Nationwide Building Society

Preliminary Results Announcement
For the year ended
4 April 2006

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INTERNATIONAL FINANCIAL REPORTING STANDARDS

The 2006 results have been prepared using International Financial Reporting Standards (IFRS) for the first time. IFRS differs from UK GAAP which was used in the preparation of the 2005 financial statements. The impact of the implementation of IFRS on the 2005 financial results was published in a restatement on 22 September 2005 and is available at www.nationwide.co.uk/about_nationwide/results_and_accounts

2006 underlying results

As a consequence of the introduction of IFRS, the 2006 balance sheet and income statement are subject to a certain amount of volatility arising from the requirement to fair value derivatives, hedge accounting and the consolidation on a line by line basis of our life insurance business. Where appropriate, certain aspects of the results for 2006 are presented to reflect management's view of the underlying results, to provide a clearer representation of the underlying performance of the Group. Underlying profit before tax of £539.4m equates to reported profit before tax of £559.2m adjusted for net gains from derivatives and hedge accounting of £10.9m and policyholder tax of £8.9m.

2005 pro-forma results

Comparative analysis of the results is also complicated as a result of certain IFRS only having been applied from 5 April 2005. This means that the revised IFRS 2005 results only include the impact of certain of the IFRS used in the preparation of the 2006 results. To facilitate comparison and understanding of the 2006 results, 2005 pro-forma comparatives have been prepared. These show how the 2005 results would have looked, where it is possible to determine what the impact would have been, if all the standards had been effective in 2005. However, they do not show the full impact of all the IAS 39 accounting rules as hedges and financial assets to be fair valued were only designated and documented from 5 April 2005.

Management's view is that a comparison of like-for-like 2006 underlying and 2005 pro-forma results, as included on page 28, provide the best measure of performance. The primary focus of the Business Review commentary is therefore against these measures. The adjustments required to the reported comparative income statement to get to the proforma comparative income statement are also set out on page 28.

HIGHLIGHTS

Nationwide Building Society today announced its results for the year ended 4 April 2006.

Financial performance

- Underlying profit before tax up 15.3% to £539.4m (2005 - pro-forma £467.7m)
- Record reported profit before tax £559.2m (2005 - £513.9m)
- Total assets up 8.1% to £120.6bn
- Costs as a percentage of mean total assets reduced for the 17th successive year to 0.85%

Member value

- Members have benefited by an estimated £690m in the year through competitive interest rates and lower fees and charges, up 7% on 2005
- Retained profits for future growth and investment of £397.2m, resulting in estimated total member value of £1,087m (2005 - £1,011m)
- Refurbishment and re-site of over 160 branches and 60 agencies in the past two years (over 25% of our retail network)

Operating highlights

- Sales performance
    - 2.9m products sold during the year, up 12% on 2005
    - Greater diversification, with an increase of 20% in non-mortgage and savings sales, to 1.5m products sold

- Lending activities
    - We are the UK's fourth largest mortgage lender
    - High quality residential gross lending of £21.1bn (2005 - £23.2bn) and net lending of £6.3bn (2005 - £10.9bn)
        - our share of mortgage accounts 3 months or more in arrears fell to 0.28% whilst the industry average continued to rise to 0.97% (CML 31 March 2006)
        - average LTV of new lending 55% (2005 – 53%) and seasoned book 39% (2005 - 38%)
    - Unsecured gross personal lending up 15.5% to £1.3bn
        - our share of loans 30 days or more in arrears is 4.6% - 40% below industry average
    - Commercial gross lending up 27.8% to a record £5.5bn and record net lending of £1.8bn
        - number of loans 3 months or more in arrears 69 (2005 – 79), the lowest level in 10 years

- Retail savings and investments
    - We are the UK's number two savings provider
    - Retail savings deposits grew by £8.3bn, a 23% increase on 2005, representing a 12.8% market share
        - new monthly income 65+ product aimed at over 65 year olds introduced in response to member feedback - around 80,000 accounts opened since July 2005 launch with over £1.7bn attracted,
        - e-savings balances up 37% to £13.8bn, number of accounts now exceed 1 million
        - ISA cash balances up 15% to £19.8bn
    - Market share for net sales of equity ISAs increased to 4.0% (2005 – 3.4%)
    - Market share of Child Trust Fund is 17%, equivalent to 1 in 6 of all accounts in the UK

- Banking products
    - current account sales of 622,000 (up 9%)
    - credit card sales of 252,000 (up 16%)
    - Market share of new current accounts estimated at nearly 11% (based on CACI's Current Account and Savings Market Database)

- Insurance
  - Insurance commission contribution held strong at £119 million (2005 - £119 million)
  - Nationwide's over 55's life cover launched in November 2005 to meet the protection needs of the c. 2.5 million members aged 55 to 75
  - Travel insurance for 65s and over introduced in December 2005

- Balance sheet growth
  - World's largest building society with total assets of £120.6bn, up 8.1%
    - risk weighted assets grew by 7.6%
  - Reserves up 10.3% to £5.0bn and total regulatory capital up 6.2% to £7.0bn
    - tier 1 capital ratio 8.8% (2005 - 8.8%)
    - total capital ratio 11.0% (2005 – 11.1%)
  - Inaugural covered bond issued in November 2005
    - €2.0bn issue 118% over subscribed

- Social responsibility
  - Donations to Nationwide Foundation (established in 1997) exceed £24m to date
  - Over £4m raised for Macmillan, our employee nominated charity, since 1994
  - Nationwide became the main sponsor of Disability Sport Events in a deal worth £1m over the next seven years. Nationwide also aims to raise up to a further £100,000 for the charity to encourage voting at this year's AGM.
  - Development of our own environmental management system to limit our environmental impact
  - In October we entered a contract to buy electricity from renewable energy sources
  - Over 10 million Cats Eyes for Kids (branded reflectors) donated to primary school pupils
  - Local Heritage Initiative funding c. 1,300 local projects involving c. 1.5m people
  - Nationwide Awards for Voluntary Endeavour recognising c. 1,200 individuals and groups

CHIEF EXECUTIVE'S COMMENT

Philip Williamson, chief executive, said: "This has been an outstandingly successful year. We have delivered record profits and record member value in a highly competitive market. Over 3,000 new members are joining Nationwide every day because we make them better off than the banks – that's why we now have a growing membership base well in excess of 11 million people.

"People are increasingly attracted to our wide range of products. As well as mortgages and savings, we are opening record numbers of current accounts, credit cards and personal loans – areas in which the banks used to dominate.

"Over the past 12 months we have led the way in the Child Trust Fund market and have introduced a new savings account for those aged 65 and over which has proved hugely popular. We have also introduced a comprehensive travel insurance policy for the over 65s. These initiatives provide clear evidence that we have listened to our customers and responded to their feedback. That's what makes us different.

"We aimed to achieve sufficient levels of profit to ensure that Nationwide remains safe and secure and to enable us to continue to invest in the business and grow at a sustainable rate – and that's exactly what we've done..

"As we stated last year we planned to do less mortgage business as we wanted to maintain our focus on quality during a period when we knew the housing market and general economic environment would be changing. Quality was our key priority and we have achieved our goal. Looking forward, whilst I expect competition in our core markets to remain keen, I believe we are in a strong position to continue to deliver outstanding pricing benefits to our members.

"These results provide clear evidence that more and more people are defecting from the banks and choosing to do business with Nationwide because we give them a better deal. This is testimony to the fact that, with no shareholders to worry about, we genuinely put our members at the heart of everything we do."

