

**NATIONWIDE BUILDING SOCIETY**

**Restatement of 2004/05 Financial Results to  
International Financial Reporting Standards**



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## Forward looking statements

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This report contains certain forward looking statements with respect to the financial condition and results of operations of the Group. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. Nothing in the announcement should be construed as a profit forecast.

### 1. Introduction

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With effect from 5 April 2005 Nationwide Building Society and its subsidiaries (the 'Group') is required to prepare its Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union ('EU'). Previously the Group has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Principles ('UK GAAP').

The Group's first results prepared under IFRS will be published in the Interim Results Announcement for the period ending 30 September 2005<sup>1</sup> ('Interim Report 2005/06'). The Group's first full year set of Financial Statements prepared under IFRS will be published in the Annual Report and Accounts for the year ending 4 April 2006 ('Annual Reports and Accounts 2005/06').

This document summarises the principal effects of IFRS on the opening position for the current financial year and on the statutory comparative financial information for 2004/05 that will appear in the Group's Interim Report 2005/06 and its Annual Report and Accounts 2005/06. The Group's main Financial Statements have been restated including:

- Income and expenditure accounts for the year ended 4 April 2005 and the 6 months ended 4 October 2004
- Balance sheets as at 4 April 2005, 5 April 2005, 4 October 2004 and 5 April 2004 and
- Statements of recognised income & expenditure for the year ended 4 April 2005 and the 6 months ended 4 October 2004

In addition a reconciliation of the differences between UK GAAP and IFRS for each of the income and expenditure accounts and balance sheets is included. Provisional accounting policies that the Group proposes to adopt in the preparation of its 2005/06 half-year and full-year results are also provided.

IFRS is subject to on-going review and endorsement by the EU or possible amendment by interpretative guidance from the International Accounting Standards Board (IASB) and is therefore subject to change. In addition practice may develop with regard to interpretation and application of the standards. We will update our restated information for any such changes should they occur.

Subject to the potential changes noted above, the restated financial information included in this document is expected to form the basis for comparatives when reporting financial results for 2005/06.

Most of the changes under IFRS are applied retrospectively from 5 April 2004 and are fully reflected in the restated Financial Statements for the 2004/05 accounting period. However, the standards that apply to financial instruments, IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39: 'Financial Instruments: Recognition and Measurement', and IFRS 4 'Insurance Contracts' are being implemented from 5 April 2005 as permitted under the transition rules. Other transitional arrangements are set out in Section 4.

To facilitate comparison and understanding of future results, in addition to the statutory comparatives for the income and expenditure accounts for the year ended 4 April 2005 and the 6 months ended 4 October 2004, pro-forma comparatives have been prepared. These show how the results would have looked, assuming the full application of IAS 32 and IFRS 4 and the application of IAS 39 excluding fair value accounting volatility. In particular the pro-forma results illustrate the impacts of the changes to effective yield recognition of fees/costs and the more stringent evidence testing required for raising asset impairment provisions. We have not shown the full impact from all the IAS 39 accounting rules in the pro forma income and expenditure accounts as hedges and financial assets to be fair valued were only designated and documented from 5 April 2005.

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<sup>1</sup> The Group is changing its interim reporting date from the 4 October to 30 September. Coinciding this date with a calendar month end reduces the complexity and associated costs that would otherwise be incurred on transition to IFRS. The 4 April year-end date remains unchanged.

## 2. Financial highlights

The most significant effects of the transition to IFRS on the Group's financial information are caused by differences in the accounting treatments of financial instruments, retirement benefits, the recognition on an effective yield basis of revenue and costs and the presentation on consolidation of Nationwide Life, a life assurance subsidiary. The transition to IFRS does not change the Group's net cash flows, the underlying economics or the risks of the business.

Details of adjustments are set out in Appendix 2 and 3 in respect of both the income and expenditure account and balance sheet.

