

Nationwide Building Society

**Preliminary Results Announcement
For the year ended
4 April 2010**



Nationwide Building Society – Preliminary Results Announcement

CONTENTS

	Page
Chief Executive’s review	4
Financial summary	9
Business review	10
Responsibility statement	37
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 Preliminary Results Announcement	43
Additional information	56
Other information	60
Contacts	60

Underlying Results

Profit before tax shown on a reported and underlying basis are set out on page 10. Reported profit before tax of £341 million has been adjusted for the movement in the value of derivatives and hedge accounting of £34 million, a credit of £117 million in respect of the provision for Financial Services Compensation Scheme (FSCS) costs; transformation costs of £62 million in connection with the restructuring and resizing of the business 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 £212 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.

NATIONWIDE BUILDING SOCIETY RESULTS FOR THE YEAR ENDED 4 APRIL 2010

Nationwide is today reporting a strong and profitable performance in a difficult trading environment. The Group has delivered an underlying profit of £212 million, and a reported statutory profit before tax of £341 million. Nationwide's capital ratios are amongst the best in the industry and demonstrate the Group's financial strength and robust balance sheet.

Graham Beale, Nationwide's Chief Executive said:

“This is a strong set of results for Nationwide, and that is particularly pleasing given the difficult trading environment that we have experienced over the past year. We have provided a safe haven for our members' savings and supported our borrowers, and have remained very competitive in these core markets.

“We have an extremely strong balance sheet with market leading capital ratios, high levels of core liquidity, and an enviable retail funding franchise. This, combined with our low risk asset base, will ensure that we remain resilient and well placed to continue to provide good value products and high quality service to our members throughout the UK. Over the year, many of our mortgage borrowers have enjoyed a very low Base Mortgage Rate (BMR) and others have benefited from our pledge not to enforce the contractual tracker floor rate. On the savings side, we have launched the Champion Saver and Champion ISA product range meaning competitive rates will always be available to our members.

“I am encouraged to see that the new Government intends to bring forward proposals to “foster diversity, promote mutuals and create a more competitive banking industry”. This is against a backdrop of public and political pressure on regulators to be seen to act decisively to prevent a repeat of the recent financial crisis. We support the objective of a more secure and stable framework for banking regulation. However, it is vital that this framework is developed with the interests of the mutual sector in mind. It must not undermine the competitive position of the sector, and must avoid the unintended consequences that may arise from a ‘one size fits all’ approach to regulation. It is essential that we work together to protect building societies, and their members, for the future.”

CHIEF EXECUTIVE’S REVIEW

Strong performance in a difficult trading environment

I am pleased to report the Group’s results for the year ended 4 April 2010 as set out below. These results have been achieved against a backdrop of continuing disruption in financial markets and demonstrate the resilience of our business and the strength of our customer franchise.

	Year to 4 April 2010 £m	Year to 4 April 2009 £m
Underlying profit	212	393
Reported profit before tax	341	190

Key highlights

- Underlying profit of £212 million despite difficult trading conditions, low interest rate environment and margin compression
- Underlying pre-provisioning profit of £811 million, demonstrating the Group’s capacity to sustain a relatively stable income performance
- High quality assets with Nationwide originated residential mortgage accounts more than three months in arrears of 0.68% (4 April 2009: 0.64%) – less than a third of the Council of Mortgage Lenders (CML) industry average (2.22%)
- Strong capital ratios that are amongst the best in the industry: Core Tier 1 ratio of 12.2%, Tier 1 ratio of 15.3% and total solvency ratio of 19.4% (4 April 2009: 12.0%, 15.1% and 19.5% respectively.)
- Increased core liquidity ratio to 13.8% (4 April 2009: 12.8%)
- Reduced the wholesale ratio to 27.8% (4 April 2009: 28.6%), prompted by a stronger second half performance of retail funding
- Raised £8.5 billion equivalent of long-term wholesale funding, demonstrating the strength and diversity of Nationwide’s funding franchise
- Launched innovative ‘Champion’ savings concept, offering long term good value to members by tracking our peer group’s equivalent products and adding a bonus
- Almost 60% increase in unit sales of Protection and Investment products with approximately £2.2 billion of customer investments in the year
- Continued support for mortgage holders who have benefited from our Base Mortgage Rate (BMR) and our continued waiver of the contractual tracker floor
- Voted ‘Most Trusted Financial Services Company’ by leading personal finance publication Moneywise

Our business

Our underlying profit, which includes £91 million of gains from the management of our liquidity portfolio, reflects the continuing impact of margin compression in a persistently low rate environment, together with our approach to margin management, which balances the challenge of low rates with our commitment to provide our members with long term good value products. We continue to support our members by honouring our BMR pledge, ensuring that the majority of our mortgage customers have access to a rate which is capped at 2% above Bank of England (BoE) Base Rate. We estimate the cost of maintaining BMR at this level relative to other rates charged in the market has been in excess of £450 million over the past year. We have also continued to waive the contractual floor of 2.75% on tracker mortgages, instead applying the floor at 2%, representing a saving to our members of over £100 million in mortgage interest over the course of the year.

Nationwide Building Society – Preliminary Results Announcement

We have actively managed our balance sheet in the year, adjusting our business flows in response to the recessionary conditions and significant contraction in our core markets. In doing so, we have been competitive in the savings market and have launched a number of new products which are designed to reflect our fair and consistent approach. ‘Champion Saver’, launched in August 2009, is a branch based savings account that automatically tracks the average of the best rates of equivalent savings products and provides an additional bonus of 1.1%. This account has been particularly successful in attracting new funds with inflows of £3.4 billion. ‘Champion ISA’ which also tracks the best equivalent rates available on the high street and our new ‘e-ISA’ have also proved very popular during the current ISA season, with £1.8 billion of inflows to the end of April 2010.

Nationwide has lent £12.0 billion of mortgages representing a market share of 8.7% (2009: 9.0%) of gross lending in the UK. We continue to support borrowers with a focus on prime residential lending to existing customers and first time buyers. We recognise our responsibility to support the availability of credit in a dramatically reduced market, and to facilitate activity in the house purchase market we reduced the minimum customer deposit for house purchase from 15% to 10%. We have also provided additional support for existing customers moving house, including negative equity products for high quality existing borrowers with a requirement to move.

In the current low rate environment investors have turned to equity based products for higher returns. Overall unit sales of protection and investment products have increased by almost 60% compared with the previous year, and approximately £2.2 billion of customer investments have been received. Specifically, sales of our Protected Equity Bonds (PEBs) have continued to prove popular, attracting over £1.2 billion of funds in the year, compared with £0.2 billion last year.

Managing costs

Controlling costs is an important and responsible measure that will allow us to compete effectively in our core markets and provide long term value to our members.

We have already demonstrated our commitment and ability to manage our cost base. Underlying costs have remained broadly flat, despite the additional cost base as a result of recent mergers of approximately £113 million, and are down 4% on a like for like basis. We have achieved this through a number of measures, including cost synergies and efficiency savings across the Group. In aggregate in the last three years we have identified and delivered total cost saving in excess of £150 million from merger integration and other operational savings across a range of Group activities.

We will continue to identify opportunities to achieve sustainable cost reductions with the objective of delivering a cost base that benchmarks favourably with industry standards over the medium term. Our ambition is to deliver an underlying cost income ratio, based on a normalised interest rate environment, of less than 50% by the end of 2012/13. This will enable us to remain competitive against our peer group and will allow us to continue to offer products that deliver real long term value for our members.

Initiatives to support our cost target over the medium term include a review of the Group’s distribution arrangements and potential rationalisation of our administration centre property footprint, as well as the ongoing integration of our Regional Brands and the reorganisation of central functions.

Asset Quality

Prudent lending is the cornerstone of our business. The average loan to value (LTV) of new residential lending remains very low at 63% (2009: 60%) and the indexed LTV for the whole residential portfolio has reduced to 48% from 52%, reflecting positive House Price Index (HPI) movements during the year.

Our arrears position remains significantly better than the CML industry average of 2.22%, with the proportion of the Group’s originated mortgage accounts three months or more in arrears at 0.68%. The proportion of Nationwide originated prime mortgage accounts three months or more in arrears was even lower at 0.52%.

Nationwide Building Society – Preliminary Results Announcement

The UK commercial property market has been badly hit by the recession with peak to trough falls in capital values of 44%. However, since July 2009 there has been a 13% increase in values, as measured by the IPD index. At 4 April 2010 the proportion of commercial balances in arrears was 2.77% (4 April 2009: 1.62%), with arrears balances of £42 million, and there are encouraging signs that the increasing arrears trend is now stabilising. Following a realistic assessment of all impaired cases we have booked a total commercial impairment charge of £119 million in the second half of the year, more than 30% lower than the charge in the first half of the year of £180 million. This supports our earlier view that our commercial impairment charge has peaked and that we will see lower levels of impairment in the future.

Funding, liquidity and capital

We have one of the strongest balance sheets in the financial services sector:

	4 April 2010	4 April 2009
	%	%
Solvency ratio (Basel II)	19.4	19.5
Tier 1 ratio	15.3	15.1
Core Tier 1 ratio	12.2	12.0
Core liquidity ratio	13.8	12.8
Wholesale funding ratio	27.8	28.6

Our capital ratios are a key strength of our business, are in excess of current regulatory requirements and compare favourably with averages across the industry.

We have maintained a strong core liquidity ratio, with an expanded portfolio of high grade assets that we had initially built up in 2007/08 in an early response to deteriorating market conditions. At 4 April 2010 we held core liquid assets of over £23 billion, representing a core liquidity ratio of 13.8% (4 April 2009: 12.8%).

Although predominantly retail funded, we have a diverse wholesale funding capability. During the year we have raised the equivalent of £8.5 billion of long term, wholesale funding in sterling, dollar and euro markets, demonstrating the strength and diversity of our wholesale funding franchise. Over 50% of our portfolio now relates to balances due in more than one year (2009: 36.7%).

	4 April 2010		4 April 2009	
	%	£bn	%	£bn
Balances due in less than 1 year	49.7	24.5	63.3	34.0
Balances due in more than 1 year	50.3	24.8	36.7	19.7
Total	100.0	49.3	100.0	53.7

Reforming financial services

We support the objective of a more secure and stable framework for banking regulation. However, it is imperative that the full impact of proposed changes on the financial services sector is fully understood by the Authorities. We remain concerned that some of the changes proposed could undermine the future of the building society sector, despite this sector having proved itself to be more resilient and less volatile than the banking sector throughout the financial crisis. In particular:

- Consultation on the future definition of capital has so far focused on instruments that replicate equity shares issued by PLCs. This risks imposing equity style ownership constraints on the mutual sector, which exists to reward its stakeholders, i.e. its members, in a different way. This, in turn, could dilute the mutual philosophy by which building societies and similar institutions are governed and hence remove the diversity they contribute to the financial system. Availability of a capital instrument that is consistent with mutual principles is necessary to

Nationwide Building Society – Preliminary Results Announcement

support the future stability of the sector and allow it to compete effectively with banks, in the interests of consumers rather than shareholders.

- Building societies cannot currently provide full Financial Services Compensation Scheme (FSCS) cover to members who exceed the £50,000 limit only by virtue of holding multiple accounts across different brands within the same overall Group. This contrasts with many banking groups that are able to offer a full £50,000 limit for each separate subsidiary brand within their Group. This position unfairly disadvantages building societies and their members in relation to savings, which are at the core of their business. This inconsistency should be addressed as a matter of urgency.
- Allocation of industry FSCS levies on the basis of market share continues to result in the cost of compensation for failed institutions falling disproportionately on the low risk building societies sector.

Strategy

Our vision is to be the UK's leading mutual financial services provider and to offer a real and meaningful alternative to the PLC banking model.

We seek to optimise profit for our members rather than to maximise profit for shareholders. This means that we aim to make enough profit to maintain a prudent balance sheet and allow investment for the future. Beyond this, our sole objective is to look after the needs of our members with high levels of service, good quality products and to provide consistent good value.

Our customer strategy is to provide a broad range of personal financial services products. We will maintain our position as a leading provider of mortgage and savings products, and extend our capability and market presence in banking, personal loans, insurance and protection and investment products. We will achieve this by encouraging broader and deeper customer relationships. Increasing scale in these areas will, as well as supporting the needs of our customers, provide a more diversified business mix and reduce our reliance on margin income.

As a mutual, our philosophy is to have an open, honest and transparent relationship with our members, with a consistent long term good value customer proposition. We will seek to deliver a higher level of satisfaction and customer service than our competitors.