BUSINESS REVIEW

OVERVIEW

We operate as a retailer of a broad range of personal financial services products to provide maximum value to our membership through better pricing and an excellent service delivered using an efficient distribution and support infrastructure.

The success of this strategy is evidenced by our delivering a broad range of financial services products to our members whilst increasing our underlying profit before tax to £539.4m, an increase of 15.3% compared with 2005 pro-forma results of £467.7m. This resulted in £397.2m profit (2005 - £367.0m) being retained in the business for future growth and investment. At the same time we also generated a record estimated £690m (2005 - £644m) in the form of pricing benefit to our members by offering better rates and by charging lower fees and charges than our competitors.

Our funding is primarily from retail members and this year we were particularly successful in the UK retail savings market where we achieved a market share of 12.8% - substantially greater than our par share of 9.2%. In the wholesale funding market, we became the first UK building society to issue a Covered Bond. The €2bn 10 year transaction gives us access to new global capital market investors.

In a highly competitive mortgage market, we have maintained our focus on prime quality residential loans, achieving net advances of £6.3bn. The quality of our residential mortgage book remains very high and the incidence of arrears is less than one third of the industry average.

We continued to increase our share of the current account, credit card and personal loan markets. Non-mortgage and savings sales volumes increased by 20%, reflecting our continued focus on expanding the franchise. Overall, total retail sales increased by 12%, evidence of success of our investment programme to improve access to our services for members. We are now two years into the £300m six-year programme to improve access by phone, post, on-line or through our network of branches and agencies. So far, over 160 branches and over 60 agencies have been refurbished. In February, a new call centre in Wakefield was opened. In addition to this investment in infrastructure, we are investing £100m over the next five years in our front line employees including recruiting an extra 350 people into our branch network and call centres.

PERFORMANCE BY BUSINESS STREAM

Nationwide operates three main business streams as follows:

- **Personal financial services**
  Mortgages, savings, banking, consumer lending, general insurance, life insurance and investment business.
- **Commercial**
  Commercial lending and Treasury income generation activities together with at.home nationwide ltd, the Society’s residential letting subsidiary.
- **Group**
  Treasury group operations, capital and items classified as being non-attributable to our core business areas.

The contribution to underlying profit before tax against pro-forma comparatives by each of these business streams is set out in the table below. Summary income statements on the same basis are included on page 29.

	Contribution before tax		
	2006 Underlying £m	2005 Pro-forma £m	Growth %
Personal financial services	**270.9**	231.9	16.8
Commercial	**194.2**	160.3	21.1
Group	**74.3**	75.5	(1.6)
Total	**539.4**	467.7	15.3

Underlying contribution before tax of £539.4m equates to reported profit before tax of £559.2m adjusted for net gains from derivatives and hedge accounting of £10.9m and policyholder tax of £8.9m.

PERSONAL FINANCIAL SERVICES (PFS) BUSINESS STREAM

	2006 Underlying £m	2005 Pro-forma £m	Growth %
Net interest income	**921.3**	861.3	7.0
Other income	**351.8**	318.7	10.4
Total income	**1,273.1**	1,180.0	7.9
Expenses	**896.2**	844.6	6.1
Impairment and other provisions	**106.0**	103.5	2.4
Contribution from PFS	**270.9**	231.9	16.8

The underlying contribution from the PFS business stream increased by 16.8% to £270.9m which represents just over half of the Group's total contribution. All of the pricing benefit given to our members is delivered through this business stream which reduces its relative contribution. The total number of PFS sales has grown by 12% compared with 2005. Within this we have achieved 20% growth in non-mortgage and savings sales, reflecting our focus on expanding our franchise.

Expenses increased by 6.1% reflecting growth in volumes, particularly in high transaction products such as our current account and credit card. Unsecured loan impairment charges increased to £73.7m (2005 – pro-forma £53.1m). Whilst much of the additional charge has arisen from increased volumes in lending, approximately £8m has arisen from a worsening in rates of delinquency. Secured loan impairment charges are minimal for the current and previous year. Arrears across all products remain significantly better than industry averages. A further provision of £28.5m for the cost of customer redress relating to all current and estimated future endowment review claims has been raised (2005 - £44.6m).

Lending

Loans and advances to customers total £101.4bn of which £86.9bn, (86%) relates to retail lending activity.

The composition of our PFS lending continues to be low risk. At 4 April 2006, 95% of our PFS lending was residential mortgages, 2% was buy-to-let mortgages, 2% was unsecured personal loans with the balance of 1% lending on overdrafts and credit cards. This mix is not expected to change significantly going forward.

UK residential mortgage market

2005/6 was a year of some recovery in the housing market. Activity levels recovered as borrowers' pessimism about a house price crash evaporated. This latent demand was boosted further by the cut in base rate in August and fed into a modest acceleration in house prices from the autumn. The value of house purchase approvals increased by an estimated 22% compared with last year and reached levels similar to the boom of spring 2004.

Higher house prices helped to swell gross mortgage lending for house purchases, while highly competitive mortgage rates and the maturing of fixed rate products in the autumn helped to support remortgaging, which accounted for an estimated 40% (2005 - 43%) of all mortgage lending. While the value of total market gross advances increased by 9% over the year, strong competition also led to higher redemptions. This dampened net lending, which grew by only around 2.5% over the same period and put increased emphasis on retention strategies.

UK residential mortgages – Nationwide performance

Total gross lending was £21.1bn (2005 - £23.2bn), a market share of 7.0% (2005 - 8.4%). Net lending was £6.3bn (2005 - £10.9bn). We continued to be highly successful in retaining borrowers and this has made a significant contribution to net lending this year. Our 7.2% market share of principal repaid in the Group was below our mortgage par share of 9.0%. This strong performance was partly driven by our policy of charging between 0.5% to 1% less interest on our standard variable rate mortgage compared with our major competitors as well as having competitively priced fixed and tracker products available to existing borrowers on the same terms as new borrowers. In addition, good service and an active policy of customer contact enabled us to retain borrowers with maturing fixed rate and tracker rate mortgage products.

During the year we have extended the range of options available to our borrowers by including the facility to add reservation fees to the loan balance or to forego the fee completely and pay a slightly higher interest rate. In January, we launched a lifetime tracker product that tracks the Bank of England base rate for up to 40 years. We also introduced a “switch and fix” facility that gives borrowers confidence when taking out a tracker mortgage that they can switch to one of our fixed rate products at any time without paying early redemption charges.

The profile of our new lending has remained low risk. Based on value, the proportion of lending to first time buyers has increased to 15% (2005 – 12%). 82% (2005 – 86%) of new lending was in respect of next time buyers, remortgage and on further advance with the borrowers having a proven payment track record. Only 3% (2005 – 2%) was in respect of buy to let.

Our prudent lending to creditworthy customers is demonstrated by continuing high asset quality. The average loan to value (LTV) of the residential book has remained broadly constant at 39% and new lending has averaged 55%. The number of Group mortgages 3 or more months in arrears reduced by 10% over the year compared with an increase in the market of 11% (Council of Mortgage Lenders’ (CML) figures March 2005 to March 2006). The overall proportion of mortgages 3 or more months in arrears as a proportion of the book is 0.28% (2005 – 0.31%) compared to the March 2006 CML average of 0.97% (March 2005 - 0.87%).

Personal loans

Personal loans are offered through the Society’s personal loans subsidiary, Nationwide Trust Limited. Gross unsecured personal loan lending increased by 15.5% to £1.3bn (2005 - £1.1bn). Loans are sold through our retail network, over the telephone and via the internet. Nationwide Trust has in excess of 310,000 unsecured personal loan customers, a 14% increase on last year.