### Effect of IFRS on the consolidated income and expenditure account

	Year ended 4 April 2005			6 months ended 4 October 2004		
	UK GAAP	Statutory IFRS	Pro forma IFRS	UK GAAP	Statutory IFRS	Pro forma IFRS
	£m	£m	£m	£m	£m	£m
Profit before tax	517.1	513.9	463.6	244.9	241.4	223.7
Profit for the period	365.3	367.0	331.3	172.4	171.2	158.9
	%	%	%	%	%	%
Net interest margin	1.12	1.12	1.09	1.16	1.15	1.13
Cost to income ratio	59.9	60.7	62.1	60.8	61.7	62.4
Cost to mean total assets	0.86	0.88	0.88	0.86	0.88	0.88
<b>Appendix</b>	<b>2.1</b>	<b>2.1</b>	<b>3.1</b>	<b>2.2</b>	<b>2.2</b>	<b>3.2</b>

As stated above, transitional arrangements have been implemented in preparing the above statutory results with IAS 32, IAS 39 and IFRS 4 applied prospectively from 5 April 2005. The impacts of the full application of IAS 32 and IFRS 4 and the application of IAS 39 excluding fair value accounting volatility have been incorporated in the pro-forma results above.

The impact of IFRS on the 2004/05 profit for the period, without the implementation of IAS 32, IAS 39 and IFRS 4, is not material, although there are some changes to the ratios mainly arising from the requirement to consolidate our life assurance business on a line by line basis.

From 2005/06 the income and expenditure account will be affected by the implementation of IAS 32, IAS 39 and IFRS 4. The impact of IFRS 4 is expected to be minimal. The recognition of fees and costs relating to mortgages, including early redemption penalty interest, on an IFRS effective yield basis in 2005/06 is anticipated to result in approximately £65m reduction (2004/05: £35m reduction) to profit before tax when comparing to a UK GAAP recognition policy where such items were mainly reported in the period in which they were received or paid.

The above effective yield impact is the result of both anticipated 2005/06 net fees receivable being deferred into future years, compounded by prior year net costs being recapitalised under IFRS and charged during the period. For the six years prior to 2005/06 the Group had an excess of effective yield relevant costs over income i.e. new business origination costs exceeded fee income, largely reflecting the low fee policy adopted by the Society. This policy was subsequently aligned to the market practice in respect of charging reservation fees and/or application fees for fixed and tracker mortgage products, but these fees were positioned, on average, to be lower than those of its competitors. As a consequence of this alignment, when comparing IFRS to UK GAAP, 2004/05 and 2005/06 total income will be reduced by the recognition of costs brought forward from previous periods, compounded by the deferral of current year fees to future years. Whilst impacting 2004/05, the transition is anticipated to have the most pronounced effect in 2005/06. Over the life of a product the total profit recognised is unchanged.

The accounting rules for fair valuing derivatives are expected to cause some degree of volatility in future earnings. The Group will endeavour to minimise volatility by applying hedge accounting and will ensure that comparable underlying business performance and trends are clearly identifiable on an ongoing basis.

**Effect of IFRS on the consolidated balance sheet**

	As at 5 April 2005		As at 4 April 2005		As at 4 October 2004	
	IFRS	UK GAAP	IFRS	UK GAAP	IFRS	
	£m	£m	£m	£m	£m	£m
Total assets	112,086.1	111,591.6	111,596.8	107,842.2	108,010.9	
Total reserves	4,584.3	4,938.9	4,563.6	4,725.4	4,273.2	
	%	%	%	%	%	
Growth in assets	N/A	10.0	9.9	6.3	6.3	
Liquid assets ratio	15.0	14.9	14.9	15.8	16.6	
Funding limit	29.1	28.6	29.2	29.6	30.1	
Lending limit	12.4	12.2	12.2	12.6	12.6	
<b>Appendix</b>	<b>2.4</b>	<b>2.3</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	

IFRS does not significantly change the total assets, but as at 5 April 2005 total reserves have reduced by £354.6m in moving from UK GAAP to IFRS, primarily as a result of the recognition of the Group's pension fund deficit on the balance sheet.

However there are differences between the UK GAAP balance sheet as at 4 April 2005 and the IFRS balance sheet as at 5 April 2005 in terms of categorisation and the magnitude of balances recorded, primarily as a result of the application of IAS 32 and IAS 39 and the requirement to consolidate the life assurance business on a line by line basis.

**Effect of IFRS on the capital ratios**

The regulatory capital ratios, set out in the table below, have been calculated in accordance with the FSA's policy statement 05/5: 'Implications of a changing accounting framework'.

These incorporate the impacts of adopting IAS 32, IAS 39 and IFRS 4 on 5 April 2005. The capital ratios for prior periods have not been restated as these remain as previously reported.