Our commitment to cost efficiency and customer service requires us to operate modern, flexible systems supported by knowledgeable, well trained employees. In this context we will continue to invest in the replacement of core legacy systems through our Voyager programme, which aims to deliver an integrated banking platform as its first major delivery. This year we have introduced a new point of sale mortgage system for intermediaries, a new work flow management system and increased our participation in the Faster Payments Scheme.

The mortgages and savings market is beginning to stabilise and improve

The housing market has performed much better than expected, with house prices rising by 9.0% over the course of the 2009/10 financial year.

Over the next six to twelve months, we expect a picture of broad stability in the housing market. An increase in property supply from the extreme lows of the last year should relieve some of the upward pressure on prices and lead to a relatively flat trend in property values. Unless there is a significant spike in interest rates, a major dip in prices is unlikely over the next year. At the same time, the upside potential for house prices is limited by the high level of prices relative to household earnings and the more restricted availability of mortgage credit relative to pre-crisis levels.

Evidence from the early months of 2010 suggests that the UK household savings market is beginning to improve. However, low real interest rates are leading many households to direct funds toward debt reduction or investments

Nationwide Building Society – Preliminary Results Announcement

in the equity markets rather than to bank and building society deposits. This relative weakness in the savings market accentuates the need for continuation of the recovery in long-term wholesale funding markets, which will be necessary to support availability of credit and the repayment by the industry of Government sponsored funding schemes due to mature during 2011/12.

Outlook

The Group's performance during 2009/10 has demonstrated resilience borne out of our strong customer franchise, our low risk appetite and our well capitalised balance sheet. These factors will continue to underpin the Group's performance, but market conditions remain both challenging and uncertain for all retail financial services providers.

Overall, we expect the lower levels of profitability experienced in the last eighteen months to continue throughout 2010/11, with scope for further downward pressure dependent on a number of influences, such as the consequences of a more austere economic environment. However, we believe that a progressive return to a more normalised interest rate environment in future years will result in a strong upturn in the overall level of Group profitability.

The subdued level of economic activity in the UK and associated low interest rate environment are expected to persist throughout 2010. These factors will continue to exert downward pressure on margin and non-margin income. Whilst residential property prices have performed surprisingly well in 2009 and unemployment trends have been better than expected, the prospect of fiscal tightening and public sector redundancies may result in an increase in mortgage arrears and subsequent losses in future years. Likewise, the recovery of the commercial property sector remains exposed to weak tenant demand and this may continue for some time whilst the economy fully recovers from the recession.

We plan to mitigate some of the pressure on profitability through a combination of increased diversification of our income streams and by exercising tight control over costs to move us towards our medium term cost income ratio target of 50%. In addition we expect aggregate asset impairments to be at levels that broadly match the experience and lower trend of the second half of 2009/10.

Nationwide has an extremely strong balance sheet with market leading capital ratios, high levels of core liquidity and an enviable retail funding franchise. This, combined with our low risk asset base, will ensure that we remain resilient and financially strong in the face of uncertain market conditions, allowing us to continue to provide good value products and high quality service to our members in the future.

Graham Beale
Chief Executive

25 May 2010

Nationwide Building Society – Preliminary Results Announcement

FINANCIAL SUMMARY

	2010	2009 (Adjusted – see note)
Financial Performance	£m	£m
Underlying profit before tax	212	393
Underlying pre-provisioning profit	811	846
Reported profit before tax	341	190
Lending Volumes	£bn	£bn
Group residential – gross	12.0	18.9
<i>Group residential – gross market share</i>	<i>8.7%</i>	<i>9.0%</i>
Group residential – net	(3.6)	1.6
Commercial – gross	1.8	2.2
Commercial – net	-	0.6
Consumer banking – net unsecured lending	-	(0.1)
Savings Volumes	£bn	£bn
Retail savings balance movement	(7.3)	4.5
Net (outflow)/ receipts	(8.2)	1.7
Key Ratios	%	%
Cost to income ratio – underlying basis	61.3	60.0
Cost to income ratio – reported basis	62.1	60.9
Net interest margin	0.87	0.93
Balance Sheet	£m	£m
Total assets	191,397	202,353
Loans and advances to customers	152,429	155,469
Member savings balances	120,943	128,292
Total shares, deposits and loans (SDLs)	175,370	186,413
Total regulatory capital	9,722	9,690
Asset Quality	%	%
Proportion of residential mortgage accounts 3 months+ in arrears:		
Nationwide originated	0.68	0.64
Nationwide originated plus acquired*	0.82	0.80
Average indexed loan to value of residential mortgage book	48	52
Average indexed loan to value of new residential lending	63	60
Commercial accounts 3 months+ in arrears:		
Nationwide originated	2.77	1.62
Nationwide originated plus acquired*	2.90	1.87
Percentage of unsecured personal loan accounts 30 days+ in arrears	7.07	7.15
Key Ratios	%	%
Solvency ratio (Basel II)	19.4	19.5
Tier 1 ratio	15.3	15.1
Core Tier 1 ratio	12.2	12.0
Wholesale funding ratio	27.8	28.6
Core liquidity ratio	13.8	12.8
Loan to deposit ratio **	116.8	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 and Balance Sheet have been adjusted to reflect changes made to the initial accounting for the acquisition of core parts of the Dunfermline Building Society. Further details are provided in notes 2 and 15.

BUSINESS REVIEW

INCOME STATEMENT OVERVIEW

Profit before tax on a reported basis and an 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 of £34 million, a £117 million credit relating to a change in the basis of recognition of FSCS levies, transformation costs of £62 million 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 15. The comparative year additionally includes an adjustment for gains on business combinations.

Year to 4 April 2010

	As reported £m	FSCS costs £m	Reported profit pre FSCS costs £m	Movements on derivatives and hedge accounting £m	Transformation costs £m	Gain on portfolio acquisition £m	Underlying £m
Net interest income	1,714	-	1,714	-	-	-	1,714
Other income	421	-	421	-	-	(40)	381
Fair value adjustments	34	-	34	(34)	-	-	-
Total income	2,169	-	2,169	(34)	-	(40)	2,095
Administrative expenses	1,195	-	1,195	-	(62)	-	1,133
Depreciation and amortisation	151	-	151	-	-	-	151
Impairment losses on loans and advances to customers	549	-	549	-	-	-	549
Provisions for liabilities and charges	(103)	117	14	-	-	-	14
Impairment losses on investment securities	36	-	36	-	-	-	36
Profit before tax	341	(117)	224	(34)	62	(40)	212

**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 15.

Nationwide Building Society – Preliminary Results Announcement

Profit

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

	Year to 4 April 2010 £m	Year to 4 April 2009 £m
Net interest income	1,714	1,758
Other income	381	359
Total income	2,095	2,117
Expenses	1,284	1,271
Underlying pre-provisioning profit	811	846
Impairment losses on loans and advances	549	394
Impairment losses on investment securities and other provisions	50	59
Underlying profit before tax	212	393

Underlying profit for the year was £212 million (2009: £393 million), reflecting a strong performance under difficult market conditions that have resulted in increased impairment charges, particularly in commercial lending.

Despite increased margin compression, an underlying pre-provisioning profit of £811 million (2009: £846 million) has been broadly maintained, supported by growth in other income, management of the cost base and gains of £91 million from the management of our liquidity portfolio arising mainly in the first half of the year.

	Six months to 4 April 2010 £m	Six months to 30 September 2009 £m
Net interest income	823	891
Other income	203	178
Total income	1,026	1,069
Expenses	648	636
Underlying pre-provisioning profit	378	433
Impairment losses on loans and advances	232	317
Impairment losses on investment securities and other provisions	51	(1)
Underlying profit before tax	95	117

As anticipated, performance in the second half of the year was lower than that achieved in the first half of the year. However, on a like-for-like basis, adjusting for the timing of the gains on the liquidity portfolio, the underlying pre-provisioning profit has been maintained, and impairment charges on loans and advances to customers have reduced by approximately 27%. The impairment charge on investment securities in the second half of the year includes £29 million relating to the impairment of a small number of US RMBS exposures.

Nationwide Building Society – Preliminary Results Announcement

PERFORMANCE BY INCOME STATEMENT CATEGORY

Net interest income, at £1,714 million was 3% lower than the previous year.

	Year to 4 April 2010 £m	Year to 4 April 2009 £m
Net interest income	1,714	1,758
Weighted average total assets	197,320	189,624
	%	%
Net interest margin	0.87	0.93

The Group's net interest margin has declined 6 basis points to 0.87% in the year to 4 April 2010 compared with the prior year. The reduction reflects a combination of lower net interest income and a 4% growth in the average size of the balance sheet following the mergers with Derbyshire, Cheshire and Dunfermline.

The net interest margin in the six months to 30 September 2009 was 0.91%. This has declined to 0.83% in the second half of the year, resulting in a full year margin of 0.87%. The results for the year have been supported by gains of £91 million arising from the management of our liquidity portfolio, of which £75 million was recognised in the first half of the year. These gains are the equivalent of 5 basis points on the full year margin. Without these gains, the net interest margin would have reduced to 0.83% in the first half of the year, and remained broadly stable for the second half of the year at 0.81%, with an 11 basis points full year reduction compared with the prior year margin of 0.93%.

The main factor driving the reduction in margin has been the increased cost of retail funding, reflecting the competitive savings market and the progressive re-pricing of long term wholesale funding. This has been partly offset by wider spreads on new mortgage pricing, the impact of which has been limited as liabilities continue to reprice faster than the asset side of the balance sheet due to very low levels of re-mortgage activity and our BMR commitment to existing borrowers referred to below.

The net interest margin has been constrained by our commitment to our historic BMR cap, which guarantees that our BMR mortgage will be no more than 200 basis points above the BoE Base Rate. It also reflects the fact that customers have continued 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%, saving our members over £100 million in mortgage interest over the course of the year.

Other income

Underlying other income of £381 million was £22 million higher than the previous year (2009: £359 million). The current year includes an increase of £9 million of income from Cheshire, Derbyshire and Dunfermline.

The growth in other income has been driven by strong sales of protection and investment products, resulting in increased initial commission and trail commission. However, this has been partly offset by lower current account fee income as customers have sought to manage their accounts more effectively in the current environment.

Nationwide Building Society – Preliminary Results Announcement

Expenses

	Year to 4 April 2010 £m	Year to 4 April 2009 £m
Employee costs:		
• Wages and salaries	469	465
• Social security costs	44	40
• Pension costs	71	94
	584	599
Other administrative expenses	549	546
Depreciation and amortisation	151	126
	1,284	1,271

Total underlying expenses amounted to £1,284 million representing an increase of 1% over the prior year. The mergers with Cheshire and Derbyshire, and acquisition of Dunfermline increased our cost base by approximately £113 million on a pro-forma basis and cost synergies in excess of £23 million have been achieved to date. Excluding the net £90 million of costs attributable to the mergers (2009: £22 million), underlying expenses on a like-for-like basis have decreased by 4%. This is despite a £25 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 final synergies arising from the Portman merger completed in 2007, together with further efficiencies and headcount reductions across the Group.

The underlying cost income ratio for the year was 61.3% (2009: 60.0%). The increase reflects the pressure on income as a consequence of operating in a low interest rate environment, together with the modest increase in costs described above.

Impairment losses on loans and advances

	Year to 4 April 2010 £m	Year to 4 April 2009 £m
Prime	10	4
Specialist	79	87
Residential lending	89	91
Commercial lending	299	171
Other secured lending	36	18
Total secured lending	424	280
Unsecured lending	125	114
	549	394

The full year charge of £549 million is significantly more than the £394 million charge for the year to 4 April 2009, though it is encouraging that the charge over the second half of 2009/10, at £232 million, is markedly less than the first half charge of £317 million. The underlying quality of lending remains strong but is inevitably affected by recessionary conditions and falling asset values in the commercial sector.

Nationwide Building Society – Preliminary Results Announcement

The charge of £89 million (4 April 2009: £91 million) on residential lending is primarily related to specialist lending and is slightly lower than last year as an increase in cases with more serious arrears levels has been partly offset by lower early arrears and higher indexed property valuations. The charge on the prime book has increased to a modest £10 million (4 April 2009: £4 million), with the high quality and low average LTV profile of our prime mortgages making them more resilient to external market conditions and unemployment than specialist and commercial mortgages. Residential impairment provisions held on balance sheet increased by 32% to £160 million over the year, giving a coverage ratio against total balances of 0.13% (4 April 2009: 0.10%) and against balances more than three months in arrears of 13.7% (4 April 2009: 10.7%). In the same period balances more than three months in arrears increased by 4%.

