they are related to the Group's lending activity and liquidity management and so form part of the normal course of business. Movements in subordinated liabilities and subscribed capital are considered financing activities because these form part of our capital management for solvency purposes.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

13 Notes to the cash flow statement (continued)

The Group is required to maintain balances with the Bank of England which, at 30 September 2009, amounted to £197 million (30 September 2008: £154 million, 4 April 2009: £173 million). These balances are included within loans and advances to banks on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

The decrease in cash and balances with the Bank of England reflects a decision to manage down our Reserve Account at the Bank of England and invest in a range of highly liquid UK and foreign government securities.

14 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Directors' Committee. The Executive Directors' Committee, which is responsible for allocating resources and assessing performance of operating segments, has been identified as the chief operating decision maker.

The following section analyses the Group's performance by business segment. For management reporting purposes, the Group is organised into the following business groupings, determined according to similar economic characteristics and customer base:-

- Retail
- Commercial
- Head office functions and other operations.

These business groupings reflect how management assesses performance and makes decisions on allocating resources to the business on the basis of product and customers. Revenues from external and internal customers are allocated to the appropriate business segment.

Goodwill is allocated by management to segments of cash-generating units on a segment level. Goodwill relates to the acquisition of The Mortgage Works (UK) plc by Portman Building Society and that arising on the acquisition of The Derbyshire Building Society and is allocated to the Retail segment. Goodwill is subject to an annual impairment test.

Retail

Retail functions include prime residential lending, specialist residential lending, consumer finance, retail funding (savings products), insurance and investments and regional brands retail products. The distribution channels supporting these products are included in this segment. This grouping reflects how internal reporting is provided to management and how management allocates resources and assesses performance of its products and customer relationships in the personal financial services sector.

Commercial

This segment comprises the commercial lending business stream. This grouping reflects how internal reporting is provided to management and how management allocates resources and assesses performance of its products and customer relationships in the commercial business sector.

Head office functions and other operations

Head office functions and other operations comprises treasury operational and income generation activities, head office and central support functions, and consolidation adjustments.

Head office and central support functions includes: executive management, corporate secretariat, legal services, human resources, strategy and planning, finance, risk management, capital management, corporate affairs, property services and internal audit. Consolidation adjustments largely reflect the elimination of inter-segment transactions.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

14 Operating segments (continued)

This grouping reflects how management assesses performance and allocates resources.

Group reporting changes in the period to 30 September 2009

As a result of changes of executive management structure and organisation and the application of IFRS 8 there have been certain changes in the reporting of business segments compared with the results reported in the 2009 Annual Report and Accounts. There is no impact on the Group income statement or balance sheet.

The main change to business segments reported is that the specialist lending business has been transferred to the Retail business segment. Previously specialist lending was grouped with commercial lending.

The majority of revenue for the Group is derived from interest. Net interest income is used to assess the performance of each segment. Therefore, interest income is presented net of interest expense. The presentation shown below, whereby net interest income is adjusted for revenue from other segments, reflects how management receives information to assess performance and allocate resources.

Half year to 30 September 2009 (unaudited)	Retail	Commercial	Head office functions & other operations	Total
	£m	£m	£m	£m
Net interest income from external customers	1,498	439	(1,046)	891
Revenue from other segments	(835)	(343)	1,178	-
	663	96	132	891
Other income (note i)	171	4	3	178
Total revenue	834	100	135	1,069
Expenses	577	18	41	636
Impairment and other provisions (note ii)	107	180	29	316
Segment results/underlying profit before tax	150	(98)	65	117
FSCS levies	1	-	-	1
Gain on portfolio acquisition	-	40	-	40
Losses from derivatives and hedge accounting	-	-	(15)	(15)
Profit before tax	151	(58)	50	143
Taxation				41
Profit after tax				102
Total assets	130,966	22,648	45,428	199,042