	Tier 1 Capital		Total Capital	
	£m	%	£m	%
<b>As reported under UK GAAP at 4 April 2005</b>	<b>5,410.9</b>	<b>9.1</b>	<b>6,938.8</b>	<b>11.7</b>
Impact of IFRS on reserves:				
• General reserve	(278.2)		(278.2)	
• Revaluation reserve	-		(125.0)	
• AFS reserve	48.6		48.6	
<b>Sub Total</b>	<b>5,181.3</b>		<b>6,584.2</b>	
Regulatory adjustments:				
• Intangibles	(44.2)		(44.2)	
• Loan impairment provision	-		(29.6)	
• Pension fund	113.0		113.0	
• AFS reserve	(48.6)		(48.6)	
<b>As reported under IFRS at 5 April 2005</b>	<b>5,201.5</b>	<b>8.8</b>	<b>6,574.8</b>	<b>11.1</b>

The total capital ratio has reduced by 0.6% with around half of this reduction due to recognition of the Group's pension fund deficit with the remainder due to other impacts, including the effect of fair valuing financial assets offset by associated hedge accounting and reductions in loan impairment provisions. However both the total capital and Tier 1 capital (which has reduced by only 0.3%) remain strong. There has been no material impact on risk weighted assets.

### **3. Explanation of IFRS adjustments**

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Reconciliations of the income & expenditure accounts, balance sheets and reserves prepared under UK GAAP and IFRS are included in Appendix 2 and 3. Explanation of IFRS adjustments are as follows:

#### **3.1 Accounting policy changes effective from 5 April 2004**

The following details the significant changes in accounting policies as they impact the statutory IFRS restatement for 2004/05.

##### **Retirement benefits (IAS 19)**

IFRS requires that the net deficit in respect of defined benefit plans is recognised in the balance sheet. We have also adopted the amendment to IAS 19 "Employee Benefits" issued in December 2004, which is expected to be adopted by the EU before the year end and will allow actuarial gains and losses to be recognised immediately in reserves.

In contrast, the net deficit in respect of defined benefit plans was not required to be recognised under UK GAAP prior to 5 April 2005.

The impact on general reserves at 5 April 2005 is a reduction, before and after tax, of £444.3m and £311.2m respectively (5 April 2004: £551.4m and £386.1m), mainly comprising of a deficit on the Nationwide Pension Fund of £341.0m (5 April 2004: £431.0m) and the write off of a prepayment carried under UK GAAP standard SSAP 24 'Accounting for Pension Costs' of £96.0m (5 April 2004: £108.3m).

The impact on the income and expenditure account is a reduction of £8.3m (for the six months ended 4 October 2004: £3.9m) in the pension charge for the year ended 4 April 2005, partly offset by an interest charge of £6.0m (for the six months ended 4 October 2004: £4.0m).

##### **Fixed assets and intangibles (IAS 16 and IAS 38)**

Under UK GAAP depreciation was not charged on branches and other non-specialised buildings on the grounds that any charge would have been immaterial because of the length of the estimated useful economic lives. Nationwide continually repair and improve these buildings maintaining the length of the estimated useful economic life. Under IFRS, repair and maintenance does not negate the need to depreciate, therefore depreciation will be charged on all buildings with the exception of investment properties.

The impact on the income and expenditure account for 2004/05 is an increase in the depreciation charge of £2.0m.

IAS 38 'Intangible Assets' requires software development costs to be capitalised where they meet certain criteria. Previously, all in-house development costs were expensed. In addition, software costs are now included in intangible assets rather than tangible fixed assets ("Property, plant & equipment" under IFRS).

The impact on the income and expenditure account for 2004/05 is a decrease in staff costs of £9.3m and an increase in the depreciation charge of £5.6m.

The impact on the balance sheet as at 4 April 2005 is a reclassification of software costs of £31.6m from property, plant & equipment to intangible fixed assets and a further increase of £12.6m in intangible fixed assets representing the capitalisation of software development costs previously written off.

IAS 16 'Property, Plant and Equipment' requires that all cumulative losses on revalued property are dealt with in the income and expenditure account. Under UK GAAP, cumulative gains and losses on revalued property – unless the result of impairment – were dealt with in the revaluation reserve.

The impact on the income and expenditure account for 2004/05 is an increase in other income of £0.4m. At 4 April 2005 there is an increase of £13.5m in the revaluation reserve primarily representing the transfer of cumulative losses on certain Group properties to the general reserve.

#### **Investment properties (IAS 40)**

Under IFRS gains and losses arising on the revaluation of investment properties to their fair values are included in the income and expenditure account. Under UK GAAP, gains and losses on the revaluation of investment properties were included in the revaluation reserve.