In our commercial lending division, ongoing difficult market conditions resulted in an increase in commercial loan defaults and a charge for the year of £299 million. Signs of improvement have been seen in the second half of the year as the growth in impairments began to slow, resulting in a second half charge of £119 million compared with £180 million for the first half and £146 million for the six months to 4 April 2009. The increase in defaults has been triggered by tenant failures and our borrowers' subsequent inability to service loans, along with covenant breaches on LTVs and business failures on owner occupied properties.

The commercial portfolio includes £266 million of subordinated exposures of which £124 million are provided for, and the Group's residual exposure to subordinated loans is therefore restricted to the unprovided balances of £142 million (6 cases) which are currently fully performing. For Nationwide originated assets, the subordinated exposure is £197 million, of which £88 million is now fully provided.

The overall level of provision for commercial lending as a percentage of Nationwide originated assets is 1.97% (4 April 2009: 0.92%) and the provision coverage ratio against balances more than three months in arrears is 48% (4 April 2009: 62%).

The charge of £36 million (4 April 2009: £18 million) for other secured lending is in respect of a portfolio of European commercial loans acquired by our Treasury Division. The portfolio is managed on our behalf by a leading European manager.

The increase in the charge for unsecured lending is due to two specific changes that we made to our assessment of provisions, to better reflect prevailing conditions, rather than being due to a change in underlying performance of these assets. The charge for 2008/9 included the benefit of a one off reduction to the provision for up to date assets and the charge for 2009/10 includes a significantly higher provision for cases subject to litigation. The underlying performance of unsecured lending remains strong and reflects our cautious approach and prudence in our underwriting.

Impairment losses on investment securities and other provisions

	Year to 4 April 2010 £m	Year to 4 April 2009 £m
Treasury investments	36	51
Other provisions	14	8
	50	59

The treasury impairment charge of £36 million is both lower and very different in composition from the previous year. The prior year charge was driven by bank failures and included £34 million for Washington Mutual, £3 million for Lehman Brothers and £12 million for Icelandic banks. This year's charge of £36 million is driven by £29 million impairment on a small number of US RMBS exposures and £7 million in respect of a private equity portfolio, the exposure to which totals £105 million including future commitments.

Nationwide Building Society – Preliminary Results Announcement

Other provisions in the year to 4 April 2010 represent allowances made in respect of various customer claims, including claims in relation to previous sales of payment protection insurance.

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 £34 million credit (4 April 2009: £10 million credit) relating to fair value adjustments on derivatives and hedge accounting represents the net fair value adjustment (after matching it with offsetting adjustments to the fair value of the related hedge 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 hedges or because hedge accounting has not been adopted or is not achievable. The charge, in so far as it relates to ineffectiveness, is primarily due to short term timing differences in cash flows and interest rate reset dates between the derivative instruments and the hedged assets and liabilities. The impact can be volatile but over time will trend to zero and has been excluded in reporting the Group's underlying performance.

Taxation

The statutory reported tax charge for the year is £77 million (2009 adjusted: £44 million). This represents an effective tax rate of 22.6% (2009 adjusted: 23.1%), which is lower than the statutory rate in the UK of 28%. The lower rate is due principally to adjustments to amounts provided in respect of prior periods.

Nationwide Building Society – Preliminary Results Announcement

BALANCE SHEET

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products with residential mortgages accounting for 84% of our total loans and advances to customers, commercial lending 15%, and consumer banking 1%. The composition of lending has remained broadly consistent with that reported at 4 April 2009.

Loans and advances to customers	4 April 2010		4 April 2009	
	£bn	%	£bn	%
Prime residential mortgages	108.7	71.3	111.9	72.1
Specialist residential mortgages	18.7	12.2	18.2	11.7
Total residential mortgages	127.4	83.5	130.1	83.8
Commercial lending	22.2	14.6	22.1	14.2
Other lending	0.6	0.4	0.6	0.4
Consumer banking	2.3	1.5	2.4	1.6
Gross balances	152.5	100	155.2	100.0
Impairment provisions	(0.8)		(0.4)	
Fair value adjustments for micro hedged risk	0.7		0.7	
Total	152.4		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 £4.5 billion that were brought onto our balance sheet following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios.

Specialist residential mortgages are made up of £15.7 billion of advances made through our Specialist Lending brands, The Mortgage Works UK plc (TMW) and UCB Home Loans Ltd (UCB), and £3.0 billion arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios. Loans were advanced primarily in the Buy to Let and self-certification markets. Buy to Let mortgages make up 66% of total specialist lending, 24% relates to self-certification mortgages, 7% 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 at acquisition.

Gross prime lending in the year amounted to £10.3 billion (2009: £16.7 billion). Gross specialist lending in the year of £1.7 billion (2009: £2.2 billion) was 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 was 63% (2009: 60%), whilst the average indexed LTV of residential mortgages at 4 April 2010 has fallen to 48% (4 April 2009: 52%).

Nationwide Building Society – Preliminary Results Announcement

Loan to value analysis:

	4 April 2010	4 April 2009
	%	%
Total book		
<50%	54	51
50% - 60%	10	9
60% - 70%	10	9
70% - 80%	10	9
80% - 90%	8	8
90% - 100%	6	8
> 100%	2	6
	100	100
Average LTV of stock (indexed)	48	52
Average LTV of new business*	63	60

* The average LTV of new business has been amended to exclude further advances which were previously included in remortgages. The 4 April 2009 comparative has been restated from 58% to 60% accordingly.

The table below shows that, on Nationwide originated lending, we have seen a small increase in prime arrears and a reduction in specialist arrears though we continue to maintain our very favourable position to the industry on both originated business and lending including acquired loans. The modest increase in prime arrears has been driven by external pressures impacting customers' abilities to meet their mortgage repayments combined with our collections and forbearance strategies to work with customers to avoid possession where possible. Our originated specialist mortgages continue to perform well and remain broadly in line with the industry measure that includes prime.

Cases 3 months or more in arrears as % of total book	4 April 2010	4 April 2009
	%	%
Nationwide self originated mortgages:		
Prime	0.52	0.49
Specialist	2.28	2.45
Nationwide self originated mortgages	0.68	0.64
Including effect of acquired societies:		
Prime	0.54	0.51
Specialist	3.37	3.72
Group – including acquired loans	0.82	0.80
Industry average	2.22	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 basis points.

Residential mortgage assets acquired with the 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, £49 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 processes, it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

We maintain close relationships with customers experiencing financial difficulties and work with them to agree the most appropriate course of action. In the case of short term difficulty, we will seek to agree revised payment

Nationwide Building Society – Preliminary Results Announcement

schedules with the customer which may include a reduction to the contractual payment due. However, where revised payment schedules are not at a level sufficient to meet normal contractual terms (e.g. a currently available interest only mortgage) or where a customer fails to meet the revised payment schedule, the case will continue to accrue arrears and be included in arrears numbers reported above.

If a customer demonstrates they are able to meet a payment schedule at a normal commercial rate for a period of six months, and only if they request it, we may ‘capitalise’ the arrears on their account. This will result in an enlarged outstanding balance but no arrears and consequently these cases will no longer be reported as arrears.

The number of Group borrowers in possession, including acquired societies, of 967 (4 April 2009: 1,248) represents 0.069% 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 1,088 (4 April 2009: 1,441) properties, representing 0.077% of our book (4 April 2009: 0.100%), this compares very well with the industry measure of 0.127% (4 April 2009: 0.211%). 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)	4 April 2010		4 April 2009
	Number of cases	%	%
Nationwide self-originated mortgages:			
Prime	245	0.021	0.021
Specialist	475	0.414	0.500
Nationwide self-originated mortgages	720	0.055	0.058
Including effect of acquired societies:			
Prime	270	0.021	0.022
Specialist	697	0.497	0.741
Group – including acquired loans	967	0.069	0.087

Possessions as % of total book (number of properties)	4 April 2010		4 April 2009
	Number of cases	%	%
Nationwide self-originated:			
Prime	245	0.021	0.021
Specialist	596	0.461	0.602
Nationwide self-originated mortgages	841	0.064	0.072
Including effect of acquired societies:			
Prime	270	0.021	0.022
Specialist	818	0.528	0.795
Group – including acquired loans	1,088	0.077	0.100
Industry average	14,500	0.127	0.211

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 illustrated by the number of properties taken into possession compared with the total for the industry. During the year, 1,280 (2009: 941) properties relating to Nationwide originated lending have been taken into possession, representing only 2.89% (2009: 2.10%) of properties taken in by the industry as a whole against our par share of all cases of 11.58% (2009: 11.72%).

Nationwide Building Society – Preliminary Results Announcement

Possessions taken in during the year as % of total book (number of borrowers)	4 April 2010		4 April 2009
	Number of cases	%	%
Nationwide self-originated mortgages:			
Prime	518	0.044	0.035
Specialist	593	0.517	0.307
Nationwide self-originated mortgages	1,111	0.085	0.056
Including effect of acquired societies:			
Prime	587	0.047	0.034
Specialist	1,087	0.775	0.498
Group – including acquired loans	1,674	0.120	0.076

Possessions taken in during the year as % of total book (number of properties)	4 April 2010		4 April 2009
	Number of cases	%	%
Nationwide self-originated:			
Prime	518	0.044	0.035
Specialist	762	0.590	0.434
Nationwide self-originated mortgages	1,280	0.097	0.070
Including effect of acquired societies:			
Prime	587	0.047	0.034
Specialist	1,256	0.811	0.582
Group – including acquired loans	1,843	0.130	0.089
Industry average	44,300	0.389	0.393

Commercial

Our commercial lending portfolio of £22.2 billion (4 April 2009: £22.1 billion) consists of £20.9 billion (4 April 2009: £21.1 billion) of self originated lending and £1.3 billion (4 April 2009: £1.0 billion) of assets acquired from Derbyshire, Cheshire and Dunfermline building societies. Our originated portfolio comprises £12.5 billion secured on commercial property ('Property Finance'), £7.1 billion advanced to Registered Social Landlords and £1.3 billion advanced under the Private Finance Initiative (PFI). The £0.3 billion increase in acquired assets arose on the post-merger 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 and our Property Finance portfolio is well diversified by industry type and by borrower. On self-originated lending we have only modest exposure to development finance with total balances of £155 million, and a total further commitment of £47 million, to three high quality office developments in the centre of London.

The self-originated portfolio includes £197 million of subordinated exposures, of which £88 million are impaired and fully provided for. The Group's residual exposure to these subordinated loans is therefore restricted to the unprovided balances of £109 million (5 cases) which are currently fully performing.

The number of Nationwide originated commercial property cases more than three months in arrears increased from 179 cases at 4 April 2009 to 285 at 4 April 2010. This equates to 2.77% of commercial originated accounts (4 April 2009: 1.62%). Total arrears balances on these cases at 4 April 2010 were £42 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 £1.3 billion acquired through mergers with Cheshire and Derbyshire and the acquisition of the Dunfermline's 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

Nationwide Building Society – Preliminary Results Announcement

life of the loans, none of which relates to Dunfermline's social housing portfolio. A loan loss impairment charge of £10 million has been raised in the year as 12 individually assessed cases have an impairment provision requirement in excess of the original fair value adjustment. However, in most cases, the credit risk adjustment exceeds the current impairment provision requirement and we continue to believe that acquired loans are unlikely to contribute any significant net losses to the Group over their lifetime.

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 that Commercial lending continues to make a positive long term contribution to the Group.

Other lending

Other lending includes £299 million of secured European commercial loans and £277 million of unsecured lending relating to a student loan portfolio. The European commercial loan portfolio is spread across 72 separate entities and 11 countries with the maximum individual exposure amounting to £11.4 million. 13 of the 72 entities defaulted during the year resulting in an impairment charge of £36 million. 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 our Treasury Division.

Consumer Banking

In consumer banking, 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	4 April 2010		4 April 2009*	
	NBS %	Industry %	NBS %	Industry %
Personal loans	7.07	19.6	7.15	15.8
Credit cards	5.15	6.64	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.

In addition to the above, balances on current account overdrafts total £0.3 billion. The level of arrears on these overdrafts has remained relatively static and in line with expectations.

Funding and Liquidity

Overview

The Society has a strong and well diversified funding base, which continues to be predominantly funded by retail savings. Over the course of the financial year, we have actively managed our balance sheet to respond to challenging market conditions in both wholesale and retail markets. In particular, we have carefully controlled the level and quality of lending undertaken. This has reduced our overall funding needs, resulting in absolute reductions in both retail and wholesale funding.

As a building society, we have always maintained a high level of unencumbered liquid assets relative to our banking peers and we have further increased our core liquidity ratio during the year. Liquidity and funding are intrinsically inter-connected and a number of steps have been taken to manage the Group's funding profile that

Nationwide Building Society – Preliminary Results Announcement

have had beneficial impacts on the Group's overall liquidity position. Over the last two years we have steadily increased the amount of core liquidity in anticipation of the change in regulatory policy that was affirmed in the FSA's new approach to liquidity management (PS 09/16).