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

14 Operating segments (continued)

Half year to 30 September 2008 (unaudited) Restated	Retail	Commercial	Head office functions & other operations	Total
	£m	£m	£m	£m
Net interest income from external customers	520	637	(277)	880
Revenue from other segments	120	(543)	423	-
	640	94	146	880
Other income (note i)	168	4	13	185
Total revenue	808	98	159	1,065
Expenses	585	20	22	627
Impairment and other provisions (note ii)	50	25	41	116
Segment results /underlying profit before tax	173	53	96	322
Transformation costs	-	-	(6)	(6)
Gains from derivatives and hedge accounting	-	-	58	58
Profit before tax	173	53	148	374
Taxation				104
Profit after tax				270
Total assets	123,057	20,601	43,054	186,712

Year to 4 April 2009 (adjusted)	Retail	Commercial	Head office functions & other operations	Total
	£m	£m	£m	£m
Net interest income from external customers	1,832	1,268	(1,342)	1,758
Revenue from other segments	(559)	(1,085)	1,644	-
	1,273	183	302	1,758
Other income (note i)	352	9	(2)	359
Total revenue	1,625	192	300	2,117
Expenses	1,199	38	34	1,271
Impairment and other provisions (note ii)	212	171	70	453
Segment results/underlying profit before tax	214	(17)	196	393
FSCS levies	(241)	-	-	(241)
Transformation costs and gains on business combinations	(42)	(5)	75	28
Gains from derivatives and hedge accounting	-	-	10	10
Profit before tax	(69)	(22)	281	190
Taxation				44
Profit after tax				146
Total assets	132,177	22,636	47,540	202,353

Notes

(i) Other income excludes gains/ losses from derivatives and hedge accounting.

(ii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.

The Group operates predominantly in the UK, the Isle of Man and the Republic of Ireland and accordingly no geographical analysis has been presented.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

15 Contingent Liabilities

(a) Bank charges

On 27 July 2007, following agreement between the UK Office of Fair Trading (OFT) and a number of UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including Nationwide Building Society, to determine the legal status and enforceability of certain of the charges applied to their personal current account customers in relation to requests for unauthorised overdrafts (the ‘Test Case’). On 24 April 2008, a High Court judgement was received in respect of phase one of a two stage process. The Court’s judgement in respect of this first phase was that the institutions’ current terms and conditions relating to unauthorised overdraft charges are not unenforceable penalties but (subject to appeal) are assessable for fairness under the Unfair Terms and Consumer Contracts Regulations 1999. In the specific judgement on Nationwide’s terms and conditions for overdrafts the Judge concluded that our current terms are in plain intelligible language. The Judge has also accepted that our historical terms and conditions are not unenforceable penalties.

The High Court’s judgement that the charges are assessable for fairness was appealed by the financial institutions to the Court of Appeal. The judgement of the Court of Appeal was delivered on 26 February 2009 and upheld the original decision of the High Court. A further appeal by the financial institutions to the House of Lords (now the Supreme Court) was heard on 23, 24 and 25 June 2009. The judgement of the Supreme Court has not yet been delivered. Unless the Supreme Court overturns the decisions of the High Court and the Court of Appeal, there will be a further High Court hearing to determine the fairness of the charges. This is likely to be in the second half of 2010 at the earliest. Pending resolution of the Test Case, the Financial Services Authority (FSA) has made a Direction that, subject to certain conditions, the handling of customer complaints on this issue can be suspended until January 2010. In addition the Court of Appeal recommended that the stays on claims for refunds of charges made in the county courts should continue until the decision of the Supreme Court or, if relevant, a further decision by the High Court.

The Society continues to assert that its charges are fair and transparent, and given the uncertainty as to the final outcome of the case, which could take at least another year, no provision in relation to the outcome of this litigation has been made. Depending on the Courts’ determinations, a range of outcomes is possible, some of which could have a material financial impact on the Society. The ultimate impact of the litigation on the Society can only be known at its conclusion.

(b) Payment protection insurance (PPI)

The FSA has recently published a Consultation Paper (CP09/23) on The Assessment and Redress of PPI Complaints. Their proposals will require firms to re-open complaints which are related to the sale of PPI since 14 January 2005 (FSA ICOB) and potentially back to 1 December 2001, if the complaint falls within dispute resolution (DISP).