The impact on the income and expenditure account for 2004/05 is a reduction of £2.8m in other operating income, representing net valuation losses in the year on investment properties previously included in the revaluation reserve.

The impact on general reserves at 4 April 2005 is a transfer of £102.2m from the revaluation reserve. This represents the net surplus of the fair values over their historic cost.

#### **Consolidation of life assurance business (IAS 27)**

In line with other retail banking groups, under UK GAAP we used the embedded value method of accounting for our life assurance business. Under this method, changes in the value of the life insurance business were included in other operating income, and long term life insurance assets and liabilities were classified separately on the balance sheet.

IFRS requires a line by line consolidation of all income and expenditure and balance sheet items. Therefore, all life insurance items are included in the appropriate lines in the IFRS consolidated accounts. This is a major presentational change, although there is no significant impact on the profitability of the life business. The changes to each line item affected are shown in Appendix 2.

#### **Taxation (IAS 12)**

Under IAS 12, deferred tax assets and liabilities are generally recognised in respect of all temporary differences, rather than just timing differences, subject to the assessment of the recoverability of deferred tax assets. This amendment has had no impact on reserves as at 4 April 2005.

Additional deferred tax liabilities are required in respect of the revaluation of properties, the recognition of which was specifically prohibited under UK GAAP. The impact on general reserves as at 4 April 2005 is a decrease of £24.6m and the impact on the revaluation reserve is a decrease of £36.3m.

All other adjustments made under IFRS have been tax effected where appropriate, resulting in an increase in total reserves of £74.5m at 4 April 2005.

Under IAS 12 the tax charges in respect of the Life Assurance subsidiary are included on an actual basis rather than using the 30% 'gross up' permitted under UK GAAP. Due to life assurance companies paying tax on policyholder returns as well as tax on profits this is likely to produce upward pressure on the Group's effective tax rate.

### **3.2 Accounting policy changes effective from 5 April 2005**

As explained in section 4 'Basis of Preparation' the Group has opted to apply IAS 32, IAS 39 and IFRS 4 from 5 April 2005 without retrospective restatement in 2004/05. The following details the main impacts of IFRS resulting from these standards. These are reflected in the Group balance sheet at 5 April 2005 shown in Appendix 2.4 and in the pro forma income and expenditure accounts for the year ended 4 April 2005 and the 6 months ended 4 October 2004 shown in Appendix 3. However we have not shown the full impact from all the IAS 39 accounting rules in the pro forma income and expenditure accounts as hedges and financial assets to be fair valued were only designated and documented from 5 April 2005.

**Effective yield (IAS 39)**

Interest income and expense together with fees and costs paid/received throughout the expected life of a loan that are considered direct and incremental to a loan relationship are recognised on an effective yield basis. Under UK GAAP the majority of these would have been recognised in the period they were charged/incurred.

The impact of this change is to spread the timing of the recognition of these fees and costs over a number of years - the expected life cycle of the loans and mortgages to which they relate.

The opening IFRS adjustment at the 5 April 2005 is made up of the total amount of fees, costs and early redemption penalty interest that would have been deferred had the Group always recognised relevant income and costs on an effective yield basis. The impact in general reserves at 5 April 2005 is a reduction of £8.7m.

Due to the profile of income on mortgages, the transition to IFRS will, in early years, result in lower profits reported under IFRS when comparing to a UK GAAP recognition policy. Whilst impacting 2004/05, it is anticipated to have the most pronounced effect in 2005/06.

**Available for sale assets (IAS 39)**

Under UK GAAP investment securities (except those held to back insurance liabilities) were measured at amortised cost less provisions for any diminution in value. Under IFRS, investment securities (except those held to back insurance liabilities) have been designated as available for sale assets ('AFS') and are included at their fair values at 5 April 2005. Investments in equity shares have been similarly reclassified to AFS assets.

Under IAS 39, provisions against investment securities are made where there is objective evidence of impairment at the balance sheet date. Consequently, provisions previously made under UK GAAP have been released and replaced by an impairment provision for assets where such objective evidence exists.

The overall impact of the measurement changes is an increase in reserves of £86.8m at 5 April 2005.

Future movements in the fair values of available for sale assets will be included in the available for sale reserve. On sale of investment securities, the gain or loss measured against the original cost is reflected in the income and expenditure account.