The growth has not been at the expense of quality of lending. We continue to maintain prudent lending criteria employing the use of credit scoring, affordability and indebtedness rules as part of our assessment of whether to lend or not. This process results in approximately one in every two unsecured loan applications received being rejected. Most of our borrowers are ‘known to Nationwide’ with over three quarters already being members or customers of the Group.

In line with industry wide credit experience, we have seen increases in the impairment charge on our personal loan book. However, continuing high levels of asset quality are demonstrated by the ratio of the value of loans 30 days or more in arrears as a percentage of the total book being 4.6% (2005 – 4.1%), around 40% lower than the average for members of the Finance and Leasing Association.

Savings and investments

UK savings and investments market

The market for UK retail funds has intensified in the year with lenders looking to fund more of their lending from retail savers. There has also been stronger competition from savings only competitors and increased fund raising by National Savings to support Government spending.

UK savings and investments market – Nationwide performance

Despite this continued competition, we achieved a 12.8% (2005 - 11.1%) share of the overall increase in UK retail savings, representing £8.3bn (2005 - £6.7bn). This compared favourably with a par share of 9.2%. Total retail member deposits as at 4 April 2006 amounted to £80.9bn (2005 - £72.6bn) and represent our primary source of funding. We have consolidated our position as the second largest savings provider in the UK with Nationwide's savings accounts, on average, 0.4% better priced than those of our competitors.

Strong savings flows were primarily driven by our e-Savings and Individual Savings Accounts (ISAs) products which in aggregate generated £5.4bn (2005 - £5.0bn) of net receipts. The Society again launched a number of highly competitive bonds throughout the year. A major product innovation was the Monthly Income 65 + launched in July, an account designed specifically for the over 65s. Since launch in July 2005, around 80,000 accounts have been opened with over £1.7bn attracted.

The Society, through its wholly owned subsidiary Nationwide Unit Trust Managers Limited (NUTM), writes a range of investment contracts including unit trusts and ISAs. At 4 April 2006 our range of unit trust investment products held by our customers had a market value of over £2.5bn (2005 - £2.0bn). Following last year's re-launch of its range of investments, abolishing initial charges and introducing a £20 minimum monthly investment, NUTM has recorded 94,000 sales (excluding Child Trust Funds) (2005 – 61,000). Nationwide continues to be one of only a handful of national high street providers to offer the choice of an equity or cash based Child Trust Fund with over 103,000 equity applications received since launch.

Banking

Current accounts

The Society's current account, FlexAccount, is a key product in developing and retaining customer relationships. We offer a highly competitive account with a range of good value features including a market leading rate of up to 4.25% credit interest and no charge for overseas transactions. More than 48% of FlexAccount customers now regularly use our internet banking service, (2005 – 25%) and over 2.4 million members are registered to use Nationwide's online banking service.

In August we launched a Telephone Self Service banking facility, giving our current account customers a fully automated facility to carry out transactions. The service uses the latest speech recognition technology supported by traditional 'touch tone' functions to allow customers to access their account anytime, anywhere. So far, over 50,000 members have registered for the service.

The total number of Nationwide current accounts is now in excess of 3.6m. Our market share of new accounts is estimated at nearly 11% (based on CACI's Current Account and Savings Market Database)

Credit cards

The Society continues to differentiate its credit card from others on offer in the UK by not charging for international use and by allocating payments to clear the most expensive debt first. Growth in the credit card market has been largely unchanged year on year with market gross lending in 2006 only 1% lower than in 2005. The market has been moving away from large bonus cash reward and free balance transfers as these products have become unprofitable for suppliers. In response, Nationwide repositioned the portfolio by launching new introductory terms for the classic card and closing the cash reward card to new business.

Despite this slowing market in the year we issued 252,000 new credit card accounts (2005– 217,000) taking total accounts up to 974,000 (2005 – 796,000) and total cards in issue to 1,222,000 (2005 – 1,054,000). Balances outstanding on credit cards at the year end amounted to £670m (2005 - £567m).

As with personal loans, there has been an increase in the impairment charge in line with industry wide credit experience. However, asset quality compared with the industry remains very favourable with the value of 30 days or more in arrears as a percentage of the book being 6.9% (2005 – 6.4%). We are around 30% lower than the average for members of APACS.

General insurance

During the year over 322,000 (2005 - 431,000) general insurance covers were sold and the book stood at over 1.5 million (2005 – 1.6 million) covers at the year end. The primary general insurance products we sell are buildings and contents insurance, payment protection policies, motor insurance, travel insurance and personal accident insurance. Sales of general insurance products are often linked to mortgage sales. The reduction in the number of general insurance covers sold in the year reflects the lower volume of mortgage sales experienced this year.

We have continued to use leading insurers as third-party underwriters and the commission and profit share we receive is an important source of non-interest income. Despite the reduction in covers sold we still earned a consistent £119m (2005 - £119m) from commission and profit share during the year.

On the 1st December 2005, Nationwide launched annual travel insurance for the over 65 market. The policy covers Europe and where other high street banks are able to offer this product it is priced competitively in comparison. Having re-entered the market, take-up has been positive and feedback from members has been complimentary. We will continue to look for product gaps and ways of making our existing products more attractive.

Life assurance

The Society, through its wholly owned subsidiary, Nationwide Life Limited (NL), writes a range of investment and protection products. These include two types of insurance product: term life assurance and critical illness cover. 65,000 life policies were sold during the year (2005 – 74,000 policies). As with general insurance covers, this lower volume of life policies stems from the lower volume of mortgages issued this year. NL also provides pension contracts and guaranteed equity bonds. Nationwide’s Guaranteed Equity Bond was improved and re-launched in September; the new offer has improved sales by around 36%.

Pricing benefit

The estimated pricing benefit is calculated by comparing the price of each of our products (including interest rates, fees and charges) with the equivalent products of our main competitors. During the year we generated an estimated £690m (2005 - £644m) in the form of pricing benefit to our members by offering better rates and by charging lower fees and charges than our competitors. Benefit generated over the year for mortgage borrowers has now come into line with that generated for savers. This reflects the increasing proportion of competitively priced fixed rate and tracker rate mortgages. Pricing benefit is distributed to members as follows:

Pricing benefit distributed to members	**2006**		2005	
	£m	**%**	£m	%
Benefit to mortgage borrowers	**252**	**37**	216	34
Benefit to savers	**251**	**36**	259	40
Benefit to members with other products	**187**	**27**	169	26
Total	**690**	**100**	644	100

Distribution channels

We are continuing the £300m, six year investment programme announced in 2004 to develop a modern business and to ensure that our branch, telephones and other access channels are maintained at the modern standards expected by our members. This programme is going very well with over 160 branches refurbished or re-sited since its inception, investment in our agency network is well underway and a number of technology investments have already been successfully deployed. To allow our customers to do business, when and how they wish, we have continued our investment in UK call centres with a new facility in Wakefield which opened in February 2006. All of our call centres remain in the UK. In addition to the investment in physical infrastructure we will also be investing £100m over the next five years in our front line employees. As well as recruiting an extra 350 people into our branch network and call centres and creating over 1,000 opportunities for promotion, we are strengthening our management structure and providing additional sales coaching and compliance management.