Liquidity

Liquidity, together with funding and capital, represents the cornerstone of the financial management of a financial institution. Much focus has been applied to this discipline by regulatory authorities in recent years. This has resulted in the FSA publishing a new liquidity policy statement, PS 09/16, for BIPRU firms in the UK. In addition, the FSA has set out a separate risk management framework for building societies, PS 10/5. Compliance with these new policy statements, given their strict and tight timescale, has been a key objective of the Group during the course of the year and will continue to be so.

Additional information on funding and liquidity risk is disclosed in the Risk Management and Control section of the Business Review in the Annual Report & Accounts 2010.

Liquid assets generally comprise cash deposits held with Central Banks or unencumbered securities that may be freely sold or are capable of financing through repurchase agreements ('repo') or other similar arrangements either directly with those Central Banks to which the Group has direct access, or with market counterparties. The stock of liquid assets managed by Nationwide's Treasury division fall into the following four categories:

Core Liquidity

The Group has continued to focus on the growth and diversification of its core liquidity portfolio through investing in a greater volume of highly liquid sovereign securities. The core portfolio is aligned to the 'Liquid Assets Buffer' defined by the FSA in Chapter 8 of PS 09/16 and comprises:

- Deposits held at, and securities issued by, the Bank of England (BoE);
- Highly rated securities of varying maturities issued by governments or multi-lateral development banks that are eligible collateral at the Bank's narrow Open Market Operations.

As at 4 April 2010, the core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 13.8% (4 April 2009: 12.8%). This calculation is made net of any core liquidity holdings that are subject to repo arrangements.

Other Eligible Central Bank Assets

In addition to the core portfolio, as at 4 April 2010 the Group held a stock of unencumbered securities (excluding self issuance) that are eligible collateral for either the European Central Bank's (ECB) repo operations or for the BoE extended collateral repo operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

Other Securities

Nationwide holds other third party liquid assets (such as Floating Rate Notes) that are not eligible at either the BoE's or the ECB's operations but may be capable of financing through third party repo agreements.

Self Issued RMBS and Covered Bonds

The Group also holds a stock of issued AAA residential mortgage backed securities (RMBS) and covered bonds. These self issued securities are capable of repo financing either directly with the market or with Central Banks to which the Group has direct access.

Nationwide Building Society – Preliminary Results Announcement

The table below sets out the fair value – before any ‘haircut’ deduction - of each of the above liquidity types as at 4 April 2010 (given the developments in the management of liquidity during the year it would not be meaningful to provide comparative information). The table includes off balance sheet liquidity (including treasury bills held under the Special Liquidity Scheme and self issued RMBS and covered bonds) but excludes any encumbered assets.

	4 April 2010
	£bn
Core liquidity	23.4
Other central bank eligible assets	4.7
Other securities	3.4
Self issued RMBS and covered bonds	11.8
Total	43.3

Funding profile

The retail savings environment in the UK has become hugely competitive as many financial institutions sought to compensate for a lack of access in wholesale markets by focusing efforts on attracting retail deposits. Generally, this has been achieved by offering extremely attractive rates to generate demand. Nationwide has not responded in kind to this change in approach since the Group aims to offer good value over the longer term to its members. As a consequence members’ balances fell by £7.3 billion over the period to £120.9 billion and reliance on highly volatile rate sensitive retail balances was reduced. The reduction in share balances occurred predominantly over the first 7 months of the year with balances then progressively stabilising and then increasing over the last two months of the year. As part of our approach to retail funding during the year we have sought to reduce our exposure to one year fixed term retail bonds and particularly during the second half of the year competed more keenly in the market for longer duration bonds, typically in the 3-5 year maturity segment. In addition we launched ‘Champion Saver’ during the year, a variable rate 60 day notice product which tracks the average of the top five rates available from major competitors and includes an additional bonus entitlement. ‘Champion Saver’ has been successful in providing an alternative mechanism for both attracting new balances and retaining existing balances as an alternative to the one year fixed term bond market where competition tends to be greatest and customer loyalty lowest. At 4 April 2010 our stock of one year fixed rate bonds was £11 billion (2009: £17 billion).

Over the course of the year wholesale funding balances have also decreased such that the wholesale funding level ended at 27.8% (4 April 2009: 28.6%). The stronger second half performance of retail funding and the reduction in the size of the balance sheet has prompted this decline, despite the small increase witnessed at the half year.

Over the year, the loan to deposit ratio increased to 116.8% (4 April 2009: 112.4%). However, the loan to deposit and long term funding ratio reduced over this same period, from 100.4% to 100.2%. Pending international consensus on an appropriate stable funding ratio definition, the Group does not set a target for either of these ratios but given that the former does not reflect the term of deposits, we believe the latter is a more appropriate representation of the structural development of the balance sheet during the year.

Wholesale funding

An analysis of the Group’s wholesale funding (made up of deposits from banks, other deposits and debt securities in issue as disclosed on the balance sheet) is set out in the table below:

Nationwide Building Society – Preliminary Results Announcement

Wholesale funding mix	4 April 2010		4 April 2009	
	£bn	%	£bn	%
Repo and other secured arrangements	7.9	16.0	13.9	25.8
Deposits	6.1	12.4	6.7	12.4
Certificates of deposit	6.1	12.4	8.9	16.6
Commercial paper	6.4	13.0	5.3	9.9
Covered bonds	9.1	18.4	9.6	17.9
Medium term notes	10.1	20.5	8.6	16.1
Securitisations	2.2	4.5	0.0	0.0
Other	1.4	2.8	0.7	1.3
Total	49.3	100.0	53.7	100.0

The reduction in the absolute amount of wholesale funding and in the wholesale funding ratio is a function of the overall management of the Group's balance sheet, as we have controlled the level and quality of lending undertaken. However, we have seen much improved access to wholesale funding in the capital markets as instability has eased.

Over the course of the last financial year the Group has been active in the term debt capital markets and has issued £8.5 billion equivalent of term unsecured and secured debt relative to £4 billion equivalent of maturing term debt. This has enabled the Group to both extend the maturity profile of its wholesale funding portfolio from 21 months to 26 months and to increase the split of the portfolio between short and long term (i.e. > 1 year remaining maturity – as illustrated in the Wholesale funding residual maturity table below). Long term refinancing requirements for the Group remain modest for the forthcoming year, with only £1.8 billion equivalent of wholesale debt maturing in that period.

The following term issuances during the year demonstrate both the strength of institutional support and the breadth of funding diversity for Nationwide:

- In August 2009, US\$4 billion of 3 year fixed and 2.75 year floating rate bonds under the Government's Credit Guarantee Scheme;
- In September 2009, £700 million 10 year fixed rate bonds, our longest ever sterling senior issue;
- In November 2009, £2.2 billion of 5 and 7 year funding through the issue of floating and fixed rate residential mortgage backed securities (RMBS) through the Silverstone Master Trust vehicle – the Group's first ever external securitisation;
- In January 2010, €1.25 billion 5 year bonds ending the Group's absence since 2005 from the Euro senior markets;
- In February 2010, US\$0.7 billion 5 year and US\$0.8 billion 10 year fixed rate bonds ending the Group's absence since 2005 from the unguaranteed US\$ fixed rate markets.

The Group has reduced the amount of short term funding it holds to £16 billion (4 April 2009: £20 billion), but still enjoys a strong franchise in these markets, which is reflected in the average term at issuance of the short term funding book, being 155 days at 4 April 2010 (4 April 2009: 125 days).

The table below sets out the residual maturity of the wholesale funding book:

Wholesale funding residual maturity	4 April 2010		4 April 2009	
	£bn	%	£bn	%
Less than one year	24.5	49.7	34.0	63.3
One to two years	4.3	8.8	4.5	8.4
Two to five years	11.7	23.6	10.5	19.6
More than 5 years	8.8	17.9	4.7	8.7
Total	49.3	100.0	53.7	100.0

Nationwide Building Society – Preliminary Results Announcement

Our short and long term credit ratings from the major rating agencies as at 25 May 2010 are as follows:

	Long Term	Short Term	Subordinated	Date of last rating action*
Standard & Poor's	A+	A-1	BBB+	July 2009
Moody's	Aa3	P-1	Baa3	April 2009
Fitch	AA-	F1+	A	October 2009
DBRS	AA	R-1 (middle)	AA (low)	March 2009

* The current outlook for Moody's is stable. The outlook for Standard & Poor's, Fitch and DBRS is negative.

Treasury asset quality

This section deals with asset quality of the on balance sheet treasury assets. The quantum of on balance sheet treasury assets, viewed from an asset quality perspective, will be different to the quantum from a liquidity perspective in that the former will exclude off balance sheet liquidity but will include encumbered assets that do not count for liquidity purposes.

Group treasury assets at 4 April 2010 were £29.4 billion (4 April 2009: £34.5 billion) and are held in two separate portfolios; the prudential portfolio and the investment portfolio. At 4 April 2010, the prudential portfolio totalled £25.7 billion (4 April 2009: £31.1 billion) with the investment portfolio totalling £3.7 billion (4 April 2009: £3.4 billion).

We have continued to manage the prudential portfolio to increase the quality and liquidity of the assets with 63% of the portfolio held in sovereign and supranational exposures compared with 50% as at 4 April 2009. Over 99% of the portfolio is rated A or better with 85% rated AA or above (4 April 2009: 99% rated A or better, 78% rated AA or better).

Nationwide Building Society – Preliminary Results Announcement

The following table shows an analysis of the on balance sheet prudential portfolio at 4 April 2010:

Prudential Portfolio	4 April 2010 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2009 £bn
Bank of England	4.0	100	-	-	-	100	-	-	-	8.2
Loans to financial institutions	1.7	-	36	59	5	78	1	5	16	4.7
Other (including items in transit and clearing accounts)	0.3	-	-	-	-	100	-	-	-	0.4
Non AFS Assets	6.0									13.3
Gilts	6.4	100	-	-	-	100	-	-	-	4.7
Non Domestic Government Bonds	3.9	100	-	-	-	-	43	57	-	0.6
Supranational bonds	2.0	100	-	-	-	-	2	98	-	1.9
Residential mortgage backed securities (RMBS)	2.7	96	4	-	-	43	-	52	5	2.7
Covered bonds	0.9	89	11	-	-	-	3	90	7	0.9
Medium term notes	3.8	4	25	61	10	26	3	57	14	6.0
Certificates of deposit and commercial paper	-	-	-	-	-	-	-	-	-	1.0
AFS Assets	19.7									17.8
Total Prudential portfolio	25.7	78	7	14	1	55	7	34	4	31.1

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

We have no direct Sovereign exposure to Greece, Ireland, Italy, Portugal and Spain ("GIIPS").

Amounts shown above in respect of RMBS and covered bonds include securities collateralised on assets originated in GIIPS amounting in aggregate to £1.6 billion, of which 93% by value is secured on prime collateral, and 99% is rated AAA (89%) or AA (10%). As part of our normal credit risk management process we monitor all secured investments by reference to assumptions made on collateral performance at the time of investment. To date we have seen little evidence of deterioration in the performance of these investments, and we do not currently anticipate any impairments within this secured portfolio.

We also have £1.2 billion of medium term note exposures to financial institutions based in GIIPS, including £20 million to Greece, £208 million to Ireland, £221 million to Italy, £101 million to Portugal and £692 million to Spain. 85% of these note exposures are rated A (63%) or AA (22%) and the weighted average maturity of these exposures is less than 3 years.

The treasury investment portfolio was originally established to generate additional income for the Group. Over 87% of the investment portfolio is rated A or better (4 April 2009: 97%) with over 69% 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 are managing the existing portfolio to minimise potential risk. During the year, £0.5 billion of paydowns have been received relating to the asset and mortgage backed securities held by the Group. The increase in the fair value of the portfolio to £3.7 billion (4 April 2009: £3.4 billion) is therefore due to improved pricing reflecting market recovery.