**Derivatives and hedging (IAS 39)**

The principal derivatives used by the Group in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency interest rate swaps, foreign exchange contracts and credit derivatives. Derivatives are used to hedge Group balance sheet exposures arising from fixed and capped rate mortgage lending and fixed rate savings products, funding and investment activities in foreign currencies, fixed rate instruments and instruments with embedded options.

UK GAAP permitted derivatives that had been designated as being held for hedging purposes to be accounted for in a manner similar to the underlying hedged item.

Whilst the introduction of IFRS has had no impact on the Group's economic hedging strategy, IAS 39 significantly changes hedge accounting by specifying the accounting methods and introducing stringent conditions on when hedge accounting can be applied. This makes it more difficult to establish and maintain hedge accounting. Where hedge accounting is not applicable, earnings volatility may result.

Under IFRS, derivatives are required to be carried at fair value on the balance sheet with movements in fair value taken to the income and expenditure account. To manage the accounting volatility that would otherwise arise, the Group uses fair value hedge accounting, which matches changes in the fair value of the hedged risk with changes in the fair value of the related derivatives within the income and expenditure account to reduce the volatility that would otherwise occur. However some degree of earnings volatility is expected to remain and we will endeavour to ensure that comparable underlying business performance and trends are clearly identifiable on an ongoing basis.

An adjustment has been made at 5 April 2005 to measure all derivatives at fair value and to reflect the establishment as at that date of IAS 39 compliant hedge relationships. The overall effect has been to reduce general reserves by £94.4m.

**Recognition of financial liabilities (IAS 39)**

IAS 39 does not permit de-recognition of financial liabilities until the legal obligation has been extinguished. Certain liabilities, which were considered to be inactive and had therefore previously been de-recognised under UK GAAP, have been reinstated in the balance sheet at 5 April 2005.

The impact on general reserves is a decrease of £33.1m at 5 April 2005.

**Loan impairment (IAS 39)**

Under IAS 39 objective evidence that events have occurred by the balance sheet date which indicate that the assets in question are impaired is required to enable a loan loss provision to be raised. Where such evidence exists the provision is calculated, either individually or on pools of assets with similar credit risk characteristics, as the difference between the asset's carrying value and the discounted value of future cash flows.

The more stringent evidence testing required under IFRS, partially offset by the impact of discounting future cash flows, has the net impact of decreasing the carrying value of loan provisions compared to UK GAAP at 5 April 2005 by £86.0m.

**Financial Instruments: Disclosure and Presentation (IAS 32)**

IAS 32 has determined the disclosure and presentation of the financial instruments; however it has not resulted in a net impact on the reserves as at 5 April 2005.

**Taxation (IAS 12)**

Adjustments made as a result of accounting policy changes effective from 5 April 2005 have been tax effected where appropriate, resulting in a decrease in reserves of £13.6m at 5 April 2005.

**4. Basis of preparation**


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The Directors are responsible for the restated financial information contained in this document, which has been prepared on the basis of the provisional accounting policies set out in Appendix 5 and in accordance with IFRS standards which have been, or are expected to be, endorsed by the EU and in effect for the year ending 4 April 2006 to the extent that IFRS applies to the comparatives under transitional arrangements.

IFRS is subject to on-going review and endorsement by the EU or possible amendment by interpretative guidance from the International Accounting Standards Board (IASB) and is therefore subject to change. In addition practice may develop with regard to interpretation and application of the standards. We will update our restated information for any such changes should they occur.

Subject to the potential changes noted above, the restated financial information included in this document is expected to form the basis for comparatives when reporting financial results for 2005/06.

The restated financial information included in this document 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 2005 have been filed with the Financial Services Authority and Registry of Friendly Societies in England and Wales. The Auditor's report on the Annual Accounts was unqualified.

**Transitional arrangements: IAS 32, IAS 39 and IFRS 4**

In accordance with the transitional provisions set out in IFRS 1 'First-time Adoption of International Financial Reporting Standards' the Group has applied the IFRS expected to be in force as at 4 April 2006 in its financial reporting with effect from 5 April 2004, with the exception of IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts'. The Group has decided to take advantage of the IFRS 1 provisions that allow these

standards to be applied from 5 April 2005. Accordingly they are reflected through adjustments of the opening balance sheet as at 5 April 2005 rather than in the 2004/05 comparatives. Therefore, in the IFRS statutory 2004/05 restatement:

- i) financial instruments are included using the measurement basis and the disclosure requirements of UK GAAP.
- ii) insurance contracts are included using the measurement basis of UK GAAP but are presented on a line by line consolidation basis as required by IAS 27 'Consolidated and Separate Financial Statements' (previously only the value of the long term life assurance business and its change in value were consolidated).