The proposals apply to all PPI policies, which for Nationwide will be for personal loan, mortgage and credit card PPI products.

The basic approach requires the firm to re-assess the PPI complaint and where it is established that the consumer would not have purchased the policy, should cancel it, reconstruct the loan as if PPI had never been taken out and refund premiums to the consumer, together with any interest on the premiums. There is also the potential for a wider redress programme, including pro-active redress of PPI consumers who have not complained, if the firms identify a systemic issue during the PPI complaints re-assessment process.

The consultation period closed on 30 October 2009 and the FSA is planning to set out its proposals in a Policy Statement by the end of December 2009, with immediate implementation. Given the current stage of the consultation process the ultimate impact on the Society cannot be reliably estimated.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

15 Contingent Liabilities (continued)

(c) Legal proceedings

During the ordinary course of business the Society is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Society does not expect the ultimate resolution of any proceedings to have a significant adverse effect on the financial position of the Society and has not disclosed the contingent liabilities associated with such claims either because they cannot reasonably be estimated or because such disclosure could be seriously prejudicial to the conduct of the claims.

16 Acquisitions

On 1 December 2008 and 15 December 2008 the Society acquired the Derbyshire and Cheshire building societies respectively. Details of the Derbyshire and Cheshire transfer of engagements are provided in Note 49 of the 2009 Annual Report and Accounts.

On 30 March 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of Dunfermline Building Society. As the acquisition of the core parts of Dunfermline took place immediately prior to the 4 April 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in the 2009 Annual Report and Accounts. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline disclosed in the 2009 Annual Report and Accounts have been recognised as if the final accounting for the business combination had been completed at the acquisition date. Comparative information for 4 April 2009 has thus been adjusted, with the effect being a decrease in reported profit before tax of £22 million.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

16 Acquisitions (continued)

The revised fair values of assets and liabilities acquired of Dunfermline Building Society are set out below:

	Notes	Final Acquisition Fair Values £m	Provisional Acquisition Fair Values £m
ASSETS			
Cash and balances with the Bank of England		6	2
Loans and advances to banks		571	578
Investment securities – available for sale		9	9
Derivative financial instruments		51	53
Loans and advances to customers	I	1,019	1,032
Intangible assets	Ii	15	15
Property, plant and equipment	Iii	10	10
Accrued income and expenses prepaid		2	2
Deferred tax asset		1	-
Other assets		35	35
Total assets		1,719	1,736
LIABILITIES			
Shares	Iv	2,314	2,306
Deposits from banks	Iv	50	50
Derivative financial instruments		76	76
Other deposits	Iv	731	731
Provisions for liabilities and charges	V	4	4
Accruals and deferred income		2	2
Total liabilities		3,177	3,169
Net identifiable liabilities		1,458	1,433
Cash consideration		1,504	1,501
Imputed consideration		-	-
Total Consideration		1,504	1,501
Gain on acquisition	Vi	46	68

The 30 September 2009 Consolidated Income Statement includes acquisition related administrative expenses for the Dunfermline of £2 million (4 April 2009 £2 million).

We expect to receive all gross contractual amounts receivable relating to the above financial assets with the exception of the following:

	Acquisition Fair Value £m	Gross contractual amounts receivable £m	Cash flows not expected to be collected £m
Loans and advances to customers	1,019	1,014	8

The gross contractual amounts receivable represents the take on balance before provisions and other fair value adjustments. Cash flows not expected to be collected are the undiscounted credit losses associated with the balance.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