COMMERCIAL BUSINESS STREAM

	2006 Underlying £m	2005 Pro-forma £m	Growth %
Net interest income	**199.6**	186.7	6.9
Other income	**37.3**	22.9	63.0
Total income	**236.9**	209.6	13.0
Expenses	**43.6**	42.4	2.8
Impairment and other provisions	**(0.9)**	6.9	(113.0)
Contribution from Commercial	**194.2**	160.3	21.1

The underlying contribution from the commercial business stream increased by 21.1% to a record £194.2m. This represents around 35% of the Group's total contribution in both years, an impressive performance given that assets account for only 15% of the Group's total. The book continues to be high quality, with record levels of gross lending achieved in the year. This was achieved against a background of further competition which continues to increase pressure on margins. Underlying contribution from investment assets held by Treasury was £29.8m (2005 - £9.0m) an increase of 230%. This increase arises from additional investment return in the current year and an impairment gain as compared with a charge last year. The contribution from at.home nationwide was £13.1m (2005 – pro-forma £4.6m) an increase of 185% on the previous year. This increase primarily arises from revaluation gains in the current year as compared with losses last year.

Commercial lending

Commercial lending is a significant part of our business and of our total loans and advances to customers of £101.4bn, £14.5bn (14%) is in respect of commercial lending.

The composition of our commercial portfolio at 4 April 2006 was 33% to UK Registered Social Landlords, 6% to support Private Finance Initiatives and the balance of 61% secured on other commercial property. Loans to Registered Social Landlords are secured on residential property. Loans advanced under Private Finance Initiatives are secured on cash flows from Government backed contracts. Commercial property loans are secured against properties supported by strong cash flows and tenant covenants. In addition loans are well diversified by industry type and geographic location. There is no speculative lending and no development finance. In terms of counterparty concentration, the largest single borrower represents only 2.0% of the total commercial book.

We remain the lender with the largest volume of funding commitments to Registered Social Landlords. Whilst there have been fewer transfers of municipal housing stock from local authorities this year, there have been several refinancings and increases in borrowing as Registered Social Landlords merge in response to government initiatives to increase efficiency.

Gross commercial lending in the year totalled £5.5bn (2005 - £4.3bn) representing an increase of 27.8% with balances outstanding of £14.5bn (2005 - £12.7bn). Redemptions have been contained at the level seen last year. Net lending of £1.8bn constitutes a record performance.

Asset quality remains strong. Commercial lending arrears levels of three months or more have improved year on year from 79 to 69 cases.

at.home nationwide

at.home is the Society's residential letting subsidiary. The subsidiary represents a non-core, non strategic activity and it has been decided to dispose of the business. The Society has been in exclusive negotiation for the sale of the at.home property portfolio and contracts were exchanged for sale on 15 May 2006. The disposal will not have a material impact on the income statement or balance sheet of the Group.

GROUP BUSINESS STREAM

	2006 Underlying £m	2005 Pro-forma £m	Growth %
Net interest income	**113.4**	119.4	(5.0)
Other income	**12.3**	9.4	30.9
Total income	**125.7**	128.8	(2.4)
Expenses	**51.4**	53.3	(3.6)
Contribution from Group	**74.3**	75.5	(1.6)

Contribution from the Group business stream was £74.3m (2005 - £75.5m) a decrease of 1.6%. The contribution from this business stream includes the contribution derived from capital held for regulatory purposes in excess of that allocated to other business streams, on the basis of an economic capital assessment, together with other elements of contribution that cannot be allocated directly to business streams. It also includes contribution from the Group's treasury operations, excluding the contribution from assets held solely for investment purposes which is included in the contribution from the Commercial business stream.

Liquidity

Liquidity balances totalled £14.7bn at 4 April 2006 (2005 - £15.3bn) representing a prudential liquidity ratio of 10.0% (2005 –11.5%). Prudential liquidity has been managed down in the year to improve the efficiency of the balance sheet.

We continue to have no exposure to emerging markets. 96% of our Treasury investment portfolio comprised assets which are rated single A or better.

Wholesale funding

Total wholesale funding decreased by £0.7bn. At 4 April 2006, wholesale balances stood at £29.2bn (2005 - £29.9bn) representing a funding ratio of 26.6% (2005 - 28.6%). This is one of the lowest levels of wholesale funding of organisations of comparable size and provides significant headroom for additional funding in the future in addition to our retail deposit taking activities.

During the year, we successfully executed our inaugural covered bond to further broaden our global investor base. The €2bn issue was the first by a UK building society. We were pleased that Nationwide was recognised for the success of this transaction by being awarded – 'Best Covered Bond Deal of the Year' – by *Euroweek* magazine. The Society has continued to enjoy a strong appetite from wholesale funding investors and has operated successful Medium Term Note programmes in the Dollar, Euro and Sterling markets. During the year, we transacted a £500m five year sterling issue on the EMTN programme with strong demand from our UK investor base. The funding programmes have been updated, so that the EMTN and US MTN programmes are fully compliant with the new EU Prospective Directive.

Our short and medium term credit ratings from the major rating agencies have remained stable during the year. They are as follows:

	Short term	Long term
Fitch IBCA	F1+	AA-
Moody's	P-1	Aa3
S&P	A-1	A+

PERFORMANCE BY INCOME STATEMENT CATEGORY

Profit

A Summary Income Statement on an underlying and pro-forma basis is as follows:

	2006 Underlying £m	2005 Pro-forma £m	Growth %
Net interest income	**1,234.3**	1,167.4	5.7
Other income	**401.4**	351.0	14.4
Total income	**1,635.7**	1,518.4	7.7
Expenses	**991.2**	940.3	5.4
Impairment and other provisions	**105.1**	110.4	(4.8)
Profit before tax	**539.4**	467.7	15.3

The Group has seen a strong growth in underlying profit before tax of 15.3% to £539.4m compared with 2005 pro-forma results. The increase in profit was consistent with our strategy of retaining sufficient profit to allow continued investment in the business and to support its future growth.

On a reported basis, profit before tax has increased 8.8% to £559.2m from £513.9m. However, the reported 2006 profit includes fair value gains from derivatives and hedge accounting (£10.9m) and policyholder tax (£8.9m) and the reported 2005 comparative does not include the impact of some of the IFRS standards (IAS 32, IAS 39 and IFRS 4) that are only applied from 5 April 2005. Management's view is that a comparison of like-for-like 2006 underlying and 2005 pro-forma results provide the best measure of performance. A reconciliation from reported to underlying and pro-forma pre-tax profit is included on page 28.

Net interest income

Net interest income is earned on a combination of our PFS and Commercial products together with interest income from activity within Treasury.

Net interest income increased by 5.7% to £1,234.3m in the year compared with 2005 pro-forma results. Effective margin management throughout the year has maintained the net interest margin at 1.06% a reduction of only 3 basis points from last year.

Throughout the current year we have had a LIBOR denominated net asset exposure of approximately £20bn which benefited from LIBOR being an average of 9 basis points higher than base rate. This differential was 15 basis points lower than last year and its impact represented 2 of the 3 basis points reduction in the net interest margin.

Other income

Other income primarily comprises income earned from the sale and manufacture of insurance products together with administration fees not included within interest margin. During the year underlying other income increased by 14.4% to £401.4m compared with 2005 pro-forma results reflecting our strong general insurance book and continued focus on banking products and personal loans.

Expenses

Total expenses amounted to £991.2m representing an increase of 5.4% over 2005. This increase compares with an increase in assets of 8.1% over the year and a rise in underlying total income of 7.7%. As a result our cost to mean total asset ratio improved for the 17th successive year to 0.85% (2005 – pro-forma 0.88%) and the underlying cost to income ratio, one of our principal measures of efficiency, improved to 60.6% (2005 – pro-forma 61.9%).