The derecognition requirements of IAS 39 have been applied to transactions fully retrospectively.

To facilitate comparison and understanding of future results, in addition to the statutory comparatives for the income and expenditure accounts for the year ended 4 April 2005 and the 6 months ended 4 October 2004, pro-forma comparatives have been prepared. These show how the results would have looked, assuming the full application of IAS 32 and IFRS 4 and the application of IAS 39 excluding fair value accounting volatility. In particular the pro-forma results illustrate the impacts of the changes to effective yield recognition of fees/costs and the more stringent evidence testing required for raising asset impairment provisions. We have not shown the full impact from all the IAS 39 accounting rules as hedges and financial assets to be fair valued were only designated and documented from 5 April 2005.

**Transitional arrangements: other**

In addition to exempting companies from the requirement to restate comparatives under IAS 32, IAS 39 and IFRS 4, IFRS 1 grants certain exemptions from the full requirements of IFRS to companies adopting IFRS for the first time. The Group has elected to use the following exemptions in arriving at the 5 April 2004 opening balances for the purposes of these financial statements:

- (a) Business combinations

The Group has opted to apply IFRS 3 'Business Combinations' prospectively from 5 April 2004. Consequently, goodwill previously amortised has not been restated in the opening IFRS balance sheet at 5 April 2004.

- (b) Employee benefits

The Group has elected to apply IAS 19 'Employee Benefits' prospectively. As at 5 April 2004, all cumulative actuarial gains and losses on the Group's retirement benefit schemes have been recognised.

**Restated Financial Information**  
**Consolidated Income & Expenditure Accounts**

	Year ended 04.04.05		(unaudited) 6 months ended 04.10.04	
	*IFRS	UK GAAP	*IFRS	UK GAAP
	£m	£m	£m	£m
Interest receivable and similar income	5,139.1	5,094.8	2,436.8	2,414.5
Interest expense and similar charges	3,947.5	3,905.6	1,831.9	1,810.1
<b>Net interest income</b>	<b>1,191.6</b>	1,189.2	<b>604.9</b>	604.4
Fees and commissions receivable	384.0	377.4	172.8	169.5
Fees and commissions payable	102.8	109.1	63.2	66.3
<b>Net fees and commissions income</b>	<b>281.2</b>	268.3	<b>109.6</b>	103.2
Income from other financial assets at fair value	55.6	-	10.6	-
Income from investments	0.3	0.3	0.2	0.2
Net premiums from insurance	155.6	-	84.4	-
Other operating income	17.6	69.9	6.4	30.0
<b>Operating income</b>	<b>1,701.9</b>	1,527.7	<b>816.1</b>	737.8
Other operating charges	152.4	-	69.3	-
Administrative expenses	833.2	815.8	406.4	397.3
Depreciation and amortisation	107.1	99.5	54.5	51.1
<b>Operating profit before provisions</b>	<b>609.2</b>	612.4	<b>285.9</b>	289.4
Impairment losses on loans and advances	46.6	46.6	20.1	20.1
Provisions for contingent liabilities and commitments	46.7	46.7	20.8	20.8
Amounts written off fixed asset investments	2.0	2.0	3.6	3.6
<b>Profit before tax</b>	<b>513.9</b>	517.1	<b>241.4</b>	244.9
Taxation expense	146.9	151.8	70.2	72.5
<b>Net profit for the period</b>	<b>367.0</b>	365.3	<b>171.2</b>	172.4