16 Acquisitions (continued)

Explanation of material fair value adjustments

- i. Loans and advances to customers have been adjusted to reflect both credit and interest rate risk associated with these assets. Note only originated residential mortgages were acquired. The adjustment to the credit risk value reflected additional analysis of cases using data that was not available at the time of the initial valuation. The revisions to the interest rate adjustment to the mortgage book was due to the greater granularity of data that became available subsequent to the original valuation allowing improved segmentation of loan to value characteristics.
- ii. Identifiable intangible assets recognised under IFRS 3 (2008 Revised) is in respect of core deposits (recognising the intrinsic value of the retail savings book), customer relationships (recognising the income streams from renewable contracts – primarily insurance) and brand. These intangibles will be amortised over their useful lives of between 5 and 10 years.
- iii. We have classified the former head office of the acquired society as a specialised administration building.
- iv. Shares, deposits from banks and other deposits have been adjusted to reflect the revised modelling of interest rate risk associated with these liabilities.
- v. This represents recognition of the FSCS liability relating to the Dunfermline savings balances transferred to the Group.
- vi. The gain on acquisition primarily represents the discount given as part of commercial negotiations prior to the purchase of the identified assets and liabilities by the Society. The consequence of the finalisation of the fair values, including tax, is a reduction in the General Reserve of £16 million as at 4 April 2009.
- vii. The Group did not acquire any rights, obligations or liabilities in respect of the Dunfermline Building Society pension scheme.

17 Dunfermline social housing portfolio – acquired 30 June 2009

The social housing portfolio was not part of the original acquisition of core parts of the Dunfermline Building Society on 30 March 2009. The social housing portfolio was acquired from DBS Bridge Bank Limited on 30 June 2009. The acquisition of the social housing portfolio has been treated as the purchase of a mortgage book in line with IAS 39 ‘Financial Instruments: Recognition and Measurement’ as follows:

	£m
Observable market price of portfolio	420
Related deposit liability assumed	(3)
Purchase price of portfolio on acquisition	417
Gain on acquisition	40

The gain of £40 million has been taken to the income statement on acquisition. The initial value of the loan portfolio will be amortised up to the redemption value of the portfolio over the life of the loans.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

18 Events occurring after the balance sheet date

External issuance securitisation- Silverstone Master Trust

Note 10 discloses certain loans and advances that are used to support debt securities in issue by the use of securitisations via Silverstone Master Trust and other secured lending. On 22 October 2009 Silverstone Master Issuer plc announced an issuance of a residential mortgage backed securitisation, for settlement on 3 November 2009. £3.5 billion 5 -7 year Bonds were issued, of which £2.25 billion were publicly purchased. The remaining £1.25 billion Bonds were issued to the Society and used to raise £1 billion 5 year funding via a sale and repurchase agreement. The 2008-2 series of notes (self issuance) totalling £6.825 billion were cancelled on 2 November 2009.

Additional assets of £2.3 billion assets were pledged to Silverstone Master Trust to support this transaction. All of the assets pledged will be retained in the Society's balance sheet as they do not pass the IAS39 derecognition test.

ADDITIONAL INFORMATION

The loan portfolio information reported in Additional Information has been revised to reflect the adjustments in the reported business segment information as described in Note 14. The new Head office functions and other operations business segment includes a portfolio of European loans previously reported within Commercial and a portfolio of student loans previously reported within Retail (consumer finance). Further details are given below.

a) Retail loan portfolio

The average indexed loan to value ('LTV') ratio of the Group's residential loan portfolio is estimated at 50% (4 April 2009: 52%) whilst the average LTV of new residential mortgage lending was 63% (4 April 2009: 60%). Further LTV information on the Group's residential loan portfolio is set out in the Business Review section on page 17.

	Half year to 30 September 2009 %	Year ended 4 April 2009 %
New business profile:		
First time buyers	26	15
Home movers	34	27
Remortgages	21	50
Buy to Let	19	8
	100	100

The analysis of new business profile at 4 April 2009 has been amended to exclude further advances, which were previously included in remortgages. The analysis at 30 September 2009 likewise excludes further advances. Further advances have also been excluded from the analyses of average loan to value of new business.

The tables that follow provide further information on retail loans and advances by payment due status. Asset balances in the tables are now on a gross basis that includes accounts with arrears that are deemed fully performing because they have met all contractual payments for the previous six months within the six month time period. In addition, the basis for calculating the number of months in arrears for each borrower has been updated as explained on page 18. These are changes from previous reporting periods and comparatives have been restated accordingly.