Nationwide Building Society – Preliminary Results Announcement

The following table shows an analysis of the investment portfolio at 4 April 2010:

Investment Portfolio (All AFS Assets)	4 April 2010 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2009 £bn
Collateralised debt obligations (CDO)	0.1	-	-	-	100	-	100	-	-	0.1
(i) Collateralised loan obligations (CLO)	0.6	33	59	8	-	25	75	-	-	0.5
(ii) Commercial mortgage backed securities (CMBS)	0.6	60	19	11	10	47	14	39	-	0.6
Corporate bond portfolio	0.1	-	13	17	70	36	28	36	-	0.2
Credit card backed securities	0.3	99	-	-	1	42	58	-	-	0.3
(iii) Financial institutions including subordinated debt	0.7	-	22	64	14	21	33	39	7	0.6
Other corporate bonds	-	-	34	66	-	100	-	-	-	-
(iv) Residential mortgage backed securities (RMBS)	0.3	24	23	23	30	61	36	3	-	0.2
(v) US student loan	0.8	98	1	1	-	-	100	-	-	0.7
Other investments	0.2	38	21	15	26	11	47	33	9	0.2
Total	3.7	49	20	18	13	27	55	16	2	3.4

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 in the profile of the investment portfolio over the course of the year and additional detail on the more material exposures is set out below. The portfolio has experienced some negative rating migration as a result of the on-going implementation of rating agency methodology changes and continued collateral deterioration particularly for CMBS and US RMBS. However, the overall credit quality remains strong, with only a low level of impairment incurred.

Included under financial institutions, RMBS and other investments above are GIIPS related exposures totalling £152 million, of which £65 million relates to subordinated loans to financial institutions (£34 million to Ireland, £11 million to Italy and £20 million to Portugal). The remaining balance relates to secured or highly rated bank exposure.

Nationwide has £100 million of exposure to monoline wrapped transactions, which are shown above under their underlying holdings. For all but £2 million of these holdings, we anticipate full repayment without any assistance from the wrap provider. This is mainly as a result of the approach taken upon investment, where we placed no reliance on the wrap, requiring the investment to stand up to credit analysis in its own right.

- (i) CLOs comprise £575 million of senior positions. 92% of this portfolio retains a AA or AAA rating. Our focus on the selection of strong managers has provided some protection from downward rating migration.
- (ii) 60% of the CMBS portfolio is AAA rated. The portfolio consists of exposures 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.
- (iii) Included in the financial institutions portfolio are £462 million of subordinated lower tier two bonds that were acquired as part of the process of eliminating SIV capital note investments.

Nationwide Building Society – Preliminary Results Announcement

- (iv) Total investment holdings in RMBS are £338 million. The £121 million of US exposure is made up of prime and Alt A RMBS. 17% of this US portfolio retains a AAA rating.
- (v) The US student loan portfolio comprises 67% FFELP (Federal Family Education Loan Programme) originated loans which are 98% guaranteed by the US government, and 33% alternative student loans.

Available for sale reserve

Out of a total of £29.4 billion of treasury assets held in the prudential and investment portfolios, £23.4 billion are held as available for sale (AFS) and under IFRS they are marked to market through other comprehensive income and fair value movements are accumulated in reserves. The non AFS assets are predominantly short term loans to financial institutions or deposits with the Bank of England. Of the £23.4 billion of AFS assets only £106 million are classified as Level 3 (not based on observable market data) for the purposes of IFRS 7.

The fair value movement 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 an impairment charge of £29 million has been booked against AFS assets with a further £7 million against private equity held as part of our small investment in equity shares portfolio which has total outstandings of £58 million and further commitments of £47 million.

As at 4 April 2010, the balance on the AFS reserve had improved to £715 million negative, net of tax (4 April 2009: £2,009 million negative). The improvement in the AFS reserve is primarily a function of improvement in the pricing of RMBS, US student loans and financial institutions as market sentiment has improved.

	Cumulative AFS Reserve 4 April 2010	Fair Value on balance sheet 4 April 2010	Cumulative AFS Reserve 4 April 2009	Fair Value on balance sheet 4 April 2009
	£bn	£bn	£bn	£bn
Gilts and Supranational bonds	(0.3)	12.3	(0.3)	7.2
Residential mortgage backed securities (RMBS)	0.2	2.7	0.7	2.7
Covered bonds and floating rate notes	0.1	4.7	0.3	6.9
Certificates of deposit and commercial paper	-	-	-	1.0
Prudential portfolio	0.0	19.7	0.7	17.8
Collateralised debt obligations (CDO)	-	0.1	0.1	0.1
Collateralised loan obligations (CLO)	0.1	0.6	0.2	0.5
Commercial mortgage backed securities (CMBS)	0.3	0.6	0.3	0.6
Corporate bond portfolio	-	0.1	-	0.2
Credit card backed securities	-	0.3	0.1	0.3
Financial institutions including sub debt	-	0.7	0.2	0.6
Residential mortgage backed securities (RMBS)	0.1	0.3	0.3	0.2
US student loan	0.1	0.8	0.3	0.7
Other investments	0.1	0.2	0.1	0.2
Investment Portfolio	0.7	3.7	1.6	3.4
Negative AFS reserve before hedge accounting and taxation	0.7		2.3	
Hedge accounting adjustment for interest rate risk	0.3		0.5	
Taxation	(0.3)		(0.8)	
Negative AFS reserve (net)/ Total Value of AFS assets	0.7	23.4	2.0	21.2

Nationwide Building Society – Preliminary Results Announcement

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

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, Nationwide considers its Risk Appetite, the material risks to which the Group is exposed and the appropriate strategies required to manage those risks.

The Group is required to manage its capital in accordance with prudential rules issued by the FSA and from 1 January 2008 the Group has complied with these rules which implement the EU Capital Requirements Directive (Basel II). Since 4 April 2009 the Group has calculated its capital requirement on an Internal Ratings Based (IRB) approach.

The following table shows the Group capital position as at 4 April 2010. Figures for 2010 include the acquisition of the Registered Social Landlord portfolio of the former Dunfermline Building Society.

As at 4 April 2010, regulatory capital stood at £9.7 billion (2009: £9.7 billion) with the Group's total solvency ratio remaining strong at 19.4% (2009: 19.5%). The Core Tier 1 solvency ratio stood at 12.2% (2009: 12.0%).

Nationwide Building Society – Preliminary Results Announcement

	4 April 2010 Basel II IRB	4 April 2009 Basel II IRB Adjusted (see note 2 on page 44)
	£m	£m
Tier 1		
General reserve	6,363	6,218
Permanent interest bearing shares (Note 1)	1,524	1,526
Pension fund net deficit add back (Note 2)	355	167
Intangible assets (Note 3)	(353)	(211)
Deductions from Tier 1 capital (Note 4)	(232)	(186)
	7,657	7,514
Tier 2		
Revaluation reserve	68	69
Subordinated debt (Note 1)	2,132	2,233
Collective impairment allowance	97	60
Deductions from Tier 2 capital (Note 4)	(232)	(186)
	2,065	2,176
Total capital	9,722	9,690
Risk weighted assets – Pillar 1 (Note 5)		
Retail mortgages	14,653	13,559
Commercial loans	18,316	18,751
Treasury	8,351	9,065
Other	4,375	4,702
Operational Risk	4,328	3,704
Market Risk	50	37
	50,073	49,818
Key capital ratios:		
Total capital	9,722	9,690
Core Tier 1 (%) (Note 6)	12.2	12.0
Tier 1 ratio (%) (Note 6)	15.3	15.1
Total capital (%) (Note 6)	19.4	19.5
Tier 2 to Tier 1 ratio (%)	27.0	29.0

Notes

- (1) 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 and any amortisation of the capital value of lower tier 2 instruments required by regulatory rules for instruments with less than five years to maturity.
- (2) 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.
- (3) Intangible assets do not qualify as capital for regulatory purposes.
- (4) 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.
- (5) 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.
- (6) 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.

Nationwide Building Society – Preliminary Results Announcement

The reform of the banking sector continues and various proposals in relation to capital, funding and liquidity continue to be put forward. We support the objective of a more secure and stable framework for banking regulation, however it is imperative that the cumulative impact of these changes on the financial services sector is fully understood by the Authorities. In particular, we remain concerned that some of the changes in the shifting regulatory landscape could undermine the future of the building society sector.

Specifically, the treatment of capital and access to external capital that can qualify as Core Tier 1 is fundamental to the future of any major financial institution. It is essential that the changes currently being contemplated do not result in Nationwide's access to the capital markets being restricted.

The consultations on future definition on Core Tier 1 capital instruments published by the Basel Committee on Banking Supervision, the committee of European Banking Supervisors and the FSA have so far been predicated on a preference that, outside of retained earnings, Core Tier 1 should comprise predominantly instruments that replicate ordinary equity shares and pay uncapped, profit-participative dividends not linked to the principal amount. Consistent with this approach, the FSA has indicated that PIBS will no longer be regarded as Tier 1 capital. However, any equity-like instrument is inherently anti-mutual because it encourages societies to divert part of their profits to outside investors, thereby creating the potential to alter the way in which a society behaves towards its membership.

A new instrument will therefore need to be created that allows mutuals to access inorganic Core Tier 1 capital. Such an instrument needs to be capable of sustaining investor appetite, complying with capital requirements and allowing societies to remain committed to the mutual model, protecting the interests of members, who have historically been our key stakeholders.

We are responding to the recent Her Majesty's Treasury discussion paper – 'Building Societies Capital and related issues' – and are reassured by the level of understanding around the capital issue facing the sector. We also continue to work with our trade body, the Building Societies Association, HM Treasury and the FSA to create an instrument that meets the needs of all its stakeholders and that provides Nationwide with a fair regulatory platform from which we can compete with the banking sector. We are in ongoing discussions with European institutions and are pleased that the European Commission's consultation document on CRD IV proposals recognises the important legal and constitutional differences of mutuals as compared to publicly quoted institutions. The European Commission is due to adopt revised text for the Capital Requirements Directive later in the year.

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

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

The total net retirement benefit liability measured under IAS 19, including the former Derbyshire and Cheshire defined benefit arrangements is £508 million (4 April 2009: £331 million). The Group did not take over the defined benefit arrangements of the Dunfermline Building Society and the Portman defined benefit scheme was merged into Nationwide Pension Fund (NPF) on 1 October 2009.

The increase in the net liability reflects both a fall in the discount rate and an increase in the assumptions for long term inflation, partly offset by increases in the market values of the funds' assets during the year.

We have been actively managing the retirement benefit liability and have taken a number of steps to contain and reduce the deficit over recent years:

- NPF Final Salary arrangements closed to new members in 2001 and CARE arrangements closed in 2007;
- Employee contributions (for the NPF final salary arrangement) increased from 5% to 7%;
- Special contributions were paid following the last two NPF valuations, with £150 million paid in the period 2005-2007; and a further £50 million paid in 2008. This follows an initial special contribution of £100 million paid in 2003;

Nationwide Building Society – Preliminary Results Announcement

- Transfers in and new AVC arrangements were stopped from 31 December 2009;
- All the Trustee boards 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 pension schemes in a responsible way. The next full triennial valuation of the NPF is as at 31 March 2010. The results will not be available until later in the year, after which a plan will be agreed between the Trustee board and the Group to manage the ongoing retirement benefit liability.

PERFORMANCE BY BUSINESS STREAM

Nationwide classifies its business streams as follows:

Retail

- Prime residential mortgage lending
- Specialist residential mortgage lending
- Consumer banking
- 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.

As further explained in note 14, specialist residential mortgage lending is now included in Retail.

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

	Year to 4 April 2010 Underlying £m	Year to 4 April 2009 Underlying £m
Retail	265	214
Commercial	(122)	(17)
Head office functions and other operations	69	196
Total contribution before tax	212	393

Nationwide Building Society – Preliminary Results Announcement

RETAIL BUSINESS STREAM

	Year to 4 April 2010 Underlying £m	Year to 4 April 2009 Underlying £m
Total income	1,650	1,625
Expenses	1,156	1,199
Impairment and other provisions	229	212
Contribution from Retail	265	214

The contribution from the Retail business stream has increased in the year to £265 million (2009: £214 million).

Total income, which includes income from Regional Brands as a result of mergers with Cheshire, Derbyshire and Dunfermline, has increased by 2% to £1,650 million. Further business related growth in non-margin income has been partly offset by margin compression as a result of the low interest rate environment and increased retail funding costs.

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

The retail impairment charge of £229 million represents a residential impairment charge of £89 million (2009: £91 million), a charge in relation to consumer banking of £126 million (2009: £113 million), and other provisions of £14 million (2009: £8 million). The residential charge has remained broadly stable throughout the year, which is a reflection of the quality of the prime and specialist portfolios in the current economic climate. The increase in the charge for consumer banking is due to two specific changes that we made to our assessment of unsecured lending provisions, to better reflect prevailing conditions, rather than being due to a change in underlying performance of these assets. The charge for 2008/9 included the benefit of a one off reduction to the provision for up to date assets and the charge for 2009/10 includes a significantly higher provision for cases subject to litigation. The underlying performance of unsecured lending remains strong and reflects our cautious approach and prudence in our underwriting.