Total expenses include increased costs arising from the continued investment in our customer service improvement programme. During the year we opened our fifth UK regional call centre in Wakefield and have continued with our extensive branch refurbishment programme. We have also announced a £100m investment in our people ensuring that an additional 350 employees will be available to serve our customers in our branches and call centres. Whilst increasing costs in the current year, these initiatives will continue to improve our retailing capacity and ensure continued future income growth.

Impairment losses on loans and advances

	2006	2005 Pro-forma	Change
	£m	£m	%
Secured lending	**2.9**	3.5	(17.1)
Unsecured lending	**73.7**	53.1	38.8
Customer redress	**32.1**	46.7	(31.3)
Treasury investments	**(3.6)**	7.1	(150.7)
	105.1	110.4	(4.8)

Our high quality lending policy has again resulted in a minimal impairment charge arising from secured lending.

In line with other lenders we have experienced an increase in the impairment charge for unsecured lending products. Whilst much of the additional charge has arisen from increased volumes in lending, approximately £8m has arisen from a worsening in rates of delinquency. However, our levels of arrears remain significantly lower than industry averages for all unsecured products.

The charge from customer redress primarily relates to the estimated cost of all current and estimated future endowment review claims.

Following an improvement in the credit quality of a particular treasury investment security an impairment gain has been recognised resulting in a £3.6m credit from treasury investments.

Taxation

The effective rate of tax was 29.0% (2005 - 28.6%) compared with the standard rate of corporation tax of 30%. Under IFRS, the tax charge in respect of the life assurance subsidiary is included on an actual basis rather than using the 30% 'gross up' permitted under UK GAAP. Stripping out the life assurance subsidiary, the effective rate of tax was 27.9% (2005 – 29.2%).

Gains from derivatives and hedge accounting

Following the introduction of IFRS all derivatives entered into by Nationwide, which under UK GAAP were held off balance sheet, are now recorded on the balance sheet at fair value with any fair value 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 factors specified in building society legislation. Derivatives are therefore used exclusively to hedge risk exposures and are not used for speculative purposes.

Where effective hedge accounting relationships can be established, the movement in the fair value of the derivative instrument is offset in full or in part by opposite movements in fair value of the underlying asset or liability being hedged. Any ineffectiveness arising from different movements in fair value will trend to zero over time so any recorded ineffectiveness is excluded from underlying results in that accounting period.

In addition, we enter into certain derivative contracts which although efficient economically cannot be included in effective hedge accounting relationships. Consequently, although the implicit interest cost of the underlying instrument and associated derivatives are included in "Net interest income" in the income statement, fair value movements on such derivatives are included in "Gains from derivatives and hedge accounting". These fair value movements are therefore also excluded from underlying results as they will not be realised in cash terms.

Accordingly £10.9m gains from derivatives and hedge accounting has been deducted to arrive at underlying profit. In future periods if net losses are recorded these will similarly be added in calculating underlying profit.

CAPITAL STRUCTURE

Regulatory capital stood at £7.0bn (2005 - £6.6bn) with the Group's total solvency ratio remaining strong at 11.0% (5 April 2005 - 11.1%). The Tier 1 solvency ratio stood at 8.8% (5 April 2005 - 8.8%). Both ratios remain well in excess of the minimum established by the Society's Regulator.

	2006 **£m**	2005 (Note i) £m
Tier 1		
General reserve	**4,825.6**	4,432.7
Permanent interest bearing shares (note ii)	**700.0**	700.0
Pension fund deficit add back (note iii)	**126.0**	113.0
Intangible assets	**(80.5)**	(44.2)
	5,571.1	5,201.5
Tier 2		
Revaluation reserve	**117.0**	103.0
Subordinated debt (note ii)	**1,484.0**	1,446.9
Collective impairment allowance	**145.2**	134.9
	1,746.2	1,684.8
Deductions	**333.7**	309.1
Total capital	**6,983.6**	6,577.2
Risk weighted assets (£bn)	**63.6**	59.1
Tier 1 ratio (%)	**8.8**	8.8
Total capital (%)	**11.0**	11.1
Tier 2 to Tier 1 ratio (%)	**31.3**	32.4

Notes

(i) The comparative information is at 5 April 2005 to incorporate the impact of IAS 32, IAS 39, and IFRS 4.

(ii) Permanent interest bearing shares and subordinated debt exclude any fair value adjustments arising from micro hedging that are included in the consolidated balance sheet.

(iii) 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

Nationwide continued to make progress on its preparations for Basel II. A notable achievement last year was the submission of the waiver application to the FSA in December 2005 within the first wave of applicants. The waiver seeks permission to use the Internal Ratings Based approach to credit risk on all our major portfolios. Given the quality and composition of our business, the Internal Ratings Based approach offers us a potential reduction in our regulatory capital requirement. Basel II is scheduled to commence with effect from 1 January 2007.

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

The majority of Group employees are members of the Nationwide Pension Fund (the Fund). The Group operates both Final Salary and Career Average Revalued Earnings (CARE) defined benefit arrangements.

The valuation of the Fund at 31 March 2006 resulted in a deficit of £283.6m (2005 - £342.6m) using the methodology set out in IAS 19. Our total retirement benefit liability under IAS 19, including other schemes, is £294.2m (2005 - £351.6m). On an actuarial basis the Fund deficit is estimated at around £100m (2005 - £230m). We have been actively managing this deficit and have taken a number of steps to contain and reduce the deficit over time:

- Final Salary arrangements closed to new members since December 2001
- Employee contributions (final salary arrangements) increased from 5% to 6½% (7% from 1 July 2006)
- A series of three special contributions of £50m to be paid in the period 2005/06 - 2006/07
- The trustees have worked closely with their advisors to optimise the investment strategy for the Fund's assets.

We will continue to review our options to manage the Fund in a timely and responsible way such that the deficit is reduced to a neutral position over the next ten years.

OUTLOOK

The economy throughout 2005/6 was relatively benign, with a slight rise in unemployment and weak consumer spending. As a result, interest rates remained low and relatively stable throughout the year. We expect conditions to improve during 2006, although threats to consumer spending such as oil prices and utility bills are expected to result in interest rates continuing to remain relatively low.

We expect UK gross residential lending in 2006/7 to be slightly higher than 2005/6 at around £306 billion. This will be driven mainly by a more buoyant housing purchase market, with remortgage activity largely unchanged.

Throughout the year we have continued to comment on the state of the UK housing market by monthly publication of our House Price Index. Prices in 2005 increased by 3%, and we expect a similar rise in 2006. We expect the strong start to the housing market for 2006/7 to moderate somewhat as high prices and stretched affordability of first-time buyers reduces demand towards historic trends.

Our monthly Consumer Confidence Index was formally launched in August 2005, measuring consumer views on their current and expected future situations. Expectations form an important element in decision making and the results indicate some pessimism about future prospects for consumer spending. This is likely to constrain the growth in both personal loan and credit card markets, where we expect net lending to be slightly lower than 2005/6 at around £9 billion and £4 billion respectively.

Our core markets have seen fierce competition throughout 2005/6. We expect this to continue in 2006/7 as lenders seek to protect their market shares, with a continued squeeze on retail margins. With a strong opening pipeline of business and an excellent track record on retention, we expect to deliver mortgage asset growth in line with our par share of 9%, funded with a cost effective mix of retail and wholesale funds.

Our asset growth will be dominated by good quality prime residential mortgages. Although the extremely benign credit conditions of the last few years are unlikely to continue, we do not expect them to deteriorate significantly.