	30 September 2009					4 April 2009				
	Prime Lending £bn	Specialist Lending £bn	Consumer Finance £bn	Total £bn	%	Prime Lending £bn	Specialist Lending £bn	Consumer Finance £bn	Total £bn	%
Not impaired:										
Neither past due nor impaired	107.9	16.1	2.1	126.1	96	109.5	15.7	2.2	127.4	96
Past due up to 3 months but not impaired	2.0	1.2	0.1	3.3	3	1.9	1.4	0.1	3.4	3
Impaired	0.5	1.1	0.2	1.8	1	0.5	1.1	0.1	1.7	1
	110.4	18.4	2.4	131.2	100	111.9	18.2	2.4	132.5	100

The status 'past due up to 3 months but not impaired' includes any asset where a payment due under strict contractual terms is received late or missed. The amount represents the entire financial asset rather than just the payment overdue.

Loans in the analysis above which are less than 3 months past due have collective impairment provisions set aside to cover credit losses on loans which are in the early stages of arrears. Loans acquired through the acquisitions of the Cheshire, the Derbyshire and Dunfermline have been fair valued on a basis which makes credit loss adjustments for anticipated losses over the remaining life of the loans. Loans totalling £461 million within the impaired category in the above analysis have been thus fair valued on acquisition and are therefore unlikely to contribute any significant further losses to the Group.

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

	30 September 2009					4 April 2009				
	Prime Lending £m	Specialist Lending £m	Consumer Finance £m	Total £m	%	Prime Lending £m	Specialist Lending £m	Consumer Finance £m	Total £m	%
Impaired status:										
Past due 3 to 6 months	263	380	65	708	39	262	443	61	766	44
Past due 6 to 12 months	170	335	71	576	32	147	320	66	533	30
Past due over 12 months	75	185	39	299	17	59	117	32	208	12
Possessions	32	192	-	224	12	34	215	-	249	14
	540	1,092	175	1,807	100	502	1,095	159	1,756	100

Possession balances represent properties which Nationwide has taken ownership of pending their sale.

£129 million (4 April 2009: £94 million) of loans that would be past due or impaired have had their terms renegotiated in the last 6 months.

Collateral held against Retail residential mortgages:

	30 September 2009				4 April 2009			
	Prime Lending £m	%	Specialist Lending £m	%	Prime Lending £m	%	Specialist Lending £m	%
Past due but not impaired	1,987	100	1,201	99	1,904	100	1,323	99
Impaired	503	99	900	100	465	99	862	98
Possessions	31	95	183	95	33	97	206	99
	2,521	100	2,284	99	2,402	100	2,391	98

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan. The percentage, in the table above, is the cover over the impaired asset.

Negative equity on retail residential mortgages:

	30 September 2009		4 April 2009	
	Prime Lending £m	Specialist Lending £m	Prime Lending £m	Specialist Lending £m
Past due but not impaired	6	16	7	17
Impaired	5	-	3	18
Possessions	1	9	1	9
	12	25	11	44

Negative equity occurs where the amount outstanding on an individual loan is greater than the indexed valuation of the property the loan is secured against.

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

The make up of specialist lending is as follows:

	30 September 2009		4 April 2009	
	£bn	%	£bn	%
Self-certified	4.7	25	4.9	27
Buy to Let	11.7	64	11.2	61
Near Prime	1.5	8	1.6	9
Sub Prime	0.5	3	0.5	3
Specialist Lending	18.4	100	18.2	100

Near prime is defined as a borrower with a County Court Judgement (CCJ) or default less than or equal to £1,000 or one missed payment in the last 12 months. Sub-prime lending is defined as a borrower with a CCJ or default in excess of £1,000 or more than one missed payment in the last 12 months.

b) Commercial and Other Operations loan portfolios

Balances for other operations shown below include a secured European commercial loan portfolio of £354 million and unsecured lending of £296 million relating to a student loan portfolio. These investments were acquired by Treasury Division and are therefore held within the Head office functions and other operations business segment.