Residential mortgage lending

Prime residential mortgage lending

The housing and mortgage markets have experienced a period of relative stability during 2009/10. These markets are subject to substantial external influence and remain fragile and vulnerable to future shocks. A particular feature of the market has been a continued reduction in remortgage and equity withdrawal as borrowers, either through choice or necessity, reduce their level of activity in this sector.

We have continued to lend in a prudent and responsible manner, to support our core mortgage markets. Group gross residential lending, including specialist lending, was £12.0 billion (2009: £18.9 billion), representing a market share of 8.7%. Prime residential gross lending was £10.3 billion (2009: £16.7 billion). Our primary focus has been to support the house purchase market. During the year we moved to reduce the minimum customer deposit for house purchase from 15% to 10%. We continue to provide additional support for existing mortgage customers moving house, offering a range of negative equity products for high quality existing borrowers with a requirement to move.

Our long term commitment to prudent and responsible lending is reflected in our strong arrears performance. Nationwide originated prime residential mortgage cases 3 months or more in arrears at 4 April 2010 was 0.52% (4 April 2009: 0.49%). In April 2009 Nationwide launched its Mortgage Charter setting out how customers in

Nationwide Building Society – Preliminary Results Announcement

financial difficulties can expect to be treated. Repossession is always a last resort and we provide individual support to customers in financial difficulties – even if they are not yet in mortgage arrears.

Specialist residential mortgage lending

New lending in the Buy to Let sector was down on previous years, but the outstanding stock of Buy to Let mortgages actually increased, and according to the Council of Mortgage Lenders, contributed 65% of all net mortgage lending. While rental yields declined over the year tenant demand remained buoyant supporting landlords' investments.

Gross specialist lending in the year was £1.7 billion (2009: £2.2 billion). At 4 April 2010 the total specialist book was £18.7 billion (4 April 2009 £18.2 billion).

The percentage of Nationwide originated specialist mortgage cases 3 months or more in arrears at 4 April 2010 was 2.28% (4 April 2009: 2.45%). Specialist lending Buy to Let arrears declined over the year and continue to run well below our key competitors, and below the overall market level.

Consumer Banking

Our aim continues to be to build a more diversified business through the growth of our Consumer Banking portfolio, which includes current accounts, credit cards and personal loans. These products already provide a valuable income stream and have the potential for significant growth from a relatively low current market share.

The majority of our credit cards and personal loans are opened by our prime FlexAccount customers. We aim for this to continue and want to encourage more of our existing customers to strengthen their relationships with us. In 2009/10 we launched the '*MORE for .. our current account customers*' campaign to reward our prime FlexAccount customers with exclusive deals on our other products. Offers have included a market leading personal loan rate of 7.6%, 3 months additional interest free purchases on our credit card, and a high LTV mortgage for first time buyers.

We have 4.9 million current accounts and our aim is to increase the number of customers who use this as their main account. We have made our Account Transfer service even easier to use and have been promoting it throughout the year to both new and existing FlexAccount customers. We have focused on attracting customers looking to use it as their main current account and have opened 283,000 new accounts in the year.

We continue to target high quality unsecured lending. This has enabled us to maintain a 3% market share of live credit card accounts and a 2.5% share of gross lending. The Society retained the award for 'Most Responsible Credit Card Lending Practices' for the third successive year at the Card Awards 2010, and also the 'Best Achievement in Customer Service' award. The Society has reaffirmed its commitment to a positive order of payments, and is pleased to see the Department for Business Innovation & Skills (BIS) endorse this in the findings of their Credit and Store Card consultation.

The transition to risk-based pricing on personal loans in December 2008 has created a strong foundation for high quality growth, enabling us to price competitively and to attract high quality business. This helped to increase our market share of new unsecured personal loans to 2.5% in 2009/10, which is approximately double the level of the previous year. For the second year running we were recognized for being 'Best Online Personal Loan Provider' by Your Money.

Retail funding

Retail deposits continue to be the primary source of funding for our retail lending activity and, despite the low interest rate environment, we have maintained our strategy of providing good long term value and security to our members.

Nationwide Building Society – Preliminary Results Announcement

We have actively managed our flow of retail savings during the year ensuring an optimum balance between securing funds at an economic rate and providing value to our members.

During the first half of the year intense competition in a contracting market led to a decision to allow a £5.6 billion net outflow of funds. During the second half of the year this outflow was largely stemmed as a result of new innovative product development. New products included Champion Saver, Combination Savings Bond (a savings bond partnered with a Protected Equity Bond), Over 50 FRISA and the recently launched e-ISA and Champion ISA. The latter two products have attracted inflows of £1.8 billion to the end of April 2010.

Overall, the year has seen a managed outflow from the savings book of £7.3 billion.

Protection and investments

Sales and income from Protection and Investments increased significantly in 2009/10, driven by product development and the low interest rate environment, which increased demand for asset-backed investments as an alternative to traditional savings accounts.

Investment performance was driven by an increase in the sales of Protected (formerly ‘Guaranteed’) Equity Bonds attracting over £1.2 billion of funds in the year, compared with £0.2 billion last year.

Over the last 18 months we have increased the number of funds we offer our customers from 6 to 21 (including funds from some of the industry’s leading fund managers) and launched an Investment Bond. This helped to deliver an increase in sales volumes and average case size, and commission from these sales delivered an important stream of non-margin income to the Group. High sales, combined with positive fund performance, delivered a 76% increase in funds under management.

Protection Annual Premium Equivalent (APE) increased by 36% on 2008/09 driven by an increase in the proportion of mortgages sold with life and critical illness cover.

General insurance

General insurance remains a strong non-margin income stream for the Group. There are 2 million insurance covers on the General Insurance book, which generated a net income of over £80 million in the year.

Home and Car insurance were both rated 5-Star by Defaqto in 2010 for the excellent levels of cover they offer compared to the market. The home book grew by 1.5% despite a depressed residential mortgage market. This was the result of successful standalone acquisition and retention activity, which focused on rewarding customer loyalty.

The Home Insurance Defaqto Compare tool was launched in January 2010 to reinforce our 5 Star cover benefits through the Distribution channels.

Car and Travel Insurance sales increased by approximately 230% and 80% respectively in the calendar year following the launch of the LV= distribution deal with Liverpool Victoria in December 2008.

A record level of mortgage payment protection insurance claims has been handled this year as a consequence of the difficult economic conditions. Cardif Pinnacle has been appointed to supply Payment Protection Insurance (PPI) on our behalf from January 2011. The new arrangement will allow us to provide a flexible product offering for our customers.

Nationwide Building Society – Preliminary Results Announcement

Distribution channels supporting these product divisions

Performance across all distribution channels held up well over the past year, despite increasingly challenging economic conditions and lower business levels within the market. Benchmarked sales performance against Nationwide's main high street competitors has remained consistent throughout 2009/10 across all channels.

There has been a continued effort on improving efficiency and managing down costs within Group Distribution, whilst retaining a focus on delivering excellent customer service. Customer satisfaction has remained broadly stable for our branch network while an improving trend has been recorded by Group Telephony and Internet Channels.

Group Telephony has delivered significant improvements to customer service during the past year and benefited from a subsequent boost in sales performance. Despite lower call volumes, lead generation increased by 73% compared to 2008/09. The closure of the Swansea call centre in November 2009 and the impending closure of Bournemouth call centre in June 2010, have contributed to delivering cost savings of £5.8 million in Telephony.

Internet sales performance was strong for the year, primarily driven by current account prime conversion volumes, aided by the online managed account transfer process launched in April 2009. Online personal loan and credit card sales were also strong in a tough market. The launch of e-ISA in February 2010 has filled a key product gap for Nationwide online with over 35,000 accounts opened by 31st March 2010.

COMMERCIAL LENDING

	Year to 4 April 2010 Underlying £m	Year to 4 April 2009 Underlying £m
Total income	213	192
Expenses	36	38
Impairment and other provisions	299	171
Contribution from Commercial	(122)	(17)

After falling 44% from peak to trough between June 2007 and July 2009, UK commercial property values have now increased by 13% (IPD, March 2010); this improvement is focused on the prime London market and is not yet reflected in other UK regions. Market activity has primarily been driven by cash-rich institutional investors and income-seeking private investors, and as a result demand for debt finance has been subdued despite its improving availability during the year. The ongoing impact of a weak economy has also adversely impacted both UK commercial property rental growth and void levels, leading to an increasing number of tenant failures, particularly in the retail sector.

Nationwide Commercial has remained open for business throughout the year across all of its main markets - Commercial Property Finance, Registered Social Landlord and Private Finance Initiative (PFI) lending – with gross lending totalling £1.8 billion during the year. However, higher than expected capital repayments and redemptions have resulted in the size of the book remaining virtually unchanged. All new lending was made in lower risk sectors on a very selective basis, and during the year we redefined our asset appetite to exclude housebuilder, equity, subordinated and/or European lending.

The commercial portfolio remained virtually unchanged in size at £22.2 billion (4 April 2009: £22.1 billion). Loans to social housing providers increased to £7.9 billion (4 April 2009: £7.2 billion), loans to government sponsored Private Finance Initiatives increased to £1.3 billion (4 April 2009: £1.2 billion) while loans to investment property decreased to £13.0 billion (4 April 2009: £13.7 billion). The commercial assets acquired via the merger with the Cheshire have now been incorporated within the main Commercial book, and commercial mortgage assets

Nationwide Building Society – Preliminary Results Announcement

totalling £0.9 billion acquired through merger with Derbyshire and acquisition of Dunfermline social housing portfolio continue to perform within our original fair value expectations.

We remain a top 3 lender in the Registered Social Landlord market, despite having seen lower levels of activity than in previous years. In the PFI market we were delighted to be shortlisted for the Best Funder of the Year award at the Public Private Finance Awards 2010, as well as being ranked 2nd in the Infrastructure Journal European league table of mandated lead arrangers for Social Infrastructure 2009. We intend to continue to expand our PFI portfolio in the future.

There was a solid performance for Commercial lending income, which increased to £213 million (2009: £192 million) as a result of stable new business margins and strong fee income, which arose primarily from the repricing of maturing loans and agreed restructures with existing borrowers. Our commercial lending teams continue to work closely with commercial property customers to restructure borrowings where there is clear evidence of serviceability, effective asset management and a robust strategy to restore value over time.

However, the Commercial business stream made a loss in the period as the impairment charge on the commercial property finance book increased to £299 million (2009: £171 million) driven primarily by covenant breaches on LTVs, tenant failure/voids and business failures on owner occupied properties. During the second half of the year growth in impairments began to slow, with a charge of £119 million compared with £180 million in the first half of the year. No arrears or provisions were made in the Registered Social Landlord or PFI books.

The number of Nationwide commercial property cases more than three months in arrears increased over the year from 179 cases at 4 April 2009 to 285 at 4 April 2010. This equates to 2.77% of commercial accounts (4 April 2009: 1.62%). Total arrears balances on these cases at 4 April 2010 were £42 million (4 April 2009: £17 million). The increasing trend now appears to be stabilising and robust arrears management is carried out by dedicated teams who maintain a focus on early intervention to maximise value and to mitigate losses.

Our Commercial Property Finance portfolio is well diversified by industry type, by borrower and by geographic spread. We have no house builder exposure, and only modest exposure to development finance with total balances of £155 million and a total further commitment of £47 million. The commercial portfolio includes £266 million of originated and acquired subordinated exposures of which £124 million are provided for, and the Group's residual exposure to subordinated loans is therefore restricted to the unprovided balances of £142 million (6 cases) which are currently fully performing.

We are cautiously optimistic that the recovery in commercial property values is likely to continue during 2010/11, but have yet to see that this recovery is evidenced across the UK. Notwithstanding this, we believe that our commercial provisions and impairments have now peaked and that we should see a decline in subsequent years.

HEAD OFFICE FUNCTIONS AND OTHER OPERATIONS

	Year to 4 April 2010 Underlying £m	Year to 4 April 2009 Underlying £m
Total income	232	300
Expenses	92	34
Impairment and other provisions	71	70
Contribution from Head Office Functions and Other Operations	69	196

Contribution from Head Office Functions and Other Operations was £69 million (2009: £196 million).

Nationwide Building Society – Preliminary Results Announcement

Total income of £232 million is £68 million lower than the prior year, despite including a £91 million gain from the management of the liquidity portfolio. The reduction reflects the 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, reflecting higher investment spend and higher project depreciation.

Impairment and other provisions includes a charge of £36 million (2009: £18 million) which relates to loan losses on a portfolio of European commercial loans as outlined on page 14, together with a small release of £1 million (2009: £1 million charge) in relation to a portfolio of student loans. The remaining balance of this year's charge includes £29 million impairment of a small number of US RMBS exposures and £7 million in respect of private equity, part of our small investment in equity shares portfolio. Materially all of the balance of the charge in the comparative year was made up of bank failures, including Washington Mutual, Lehman and Icelandic banks.