We will work hard to deliver another set of excellent results with good growth in all of our key markets, further improvement in our efficiency and stringent control over asset quality. In particular we are reviewing a number of initiatives to improve our capacity and capability to reduce overall costs and improve income. This should lead to the delivery of increased profits while maintaining the distribution of substantial pricing benefits to our members.

Graham Beale
Group Finance Director
17 May 2006

CONSOLIDATED INCOME STATEMENT
For the year ended 4 April 2006

	Notes	**Year ended 4 April 2006 £m**	Year ended 4 April 2005 £m
Interest receivable and similar income	3	**5,799.9**	5,211.2
Interest expense and similar charges	4	**4,565.6**	4,019.6
Net interest income		**1,234.3**	1,191.6
Fee and commission income*		**309.3**	384.0
Fee and commission expense*		**(2.9)**	(102.8)
Premiums on insurance contracts		**146.9**	141.5
Fair value gains on insurance assets		**132.0**	55.6
Income from investments		**7.9**	0.3
Other operating income		**25.5**	31.7
Gains from derivatives and hedge accounting		**10.9**	-
Total income		**1,863.9**	1,701.9
Insurance claims and change in liabilities		**208.4**	152.4
Total income net of claims on insurance contracts		**1,655.5**	1,549.5
Administrative expenses	5	**873.7**	833.2
Depreciation and amortisation		**117.5**	107.1
Impairment losses on loans and advances to customers	6	**76.6**	46.6
Provisions for liabilities and charges	7	**32.1**	46.7
Impairment (gains) / losses on investment securities	8	**(3.6)**	2.0
Profit before tax		**559.2**	513.9
Taxation		**162.0**	146.9
Profit after tax		**397.2**	367.0

The results have been prepared under IFRS. In accordance with the transitional rules on first-time adoption of IFRS, the 2005 comparatives do not follow IAS 32 'Financial Instruments: Presentation', IAS 39 'Financial Instruments: Recognition and Measurement', and IFRS 4 'Insurance Contracts' but instead follow applicable UK GAAP requirements.

The main impacts on the comparative income statement, had these standards been applied, would have been:

- Fee and commission income and expenses would have been lower and interest receivable would have increased due to the recognition of certain fees on an effective interest basis spread over the expected life of the asset;*
- Impairment losses on loans and advances to customers would have reflected impairment only where objective evidence of impairment existed; and
- The movement in the fair value of derivatives and hedged risk would have been included within gains/(losses) from derivatives and hedge accounting.

Underlying profit before tax of £539.4m equates to profit before tax of £559.2m adjusted for gains from derivatives and hedge accounting of £10.9m and policyholder tax of £8.9m.

CONSOLIDATED BALANCE SHEET
At 4 April 2006

	Notes	At 4 April 2006 £m	At 4 April 2005 £m
ASSETS			
Cash and balances with the Bank of England		**368.6**	362.5
Loans and advances to banks		**1,364.0**	751.6
Investment securities – available for sale		**13,007.7**	14,145.0
Derivative financial instruments		**541.1**	-
Other financial assets at fair value		**1,918.2**	1,825.2
Fair value adjustment for portfolio hedged risk		**(52.2)**	-
Loans and advances to customers	9	**101,347.6**	92,721.9
Investments in equity shares		**22.0**	14.9
Value in force of life insurance contract business		**125.4**	127.6
Intangible fixed assets		**80.5**	44.2
Property, plant and equipment		**648.0**	620.0
Investment properties		**279.1**	242.6
Accrued income and expenses prepaid		**416.8**	366.7
Deferred tax assets		**110.0**	81.9
Other assets		**409.2**	292.7
Total assets		**120,586.0**	111,596.8
LIABILITIES			
Shares		**80,918.6**	72,594.1
Deposits from banks		**2,697.4**	2,453.3
Other deposits		**3,161.4**	2,802.4
Due to customers		**2,608.3**	2,257.0
Debt securities in issue		**20,767.6**	22,377.6
Fair value adjustment for portfolio hedged risk		**53.9**	-
Derivative financial instruments		**631.3**	-
Insurance contract liabilities		**1,190.5**	1,132.1
Other liabilities		**515.8**	404.9
Provisions for liabilities and charges	7	**40.3**	49.0
Accruals and deferred income		**313.5**	373.4
Subordinated liabilities		**1,446.3**	1,439.8
Subscribed capital		**741.2**	692.2
Current tax liabilities		**174.3**	105.8
Retirement benefit obligations		**294.2**	351.6
Total liabilities		**115,554.6**	107,033.2
General reserve	10	**4,825.6**	4,460.6
Revaluation reserve	11	**117.0**	103.0
Available for sale reserve	12	**88.8**	-
Total equity & liabilities		**120,586.0**	111,596.8

In accordance with the transitional rules on first-time adoption of IFRS, the 2005 comparatives do not follow IAS 32, IAS 39, and IFRS 4 but instead follow applicable UK GAAP requirements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the year ended 4 April 2006

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
Available for sale investments - net fair value gain	**55.3**	-
Property revaluation	**24.1**	24.9
Actuarial (loss)/gain on retirement benefit obligations	**(6.1)**	104.9
Taxation on items through equity	**(23.4)**	(38.2)
Net income recognised directly in equity	**49.9**	91.6
Net profit for the year	**397.2**	367.0
Total recognised income and expense for the year	**447.1**	458.6
Adoption of IFRS 4 and IAS 39	**33.3**	-
Tax on adoption of IFRS 4 and IAS 39	**(12.6)**	-
Adoption of IFRS 4 and IAS 39	**20.7**	-

The results for 2006 have been prepared under IFRS. In accordance with the transitional rules on first-time adoption of IFRS, the 2005 comparatives do not follow IAS 32, IAS 39 and IFRS 4 but instead follow applicable UK GAAP requirements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 4 April 2006

	Notes	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
Cash flows from operating activities			
Profit before tax		**559.2**	513.9
Adjustments for:			
- Non-cash items included in profit before tax	13	**133.1**	211.0
- Changes in operating assets	13	**(10,110.1)**	(12,566.2)
- Changes in operating liabilities	13	**8,519.8**	9,111.3
- Interest paid on subordinated liabilities		**(54.8)**	(46.7)
- Interest paid on subscribed capital		**(46.8)**	(46.9)
- Taxation		**(149.5)**	(103.8)
Net cash flows from operating activities		**(1,149.1)**	(2,927.4)
Cash flows from investing activities			
Purchase of investment securities		**(9,989.9)**	(12,122.9)
Sale and maturity of investment securities		**10,286.5**	15,623.2
Purchase of property, plant and equipment		**(76.9)**	(109.4)
Sale of property, plant and equipment		**1.9**	2.7
Sale of investment properties		**(23.1)**	(8.9)
Purchase of investment properties		**5.0**	9.3
Purchase of intangible fixed assets		**(77.6)**	(17.0)
Net cash flows from investing activities		**125.9**	3,377.0
Cash flows from financing activities			
Issue of subordinated liabilities		**-**	513.9
Net cash flows from financing activities		**-**	513.9
Net (decrease)/increase in cash		**(1,023.2)**	963.5
Cash and cash equivalents at start of year		**4,985.3**	4,013.6
Cash and cash equivalents at end of year	13	**3,962.1**	4,977.1

An explanation of the significant changes between the cash flow statement prepared under UK GAAP and IFRS is included in Note 13.

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

1 Reporting period

These results have been prepared as at 4 April 2006 and show the financial performance for the year from, and including, 5 April 2005 to this date.