*For detailed UK GAAP to IFRS reconciliations see appendices 2.1 & 2.2*

*\*Excludes the effects of IAS 32, IAS 39 and IFRS 4*

**Restated Financial Information**  
**Consolidated Balance Sheets**

	(unaudited)				
	05.04.05	04.04.05		04.10.04	
	IFRS £m	*IFRS £m	UK GAAP £m	*IFRS £m	UK GAAP £m
<b>Assets</b>					
Cash and balances with the Bank of England	362.5	362.5	362.5	367.4	367.4
Loans and advances to banks	751.6	751.6	635.6	2,167.9	1,236.6
Investment securities - available for sale	14,272.1	14,145.0	14,145.0	13,941.8	13,941.8
Derivative financial instruments	262.0	-	-	-	-
Fair value adjustment for hedged risk	(15.2)	-	-	-	-
Other financial instruments at fair value through I&E	1,825.2	1,825.2	-	970.7	-
Loans and advances to customers	92,878.0	92,721.9	92,721.9	88,785.7	88,785.7
Investment in equity shares	21.8	14.9	14.9	11.1	11.1
Intangible fixed assets	44.2	44.2	-	49.9	-
Property, plant and equipment	620.0	620.0	660.9	566.8	614.6
Investment properties	242.6	242.6	233.3	248.7	243.1
Accrued income and expenses prepaid	323.9	366.7	463.6	395.4	489.1
Deferred tax assets	80.6	81.9	39.9	127.8	44.7
Other assets	416.8	420.3	396.7	377.7	322.4
Long term life assurance business assets	-	-	1,917.3	-	1,785.7
<b>Total assets</b>	<b>112,086.1</b>	<b>111,596.8</b>	<b>111,591.6</b>	<b>108,010.9</b>	<b>107,842.2</b>
<b>Liabilities</b>					
Shares	72,627.2	72,594.1	72,594.1	69,485.5	69,485.5
Deposits from banks	2,453.3	2,453.3	1,650.6	2,857.6	2,057.3
Other deposits	2,802.4	2,802.4	2,819.5	3,354.0	3,375.7
Due to customers	2,257.0	2,257.0	2,257.0	1,979.3	1,979.3
Derivative financial instruments	452.5	-	-	-	-
Debt securities in issue	22,350.8	22,377.6	22,377.6	21,731.9	21,731.9
Fair value adjustment for hedged risk	3.4	-	-	-	-
Insurance contracts liabilities	1,131.6	1,132.1	-	1,129.9	-
Other liabilities	405.2	404.9	390.1	272.1	253.9
Provisions for liabilities and charges	55.2	55.2	60.7	60.0	65.6
Accruals and deferred income	309.2	367.2	353.5	688.3	673.5
Subordinated liabilities	1,472.9	1,439.8	1,439.8	943.9	943.9
Subscribed capital	712.4	692.2	692.2	692.0	692.0
Current taxes	117.1	105.8	100.3	78.1	72.5
Retirement benefit obligations	351.6	351.6	-	465.1	-
Long term life assurance business liabilities	-	-	1,917.3	-	1,785.7
<b>Total liabilities</b>	<b>107,501.8</b>	<b>107,033.2</b>	<b>106,652.7</b>	<b>103,737.7</b>	<b>103,116.8</b>
General reserve	4,432.7	4,460.6	4,710.9	4,187.3	4,514.3
Revaluation reserve	103.0	103.0	228.0	85.9	211.1
Available for sale reserve	48.6	-	-	-	-
<b>Total equity &amp; liabilities</b>	<b>112,086.1</b>	<b>111,596.8</b>	<b>111,591.6</b>	<b>108,010.9</b>	<b>107,842.2</b>

For detailed UK GAAP to IFRS reconciliations see appendices 2.3, 2.4 & 2.5

\*Excludes the effects of IAS 32, IAS 39 and IFRS 4

**Other Primary Statements**

**Consolidated IFRS Statements of Recognised Income and Expenditure**

	<b>Year ended</b> <b>04.04.05</b> <b>£m</b>	(unaudited) 6 months ended 04.10.04 £m
<b>Profit for the period</b>	<b>367.0</b>	171.2
Property revaluation gains	24.9	-
Actuarial gains / (losses) on retirement benefits schemes	104.9	(4.5)
Taxation on items through equity	(38.2)	1.5
<b>Total recognised income and expenditure for the period</b>	<b>458.6</b>	168.2

**Consolidated UK GAAP Statements of Total Recognised Gains and Losses**

	<b>Year ended</b> <b>04.04.05</b> <b>£m</b>	(unaudited) 6 months ended 04.10.04 £m
<b>Profit for the period</b>	<b>365.3</b>	172.4
Unrealised surplus on revaluation of properties	20.6	-
<b>Total gains and losses recognised relating to the period</b>	<b>385.9</b>	172.4

**Restated Financial Information for the Year Ended 4 April 2005<sup>1</sup>****Consolidated Statutory Income & Expenditure Account**