RESPONSIBILITY STATEMENT

The directors confirm that the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and income and expenditure of the Group as required by the Disclosure and Transparency rules (DTR 4.1.12). The management report includes a fair review of the development and performance of the business and the Group together with a description of the principal risks and uncertainties faced.

A full list of the Board of Directors will be disclosed in the Annual Report and Accounts 2010. Nationwide's principal inherent risks are described in the Risk Management and Control section of the Business Review in the Annual Report and Accounts.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director
25 May 2010

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED INCOME STATEMENT

For the year ended 4 April 2010

	Notes	2010 £m	2009 (Adjusted) £m
Interest receivable and similar income	3	4,568	9,250
Interest expense and similar charges	4	2,854	7,492
Net interest income		1,714	1,758
Fee and commissions income		378	359
Fee and commissions expense		(5)	(4)
Income from investments		1	16
Other operating income	5	47	123
Gains from derivatives and hedge accounting		34	10
Total income		2,169	2,262
Administrative expenses	6	1,195	1,252
Depreciation and amortisation		151	126
Impairment losses on loans and advances to customers	7	549	394
Provisions for liabilities and charges	8	(103)	249
Impairment losses on investment securities		36	51
Profit before tax		341	190
Analysed as:			
• Profit before tax, FSCS levies, transformation costs, gains from derivatives and hedge accounting, gains on business combinations and portfolio acquisition		212	393
• FSCS levies – release/(charge)		117	(241)
• Transformation costs		(62)	(107)
• Gains from derivatives and hedge accounting		34	10
• Gains on business combinations and portfolio acquisition		40	135
Profit before tax		341	190
Taxation		77	44
Profit after tax		264	146

The 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 note 15.

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 4 April 2010

	2010 £m	2009 (Adjusted) £m
Profit after tax	264	146
Other comprehensive income:		
Available for sale investments:		
Fair value movements taken to equity	1,834	(2,216)
Amount transferred to income statement	(55)	4
Taxation	(485)	621
	1,294	(1,591)
Revaluation of property:		
Revaluation before tax	1	(72)
Taxation	-	20
	1	(52)
Actuarial loss on retirement benefit obligations:		
Actuarial loss before tax	(169)	(321)
Taxation	48	90
	(121)	(231)
Cash flow hedge amortisation	-	(2)
Total comprehensive income	1,438	(1,730)

The 4 April 2009 statement of comprehensive income 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 note 15.

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED BALANCE SHEET

As at 4 April 2010

	Notes	2010 £m	2009 (Adjusted) £m
ASSETS			
Cash and balances with the Bank of England		3,994	8,205
Loans and advances to banks		2,017	5,033
Investment securities - available for sale		23,385	21,223
Derivative financial instruments		4,852	5,859
Fair value adjustment for portfolio hedged risk		2,638	3,408
Loans and advances to customers	9	152,429	155,469
Investments in equity shares		86	81
Intangible assets		353	211
Property, plant and equipment		916	886
Investment properties		9	9
Accrued income and expenses prepaid		77	743
Deferred tax assets		357	866
Other assets		284	360
Total assets		191,397	202,353
LIABILITIES			
Shares		120,943	128,292
Deposits from banks		8,031	13,283
Other deposits		4,509	5,673
Due to customers		5,085	4,371
Debt securities in issue		36,802	34,794
Fair value adjustment for portfolio hedged risk		106	239
Derivative financial instruments		4,942	5,986
Other liabilities		529	671
Provisions for liabilities and charges	8	118	271
Accruals and deferred income		376	354
Subordinated liabilities	10	2,166	2,233
Subscribed capital	10	1,524	1,526
Current tax liabilities		42	51
Retirement benefit obligations	11	508	331
Total liabilities		185,681	198,075
General reserve		6,363	6,218
Revaluation reserve		68	69
Available for sale reserve		(715)	(2,009)
Total reserves & liabilities		191,397	202,353

The 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 note 15.

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS

For the year ended 4 April 2010

	General reserve	Revaluation reserve	AFS reserve	Cash flow reserve	Total
	£m	£m	£m	£m	£m
At 5 April 2009 - adjusted	6,218	69	(2,009)	-	4,278
Profit for the year	264	-	-	-	264
Net movement in available for sale reserve	-	-	1,294	-	1,294
Revaluation of property	-	1	-	-	1
Reserve transfer	2	(2)	-	-	-
Net actuarial loss on retirement benefit obligations	(121)	-	-	-	(121)
Total comprehensive income	145	(1)	1,294	-	1,438
At 4 April 2010	6,363	68	(715)	-	5,716

For the year ended 4 April 2009 (adjusted)

	General reserve	Revaluation reserve	AFS reserve	Cash flow reserve	Total
	£m	£m	£m	£m	£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 - adjusted	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 the Dunfermline Building Society. Further information is given in note 15.

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 4 April 2010

	Notes	2010 £m	2009 (Adjusted) £m
Cash flows from operating activities			
Profit before tax		341	190
Adjustments for:			
- Non-cash items included in profit before tax	12	580	493
- Changes in operating assets	12	5,377	(11,416)
- Changes in operating liabilities	12	(11,305)	9,425
- Interest paid on subordinated liabilities		(91)	(102)
- Interest paid on subscribed capital		(87)	(127)
- Dividend income		(1)	(16)
- Taxation		(17)	69
Net cash flows from operating activities		(5,203)	(1,484)
Cash flows from investing activities			
Purchase of investment securities		(12,942)	(14,681)
Sale and maturity of investment securities		11,283	18,159
Purchase of property, plant and equipment		(153)	(205)
Sale of property, plant and equipment		10	4
Sale of investment properties		-	2
Purchase of intangible fixed assets		(184)	(61)
Purchase of Dunfermline social housing portfolio		(377)	-
Dividends received		1	16
Cash and cash equivalents acquired on transfer of engagements		-	2,754
Net cash flow from investing activities		(2,362)	5,988
Cash flows from financing activities			
Maturity of subordinated liabilities		(15)	(325)
Net cash flows from financing activities		(15)	(325)
Net (decrease)/increase in cash		(7,580)	4,179
Cash and cash equivalents at start of year		13,391	9,212
Cash and cash equivalents at end of year	12	5,811	13,391

The 4 April 2009 cash flow 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 note 15.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

1 Reporting period

These results have been prepared as at 4 April 2010 and show the financial performance for the year from, and including, 5 April 2009 to this date.

2 Basis of preparation

The 2010 preliminary results have been prepared in line with International Financial Reporting Standards ('IFRS') as adopted by the European Union and in effect for the year ending 4 April 2010. The accounting policies adopted for use in the preparation of this Preliminary Results Announcement and which will be used in preparing the Annual Report and Accounts for the year ending 4 April 2010 were included in the 'Annual Report & Accounts 2009' document except as detailed below. Copies of this document are available at www.nationwide.co.uk/about_nationwide/results_and_accounts/.

Changes in accounting policy

The following IFRS pronouncements have been adopted:

- 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 the chief operating decision maker 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 year ended 4 April 2010 the Group capitalised £6 million on this basis.

Protected equity bonds (PEBs)

Certain non-derivative financial liabilities relating to the sale of PEBs 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 in gains from derivatives and hedge accounting. The PEBs 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 PEBs at amortised cost and the derivatives at fair value.

Income received from Legal & General upon inception of the PEB transaction is deferred and recognised in interest expense and similar charges in the income statement on an effective interest basis over the term of the product.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

2 Basis of preparation (continued)

Business combinations and portfolio acquisition

The Society acquired the Derbyshire, Cheshire and core parts of the Dunfermline building societies on 1 December 2008, 15 December 2008 and 30 March 2009 respectively. These business combinations have been accounted for following the requirements of IFRS 3 (2008 Revised) 'Business Combinations' which was endorsed by the EU in June 2009. Further information is provided in Note 15.

The former Dunfermline Building Society social housing portfolio was not part of the original acquisition on 30 March 2009. This 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'. Further information is provided in Note 15.

Adjustment to 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 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 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 15.

3 Interest receivable and similar income

	2010 £m	2009 £m
On residential mortgages	5,289	6,473
On other loans	1,150	1,526
On investment securities	1,056	1,249
On other liquid assets	47	261
Foreign exchange differences	20	-
Net (expense) on financial instruments hedging assets	(3,116)	(410)
Expected return on pension assets	122	151
	4,568	9,250

4 Interest expense and similar charges

	2010 £m	2009 £m
On shares	2,326	4,724
On subscribed capital	96	85
On deposits and other borrowings		
– Subordinated liabilities	95	93
– Other	384	1,130
Debt securities in issue	884	1,376
Foreign exchange differences	-	4
Net (income) on financial instruments hedging liabilities	(1,077)	(61)
Pension interest cost	146	141
	2,854	7,492

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

5 Other operating income

	2010 £m	2009 (Adjusted) £m
Gain on portfolio acquisition and business combinations	40	135
Rental income	6	7
Loss on revaluation and sale of fixed assets	(4)	(25)
Other	5	6
	47	123

More information on the gains on portfolio acquisition and business combinations is provided in note 15.

6 Administrative expenses

	2010 £m	2009 £m
Employee costs		
– Wages and salaries	469	465
– Social security costs	44	40
– Pension costs	71	94
	584	599
Other administrative expenses	611	653
	1,195	1,252

Administrative expenses include £62 million (2009: £107 million) of transformation costs, including £7 million (2009: £32 million) directly relating to business combinations. The remaining transformation costs relate primarily to restructuring parts of the on-going Nationwide business.

7 Impairment losses on loans and advances to customers

	2010 £m	2009 £m
Impairment charge for the year		
Prime residential	10	4
Specialist residential	79	87
Consumer banking	126	113
Commercial lending	299	171
Other lending	35	19
	549	394
Impairment provision at the end of the year		
Prime residential	17	20
Specialist residential	143	101
Consumer banking	148	136
Commercial lending	422	194
Other lending	20	19
	750	470

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

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

8 Provisions for liabilities and charges

	FSCS	Other	Total
	£m	Provisions £m	£m
At 5 April 2009	258	13	271
Provisions utilised	(48)	(2)	(50)
(Release)/charge for the year	(117)	14	(103)
At 4 April 2010	93	25	118
At 5 April 2008	-	16	16
Acquired on acquisitions	17	-	17
Provisions utilised	-	(11)	(11)
Charge for the year	241	8	249
At 4 April 2009	258	13	271

Financial Services Compensation Scheme (FSCS)

Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. In 2008 and 2009 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 recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms over this period.

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 2012, the FSCS will agree a schedule of repayments with HM Treasury. The FSCS will then levy the industry (including Nationwide) accordingly.

In the year ended 4 April 2009, the Group held a provision for £258 million, being the Group's estimated share of the levies which it would incur in respect of the period of the initial three year loan facility from HM Treasury. At that time, the Group did not provide for its estimated share of potential compensation costs because these could not be reliably estimated.

The amount provided by the Group as at 4 April 2010 of £93 million has been restricted to the latest estimates of its share of levies in respect of scheme years ending on and before 31 March 2011, for which our liability to scheme levies is already confirmed. The change, together with a significant reduction in the provision due principally to interest rates being lower than previously anticipated, resulted in a release of £117 million and aligns our approach with emerging industry consensus.

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

Other provisions

Other provisions have been made in respect of various customer claims, including claims in relation to previous sales of payment protection insurance. It is expected that the liability will predominantly crystallise over the next 12 – 24 months.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

9 Loans and advances to customers

	2010 £m	2009 (Adjusted) £m
Prime residential mortgages	108,704	111,873
Specialist residential mortgages	18,609	18,043
Consumer banking	2,143	2,230
Commercial lending	21,765	21,943
Other lending	556	661
	151,777	154,750
Fair value adjustment for micro hedged risk	652	719
	152,429	155,469

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

	2010		2009	
	Assets pledged £m	Secured funding £m	Assets pledged £m	Secured funding £m
Covered bonds	39,917	9,050	38,130	9,408
Securitisations and other secured lending	32,371	3,749	29,401	1,498
	72,288	12,799	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.

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 (Securities 2008 - 1 and 2009 - 1) to external counterparties and the Society, either for the purposes of creating collateral to be used for funding or for subsequent sale of notes to investors outside the Group.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

9 Loans and advances to customers (continued)

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 publically 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 £6.8 billion were cancelled on 2 November 2009.

All of the assets pledged are retained in the Society's balance sheet as the Society substantially retains the risks and rewards relating to the loans.