The tables below provide further information on commercial and other operations loan portfolios by payments due status:

	30 September 2009				4 April 2009			
	Commercial		Other Operations		Commercial		Other Operations	
	£bn	%	£bn	%	£bn	%	£bn	%
Not impaired:								
Neither past due nor impaired	21.0	93	0.5	83	21.1	95	0.6	100
Past due up to 3 months but not impaired	0.8	4	0.1	17	0.6	3	-	-
Impaired	0.7	3	-	-	0.4	2	-	-
	22.5	100	0.6	100	22.1	100	0.6	100

The status 'past due up to 3 months but not impaired' includes any asset where a payment due under strict contractual terms is received late or missed. The amount represents the entire financial asset rather than just the payment overdue.

	30 September 2009				4 April 2009			
	Commercial		Other Operations		Commercial		Other Operations	
	£m	%	£m	%	£m	%	£m	%
Impaired status:								
Past due 3 to 6 months	323	45	7	47	118	31	6	40
Past due 6 to 12 months	223	31	3	20	229	60	4	27
Past due over 12 months	170	24	5	33	21	6	5	33
Possessions	1	-	-	-	12	3	-	-
	717	100	15	100	380	100	15	100

This analysis includes commercial mortgage assets totalling £1.4 billion acquired through the acquisitions of the Cheshire, the Derbyshire and Dunfermline. These loans have been fair valued on a basis which makes credit loss adjustments, totalling £179 million, for anticipated losses over the life of the loans. We therefore believe these loans should not contribute any significant losses to the Group for the foreseeable future.

Commercial assets totalling £716 million (4 April 2009: £359 million) have individual provisions against them.

ADDITIONAL INFORMATION

b) Commercial and Other Operations loan portfolios (continued)

Collateral held against commercial lending:

	30 September 2009		4 April 2009	
	£m	%	£m	%
Past due but not impaired	737	92	521	94
Impaired	627	87	341	93
Possessions	-	-	12	100
	1,364	90	874	93

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan. The percentage, in the table above, is the cover over the impaired asset.

Negative equity on commercial lending:

	30 September 2009		4 April 2009	
	£m		£m	
Past due but not impaired	63		34	
Impaired	89		27	
Possessions	1		-	
	153		61	

There are £61 million (4 April 2009: £21 million) past due or impaired balances classified above as other operations. Of this, £43 million (4 April 2009: £6 million) relates to the European commercial loan portfolio which is secured on the business assets of the borrower. Collateral in respect of these assets is £20 million (4 April 2009: £1 million).

RESPONSIBILITY STATEMENT

The directors confirm that this condensed consolidated half yearly financial report has been prepared in accordance with IAS 34 as adopted by the European Union. The half yearly management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 namely:

- an indication of important events that have occurred in the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

A full list of the Board of Directors can be found in the 2009 Annual Report and Accounts, with the following amendments during the 6 months to 30 September 2009:

Stuart Bernau retired from the Board with effect from 16 July 2009 and from the Group on 31 July 2009. Sue Ellen retired from the Board with effect from 16 July 2009.

Chris Rhodes was appointed to the Board on 20 April 2009.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director
19 November 2009

INDEPENDENT REVIEW REPORT

Independent Review Report to Nationwide Building Society

Introduction

We have been engaged by the Society to review the condensed consolidated interim financial information in the half-yearly financial report for the six months ended 30 September 2009, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of movements in members' interests, consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated interim financial information included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed consolidated interim financial information in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Society for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the half-yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London

19 November 2009

Nationwide Building Society – Half-Yearly Financial Report

OTHER INFORMATION

The half yearly financial report information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The financial information for the year ended 4 April 2009 has been extracted from the Annual Accounts for that year, adjusted to reflect changes made to the initial accounting for the acquisition of core parts of Dunfermline. The Annual Accounts for the year ended 4 April 2009 have been filed with the Financial Services Authority and Registry of Friendly Societies in England and Wales. The Auditors' Report on these Annual Accounts was unqualified.

A copy of this half-yearly financial report is placed on the website of Nationwide Building Society. The directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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