2 Basis of preparation

The 2006 preliminary results have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and in effect for the year ending 4 April 2006. The accounting polices adopted for use in the preparation of these 2006 preliminary results and which will be used in preparing the Annual Report and Accounts for the year ending 4 April 2006 were included in the 'Restatement of 2004/05 Financial Results to International Financial Reporting Standards' document published on 22 September 2005. Copies of this document are available at www.nationwide.co.uk/about_nationwide/results_accounts/.

Comparative information for 2005 has been restated to take into account the requirements of all of the standards except for IAS 32, IAS 39 and IFRS 4. In accordance with the requirements of IFRS, these standards have been implemented with effect from 5 April 2005 and the balance sheet at this date has been adjusted accordingly.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

3 Interest receivable and similar income

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
On loans fully secured on residential property	**4,481.8**	3,988.5
On other loans	**743.6**	672.9
On investment securities	**548.4**	574.5
On other liquid assets	**64.8**	92.7
Other interest receivable	**1.1**	7.0
Net expense on financial instruments hedging assets	**(127.8)**	(196.5)
Expected return on pension assets	**88.0**	72.1
	5,799.9	5,211.2

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

4 Interest expense and similar charges

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
On shares	**3,126.0**	2,769.7
On subscribed capital	**47.1**	47.3
On deposits and other borrowings		
– Subordinated liabilities	**64.8**	48.9
– Other	**379.8**	337.9
Debt securities in issue	**830.0**	707.0
Foreign exchange differences	**2.3**	1.3
Net expense on financial instruments hedging liabilities	**35.6**	29.4
Unwind of discount of pension liabilities	**80.0**	78.1
	4,565.6	4,019.6

5 Administrative expenses

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
Employee costs		
– Wages and salaries	**348.7**	341.9
– Social security costs	**29.6**	29.6
– Pension costs – defined benefit plans	**81.1**	76.2
	459.4	447.7
Other administrative expenses	**414.3**	385.5
	873.7	833.2

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

6 Impairment provisions on loans and advances

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
Impairment charge for the period		
Loans fully secured on residential property:		
Collective	**(0.3)**	-
Individual	**1.2**	-
General provision	**-**	-
Specific provision	**-**	(0.3)
	0.9	(0.3)
Loans fully secured on land:		
Collective	**1.8**	-
Individual	**0.2**	-
General provision	**-**	-
Specific provision	**-**	(1.4)
	2.0	(1.4)
Other loans:		
Collective	**73.7**	-
Individual	**-**	-
General provision	**-**	0.2
Specific provision	**-**	48.1
	73.7	48.3
Total	**76.6**	46.6
Impairment provision at the end of the period		
Loans fully secured on residential property:		
Collective	**30.1**	-
Individual	**1.8**	-
General provision	**-**	99.9
Specific provision	**-**	5.9
	31.9	105.8
Loans fully secured on land:		
Collective	**23.2**	-
Individual	**9.6**	-
General provision	**-**	60.0
Specific provision	**-**	7.1
	32.8	67.1
Other loans:		
Collective	**91.9**	-
Individual	**-**	-
General provision	**-**	4.4
Specific provision	**-**	50.0
	91.9	54.4
Total	**156.6**	227.3

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

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

6 Impairment provisions on loans and advances (continued)

Following the adoption of IAS 39 at 5 April 2005, the existing general and specific provisions under UK GAAP were released to the general reserve. At the same time the collective provisions of £134.9m and individual provisions of £10.1m were set up in accordance with IAS 39, with an adjustment made to the general reserve.

7 Provisions for liabilities and charges

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
At 5 April 2005	**49.0**	42.8
Provisions utilised	**(40.8)**	(40.5)
Charge for the year	**32.1**	46.7
At 4 April 2006	**40.3**	49.0

8 Impairment (gains) / losses on investment securities

Following the adoption of IAS 39 at 5 April 2005, the existing general provision of £15.7m and specific provision of £14.1m under UK GAAP were released to the general reserve. At the same time an impairment loss of £14.1m was recognised in the general reserve. During the year an impairment gain of £3.6m (2005 - loss of £2.0m, pro-forma loss of £7.1m) has been recognised in the income statement as a result of an improvement in the credit quality of a particular treasury investment security. As at 4 April 2006 a cumulative impairment loss of £10.5m has been charged to the general reserve.

9 Loans and advances to customers

	At 4 April 2006 £m	At 4 April 2005 £m
Loans fully secured on residential property	**89,587.4**	82,303.2
Loans fully secured on land	**8,050.2**	7,300.5
Other loans	**3,592.3**	3,118.2
	101,229.9	92,721.9
Fair value adjustment for micro hedged risk	**117.7**	-
	101,347.6	92,721.9

Loans fully secured on land include £578.7m (2005 - £719.4m) of loans which are fully secured on residential property but are classified as ‘loans fully secured on land’ in accordance with the Building Societies Act 1997.

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

10 General reserve

Movements in general reserve were as follows:

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
At 4 April 2005	**4,460.6**	
Effect of adoption of IFRS 4 and IFRS 39		
♦ Effective interest basis	**(8.7)**	
♦ Available for sale assets	**16.0**	
♦ Derivatives and hedging	**(94.4)**	
♦ Derecognition of financial liabilities	**(33.1)**	
♦ Insurance	**(3.3)**	
♦ Loan impairment and suspended interest	**86.0**	
♦ Tax	**9.6**	
Brought forward at 5 April 2005	**4,432.7**	4,019.1
Profit for the year	**397.2**	367.0
Actuarial (loss)/gain on retirement benefit obligations	**(6.1)**	104.9
Taxation on actuarial (loss)/gain on retirement benefit obligations	**1.8**	(31.4)
Transfer from the revaluation reserve	**-**	1.0
At 4 April 2006	**4,825.6**	4,460.6

11 Revaluation reserve

Movements in the revaluation reserve were as follows:

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
Brought forward at 5 April	**103.0**	85.9
Revaluation increase on land and buildings	**24.1**	24.9
(Increase) in deferred tax liability on revaluation of land and buildings	**(10.1)**	(6.8)
Transfer to the general reserve	**-**	(1.0)
At 4 April 2006	**117.0**	103.0

12 Available for sale reserve

Movements in the available for sale reserve were as follows:

	Year ended 4 April 2006 £m
At 4 April 2005	**-**
Available for sale assets on adoption of IAS 39	**70.8**
Tax on adoption of IAS 39	**(22.2)**
At 5 April 2005	**48.6**
Net gains from changes in fair value	**59.8**
Amounts transferred to income statement on disposal and impairment	**(4.5)**
(Increase) in tax liability	**(15.1)**
At 4 April 2006	**88.8**

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

13 Notes to the cash flow statement

(i) Cash flows from operating activities

	Year ended 4 April 2006 £m	Year Ended 4 April 2005 £m
Non-cash items included in profit before tax		
Net (decrease)/increase in impairment provisions	**(70.8)**	5.4
Impairment (gains)/losses on investment securities	**(3.6)**	2.0
Depreciation and amortisation	**117.5**	107.1
(Profit) on sale of land and buildings	**(1.6)**	(2.1)
Interest on subordinated liabilities	**64.8**	48.9
Interest on subscribed capital	**47.1**	47.3
Gain on the revaluation of property plant and equipment	**(3.5)**	(0.4)
(Gain)/loss on revaluation of investment properties	**(5.9)**	2.8
(Gains) from derivatives and hedge accounting	**(10.9)**	-
	133.1	211.0
Changes in operating assets		
Loans and advances to banks	**(21.5)**	(16.2)
Investment securities	**(409.0)**	(177.2)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**(595.7)**	-
Other financial instruments at fair value	**(463.5)**	(116.0)
Loans and advances to customers	**(8,437.2)**	(12,021.2)
Other operating assets	**(183.2)**	(235.6)
	(10,110.1)	(12,566.2)
Changes in operating liabilities		
Shares	**8,324.5**	6,650.2
Deposits from banks, customers and other	**954.4**	(343.5)
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	**685.2**	-
Debt securities in issue	**(1,610.0)**	2,671.1
Insurance contract liabilities	**58.4**	25.2
Retirement benefit obligations	**(57.4)**	10.4
Other operating liabilities	**164.7**	97.9
Cash generated from operations	**8,519.8**	9,111.3