10 Subordinated liabilities and subscribed capital

	2010 £m	2009 £m
Subordinated liabilities		
Subordinated notes	2,071	2,116
Fair value adjustment for micro hedged risk	104	127
Unamortised premiums and issue costs	(9)	(10)
	2,166	2,233
Subscribed capital		
Permanent interest bearing shares	1,415	1,415
Fair value adjustment for micro hedged risk	155	161
Unamortised premiums and issue costs	(46)	(50)
	1,524	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 and PIBS early.

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.

On 7 May 2009, the Group, with the consent of the FSA, redeemed early the £15 million 6.74% subordinated loan due 2014 at a cost of £15 million.

11 Retirement benefit obligations

The Group's net retirement benefit obligation at 4 April 2010 totalled £508 million (4 April 2009: £331 million). The change reflects an increase in the measurement of the retirement benefit 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 5.6% (4 April 2009: 6.5%).

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

12 Notes to the cash flow statement

	2010 £m	2009 (Adjusted) £m
Non-cash items included in profit before tax		
Net increase in impairment provisions	280	258
Impairment loss on investment securities	36	51
Depreciation and amortisation	151	126
(Profit)/loss on sale of property, plant and equipment	(1)	3
Interest on subordinated liabilities	92	93
Interest on subscribed capital	91	85
Loss on the revaluation of land and buildings	5	16
Loss on revaluation of investment properties	-	6
(Gain) from derivatives and hedge accounting	(34)	(10)
(Gains) on portfolio acquisition and business combinations	(40)	(135)
	580	493
Changes in operating assets		
Loans and advances to banks	578	(325)
Investment securities	(1,434)	(543)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	1,811	(7,085)
Deferred tax assets	509	(659)
Loans and advances to customers	3,177	(2,483)
Other operating assets	736	(321)
	5,377	(11,416)
Changes in operating liabilities		
Shares	(7,349)	4,490
Deposits from banks, customers and others	(5,702)	856
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	(1,177)	4,769
Debt securities in issue	2,008	356
Retirement benefit obligations	177	298
Other operating liabilities *	738	(1,344)
	(11,305)	9,425
Cash and cash equivalents		
Cash and balances with the Bank of England	3,994	8,205
Loans and advances to other banks repayable in 3 months or less	1,817	4,255
Investment securities with a maturity period of 3 months or less	-	931
	5,811	13,391

* 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.

The Group is required to maintain balances with the Bank of England which, at 4 April 2010, amounted to £200 million (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.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

12 Notes to the cash flow statement (continued)

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.

13 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 High Court's original judgement that the charges were assessable for fairness was appealed by the financial institutions to the Court of Appeal. The judgement of the Court of Appeal upheld the original decision of the High Court. A further appeal by the financial institutions to the Supreme Court (formerly the House of Lords) was heard and a judgement delivered on 25 November 2009. The Supreme Court ruled that unauthorised overdraft charges are not assessable for fairness on the basis of costs. This meant that the test case between the OFT and the financial institutions, including the Society, came to an end. The decision cannot be appealed any further. On 22 December 2009 the OFT, after detailed consideration of the judgement and the various options available to it, has concluded against taking forward any investigation under the Unfair Terms in Consumer Contract Regulations 1999.

The Society continues to assert that its charges are fair and transparent, and that given the legal circumstances outlined above there is no longer a contingent liability relating to this matter.

(b) 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.

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.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

14 Operating segments (continued)

Retail

Retail functions include prime residential lending, specialist residential lending, consumer banking, retail funding (savings products), insurance and investments, and retail products marketed by our Regional Brands. The distribution channels supporting these products are included in this segment.

Commercial

This segment comprises the commercial lending business stream.

Head office functions and other operations

Head office functions and other operations comprise 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.

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.

Group reporting changes in the year to 4 April 2010

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 to the results reported in the 2009 Accounts. There is no impact on the Group income statement or balance sheet, comparative figures have been restated accordingly.

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.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

14 Operating segments (continued)

Year to 4 April 2010	Retail	Commercial	Head office functions & other operations	Total
	£m	£m	£m	£m
Net interest income/(expense) from external customers	2,998	865	(2,149)	1,714
Revenue/(charge) from other segments	(1,712)	(663)	2,375	-
	1,286	202	226	1,714
Other income (note i)	364	11	6	381
Total revenue	1,650	213	232	2,095
Expenses (note ii)	1,156	36	92	1,284
Impairment and other provisions (note iii)	229	299	71	599
Segment results/underlying profit/(loss) before tax	265	(122)	69	212
FSCS levies release	117	-	-	117
Transformation costs and gain on portfolio acquisition	(62)	40	-	(22)
Gains from derivatives and hedge accounting	-	-	34	34
Profit/(loss) before tax	320	(82)	103	341
Taxation				77
Profit after tax				264
Total assets	129,456	22,417	39,524	191,397
Total liabilities	126,017	-	59,664	185,681
Year to 4 April 2009 (adjusted)	Retail	Commercial	Head office functions & other operations	Total
	£m	£m	£m	£m
Net interest income/(expense) from external customers	1,832	1,268	(1,342)	1,758
Revenue/(charge) 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 (note ii)	1,199	38	34	1,271
Impairment and other provisions (note iii)	212	171	70	453
Segment results/underlying profit/(loss) 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
(Loss)/profit before tax	(69)	(22)	281	190
Taxation				44
Profit after tax				146
Total assets	132,146	22,622	47,585	202,353
Total liabilities	132,541	-	65,534	198,075

Notes

- (i) Other income excludes gains/(losses) from derivatives and hedge accounting and gain on portfolio acquisition.
- (ii) Expenses exclude transformation costs
- (iii) 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.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

14 Operating segments (continued)

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

15 Acquisitions

On 1 December 2008 and 15 December 2008 the Society acquired the Derbyshire and the 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 the Dunfermline Building Society. As the acquisition took place immediately prior to the 4 April 2009 year end, the information required to value the assets and liabilities acquired was incomplete. The initial accounting for the Dunfermline Building Society 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 Building Society disclosed in the 2009 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 and a decrease in profit after tax of £16 million.

The revised fair values of assets and liabilities acquired of the 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

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

15 Acquisitions (continued)

The 4 April 2010 consolidated income statement includes acquisition related administrative expenses for the Dunfermline of £4 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.

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. 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) are 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.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

15 Acquisitions (continued)

Dunfermline social housing portfolio acquisition

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)
	417
Purchase price of portfolio on acquisition	377
Gain on acquisition	40

The acquisition of the social housing portfolio has been accounted for as an acquisition of a portfolio under IAS 39. In certain limited circumstances, IAS 39 permits the rebuttal of the presumption that the cash price paid represents fair value of the acquired portfolio and the fair value of the acquired portfolio can instead be calculated using a valuation technique based on available market observable data. The Society has determined that the acquisition of the social housing portfolio is such a circumstance, and has accordingly valued the portfolio based upon its margins and amortisation profile, and using a discount rate derived from observable market data. The result of this valuation is a fair value for the portfolio of £417 million and hence a gain of £40 million based upon the purchase price of £377 million.

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.

ADDITIONAL INFORMATION

a) Retail loan portfolio

The average LTV of residential mortgages is 48% (4 April 2009: 52%) whilst the average LTV of new lending was 63% (4 April 2009: 60%). The value of residential property is updated on a quarterly basis to reflect changes in the house price index. Further LTV information is set out as follows:

	2010 %	2009 %
Loan to value analysis:		
<50%	54	51
50% - 60%	10	9
60% - 70%	10	9
70% - 80%	10	9
80% - 90%	8	8
90% - 100%	6	8
>100%	2	6
	100	100
<hr/>		
Average loan to value of stock (indexed)	48	52
Average loan to value of new business (excluding further advances)	63	60
New business profile:		
First-time buyers	26	15
Home movers	38	27
Remortgagers	18	50
Buy to let	18	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 4 April 2010 likewise excludes further advances. Further advances have also been excluded from the analyses of the 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 17. These are changes from previous reporting periods and comparatives have been restated accordingly.

	4 April 2010					4 April 2009				
	Prime lending £bn	Specialist lending £bn	Consumer banking £bn	Total £bn	%	Prime lending £bn	Specialist lending £bn	Consumer banking £bn	Total £bn	%
Not impaired:										
Neither past due nor impaired	106.3	16.5	2.1	124.9	96	109.5	15.7	2.2	127.4	96
Past due up to 3 months but not impaired	1.9	1.2	0.0	3.1	3	1.9	1.4	0.1	3.4	3
Impaired	0.5	1.0	0.2	1.7	1	0.5	1.1	0.1	1.7	1
	108.7	18.7	2.3	129.7	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.

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

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 building societies have been fair valued on a basis which makes credit loss adjustments for anticipated losses over the remaining life of the loans.

	4 April 2010					4 April 2009				
	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%
Impaired status:										
Past due 3 to 6 months	280	342	60	682	39	262	443	61	766	44
Past due 6 to 12 months	174	282	67	523	30	147	320	66	533	30
Past due over 12 months	81	222	45	348	20	59	117	32	208	12
Possessions	30	160	-	190	11	34	215	-	249	14
	565	1,006	172	1,743	100	502	1,095	159	1,756	100

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

£329 million (4 April 2009: £94 million) of loans that would be past due or impaired have had their terms renegotiated or capitalised in the last 12 months. Customers with arrears are only permitted to renegotiate where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period.

Collateral held against retail residential mortgages:

	4 April 2010				4 April 2009			
	Prime lending £m	%	Specialist lending £m	%	Prime lending £m	%	Specialist lending £m	%
Past due but not impaired	1,884	100	1,159	99	1,904	100	1,323	99
Impaired	532	99	829	98	465	99	862	98
Possessions	29	97	150	94	33	97	206	96
	2,445	100	2,138	98	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:

	4 April 2010		4 April 2009	
	Prime lending £m	Specialist lending £m	Prime lending £m	Specialist lending £m
Past due but not impaired	5	10	7	17
Impaired	3	17	3	18
Possessions	1	10	1	9
	9	37	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.

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

The make up of specialist lending is as follows:

	4 April 2010		4 April 2009	
	£bn	%	£bn	%
Self-certified	4.5	24	4.9	27
Buy to Let	12.3	66	11.2	61
Near Prime	1.4	7	1.6	9
Sub Prime	0.5	3	0.5	3
Specialist Lending	18.7	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 mortgage 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 mortgage 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 £299 million and unsecured lending of £277 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:

	4 April 2010				4 April 2009			
	Commercial		Other operations		Commercial		Other operations	
	£bn	%	£bn	%	£bn	%	£bn	%
Not impaired:								
Neither past due nor impaired	20.9	94	0.6	100	21.1	95	0.6	100
Past due up to 3 months but not impaired	0.4	2	-	0	0.6	3	-	-
Impaired	0.9	4	-	0	0.4	2	-	-
	22.2	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 included is the entire financial asset rather than just the payment overdue.

This analysis includes commercial mortgage assets totalling £1.3 billion acquired through the acquisitions of the Cheshire, the Derbyshire and Dunfermline building societies. These loans have been fair valued on a basis which makes credit loss adjustments, totalling £165 million, for anticipated losses over the remaining life of the loans.

	4 April 2010				4 April 2009			
	Commercial		Other Operations		Commercial		Other Operations	
	£m	%	£m	%	£m	%	£m	%
Impaired status:								
Past due 3 to 6 months	291	31	14	42	118	31	6	40
Past due 6 to 12 months	397	43	15	46	229	60	4	27
Past due over 12 months	238	26	4	12	21	6	5	33
Possessions	-	-	-	-	12	3	-	-
	926	100	33	100	380	100	15	100

Commercial assets totalling £960 million (4 April 2009: £359 million) have individual provisions against them.

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

b) Commercial and Other Operations loan portfolios (continued)

Collateral held against past due or impaired commercial lending:

	4 April 2010		4 April 2009	
	£m	%	£m	%
Past due but not impaired	382	97	521	94
Impaired	834	90	341	93
Possessions	-	-	12	100
	1,216	92	874	94

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:

	4 April 2010	4 April 2009
	£m	£m
Past due but not impaired	11	34
Impaired	92	27
Possessions	-	-
	103	61

There are £38 million (4 April 2009: £21 million) past due or impaired balances classified above as other operations. Of this, £27 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 £25 million (4 April 2009: £1 million).

Nationwide Building Society – Preliminary Results Announcement

OTHER INFORMATION

The financial information set out in this announcement which was approved by the Board on 25 May 2010, does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

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. The Annual Accounts for the year ended 4 April 2010 will be lodged with the Financial Services Authority and the Registry of Friendly Societies following publication.

A copy of this Preliminary 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.

This announcement will also be available on the Nationwide Building Society website, www.nationwide.co.uk, from 26 May 2010.

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