(ii) Cash and cash equivalents

	Year ended 4 April 2006 £m	Year ended 4 April 2005 £m
Cash and balances with the Bank of England	**368.6**	362.5
Loans and advances to other banks repayable in 3 months or less *	**1,460.0**	1,239.6
Investment securities with a maturity period of 3 months or less	**2,133.5**	3,375.0
	3,962.1	4,977.1

* The loans and advances to banks cash equivalents include amounts classified as ‘Other financial assets at fair value’ on the balance sheet.

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

13 Notes to the cash flow statement (continued)

On adoption of IAS 39 certain components of the cash equivalents were re-stated from cost to fair value, this resulted in a net increase of cash and cash equivalents at 5 April 2005 by £8.2m from £4,977.1m to £4,985.3m.

The group is required to maintain balances with the Bank of England which, at 4 April 2006, amounted to £138.8m (2005 - £125.9m). 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.

Explanation of the significant adjustments to the cash flow statement prepared under IFRS

Under IFRS the cash flow statement is prepared to reconcile the movement in cash and cash equivalents, under UK GAAP only the movement in cash was reconciled. Cash, under IFRS and UK GAAP, comprises cash in hand and demand deposits. In addition cash equivalents comprise balances of highly liquid investments with a maturity of three months or less from the date of acquisition. A number of debt securities included as liquid resources under UK GAAP and some loans and advances to banks are included as cash equivalents since they have a maturity period of three months or less from the date of acquisition or issue.

ADDITIONAL INFORMATION

(a) Financial performance summary – underlying and pro-forma basis

Profit before tax shown on a reported basis and on an underlying basis for 2006 and on a reported and pro-forma basis for 2005 are set out as follows:

	2006		
	As reported £m	**Adjustments £m**	**Underlying £m**
Net interest income	**1,234.3**	**-**	**1,234.3**
Other income net of claims on insurance contracts	**410.3**	**(8.9)**	**401.4**
Gain from derivatives and hedge accounting	**10.9**	**(10.9)**	**-**
Total income net of claims on insurance contracts	**1,655.5**	**(19.8)**	**1,635.7**
Administrative expenses	**873.7**	**-**	**873.7**
Depreciation and amortisation	**117.5**	**-**	**117.5**
Impairment losses on loans and advances to customers	**76.6**	**-**	**76.6**
Provisions for liabilities and charges	**32.1**	**-**	**32.1**
Impairment gains on investment securities	**(3.6)**	**-**	**(3.6)**
Profit before tax	**559.2**	**(19.8)**	**539.4**

	2005		
	As reported £m	Adjustments £m	Pro-forma £m
Net interest income	1,191.6	(24.2)	1,167.4
Other income net of claims on insurance contracts	357.9	(6.9)	351.0
Total income net of claims on insurance contracts	1,549.5	(31.1)	1,518.4
Administrative expenses	833.2	-	833.2
Depreciation and amortisation	107.1	-	107.1
Impairment losses on loans and advances to customers	46.6	10.0	56.6
Provisions for liabilities and charges	46.7	-	46.7
Impairment losses on investment securities	2.0	5.1	7.1
Profit before tax	513.9	(46.2)	467.7

The adjustments can be analysed as follows:	**2006 £m**	2005 £m
Implementation of IAS 39 and IFRS 4:		
• Effective interest basis		(35.3)
• Impairment losses on investment securities		(5.1)
• Insurance		0.1
• Impairment losses on loans and advances to customers		(10.0)
	-	(50.3)
Gains from derivatives and hedge accounting	**(10.9)**	-
Policyholder tax (see below)	**(8.9)**	4.1
	(19.8)	(46.2)

ADDITIONAL INFORMATION

As a result of the IFRS requirement to consolidation the Group's life business on a line by line basis, the income statement includes amounts attributable to policyholders which affect profit before tax, the most significant of which is policyholder tax. Under IFRS tax on policyholder investment returns is included in the Group's tax charge rather than being offset against the related income. In order to provide a clearer representation of the performance of the Group, these items have been offset in the underlying results.

Based on the 2006 underlying and 2005 pro-forma results, profit before tax increased by 15.3% to £539.4m (2005 - £467.7m). Profit before tax increased by 8.8% to £559.2m (2005 - £513.9m).

Total assets increased by 8.1% over the year. This would not be materially different using an underlying and pro-forma basis.

(b) Business stream financial performance summary – underlying and pro-forma basis

	2006			
	Personal financial services £m	**Commercial £m**	**Group £m**	**Total £m**
Net interest income	**1,116.0**	**898.3**	**(780.0)**	**1,234.3**
Other income net of claims on insurance contracts	**351.8**	**37.3**	**12.3**	**401.4**
External revenues	**1,467.8**	**935.6**	**(767.7)**	**1,635.7**
Revenues from other segments	**(194.7)**	**(698.7)**	**893.4**	**-**
Total revenues	**1,273.1**	**236.9**	**125.7**	**1,635.7**
Administrative expenses	**783.9**	**39.8**	**50.0**	**873.7**
Depreciation and amortisation	**112.3**	**3.8**	**1.4**	**117.5**
Impairment losses on loans and advances to customers	**73.9**	**2.7**	**-**	**76.6**
Provisions for liabilities and charges	**32.1**	**-**	**-**	**32.1**
Impairment gains on investment securities	**-**	**(3.6)**	**-**	**(3.6)**
Contribution	**270.9**	**194.2**	**74.3**	**539.4**

	2005			
	Personal financial services £m	Commercial £m	Group £m	Total £m
Net interest income	939.3	872.8	(644.7)	1,167.4
Other income net of claims on insurance contracts	318.7	22.9	9.4	351.0
External revenues	1,258.0	895.7	(635.3)	1,518.4
Revenues from other segments	(78.0)	(686.1)	764.1	-
Total revenues	1,180.0	209.6	128.8	1,518.4
Administrative expenses	744.1	38.6	50.5	833.2
Depreciation and amortisation	100.5	3.8	2.8	107.1
Impairment losses on loans and advances to customers	56.8	(0.2)	-	56.6
Provisions for liabilities and charges	46.7	-	-	46.7
Impairment losses on investment securities		7.1	-	7.1
Contribution	231.9	160.3	75.5	467.7

OTHER INFORMATION

The financial information set out in this announcement which was approved by the Board on 17th May 2006, does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The financial information for the year ended 4 April 2005 has been restated and prepared under IFRS having been first extracted from the Annual Accounts prepared on a UK GAAP basis for that year. The Annual Accounts for the year ended 4 April 2005 prepared under UK GAAP 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 2006 will be lodged with the Financial Services Authority and the Mutual Societies Registration following publication.

This announcement will also be available on the Nationwide Building Society website, www.nationwide.co.uk, from 18 May 2006.

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