	UK GAAP	Retirement benefits	Fixed assets and intangibles	Investment properties	Insurance	Other	Tax	IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
Interest receivable and similar income	5,094.8				44.3			5,139.1
Interest expense and similar charges	3,905.6	6.0			35.9			3,947.5
<b>Net interest income</b>	<b>1,189.2</b>	<b>(6.0)</b>	<b>-</b>	<b>-</b>	<b>8.4</b>	<b>-</b>	<b>-</b>	<b>1,191.6</b>
Fees and commissions receivable	377.4				4.8	1.8		384.0
Fees and commissions payable	109.1				(6.3)			102.8
<b>Net fees and commissions income</b>	<b>268.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11.1</b>	<b>1.8</b>	<b>-</b>	<b>281.2</b>
Income from other financial assets at fair value	-				55.6			55.6
Income from investments	0.3							0.3
Net premiums from insurance	-				155.6			155.6
Other operating income	69.9		0.4	(2.8)	(49.9)			17.6
<b>Operating income</b>	<b>1,527.7</b>	<b>(6.0)</b>	<b>0.4</b>	<b>(2.8)</b>	<b>180.8</b>	<b>1.8</b>	<b>-</b>	<b>1,701.9</b>
Other operating charges	-				152.4			152.4
Administrative expenses	815.8	(8.3)	(9.3)		35.2	(0.2)		833.2
Depreciation and amortisation	99.5		7.6					107.1
<b>Operating profit before provisions</b>	<b>612.4</b>	<b>2.3</b>	<b>2.1</b>	<b>(2.8)</b>	<b>(6.8)</b>	<b>2.0</b>	<b>-</b>	<b>609.2</b>
Impairment losses on loans and advances	46.6							46.6
Provisions for contingent liabilities and commitments	46.7							46.7
Amounts written off fixed asset investments	2.0							2.0
<b>Profit before tax</b>	<b>517.1</b>	<b>2.3</b>	<b>2.1</b>	<b>(2.8)</b>	<b>(6.8)</b>	<b>2.0</b>	<b>-</b>	<b>513.9</b>
Taxation expense	151.8	-	-	-	(5.4)	-	0.5	146.9
<b>Net profit for the year</b>	<b>365.3</b>	<b>2.3</b>	<b>2.1</b>	<b>(2.8)</b>	<b>(1.4)</b>	<b>2.0</b>	<b>(0.5)</b>	<b>367.0</b>

<sup>1</sup>For explanation of the IFRS adjustments see Section 3.1 on pages 6 & 7

**Restated Financial Information for the 6 Months Ended 4 October 2004****Consolidated Statutory Income & Expenditure Account (unaudited)**

	UK GAAP	Retirement benefits	Fixed assets and intangibles	Investment properties	Insurance	Other	Tax	IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
Interest receivable and similar income	2,414.5				22.3			2,436.8
Interest expense and similar charges	1,810.1	4.0			17.8			1,831.9
<b>Net interest income</b>	<b>604.4</b>	<b>(4.0)</b>	<b>-</b>	<b>-</b>	<b>4.5</b>	<b>-</b>	<b>-</b>	<b>604.9</b>
Fees and commissions receivable	169.5				2.6	0.7		172.8
Fees and commissions payable	66.3				(3.1)			63.2
<b>Net fees and commissions income</b>	<b>103.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.7</b>	<b>0.7</b>	<b>-</b>	<b>109.6</b>
Income from other financial assets at fair value	-				10.6			10.6
Income from investments	0.2							0.2
Net premiums from insurance	-				84.4			84.4
Other operating income	30.0			(2.6)	(21.0)			6.4
<b>Operating income</b>	<b>737.8</b>	<b>(4.0)</b>	<b>-</b>	<b>(2.6)</b>	<b>84.2</b>	<b>0.7</b>	<b>-</b>	<b>816.1</b>
Other operating charges	-				69.3			69.3
Administrative expenses	397.3	(3.9)	(4.6)	0.1	17.4	0.1		406.4
Depreciation and amortisation	51.1		3.4					54.5
<b>Operating profit before provisions</b>	<b>289.4</b>	<b>(0.1)</b>	<b>1.2</b>	<b>(2.7)</b>	<b>(2.5)</b>	<b>0.6</b>	<b>-</b>	<b>285.9</b>
Impairment losses on loans and advances	20.1							20.1
Provisions for contingent liabilities and commitments	20.8							20.8
Amounts written off fixed asset investments	3.6							3.6
<b>Profit before tax</b>	<b>244.9</b>	<b>(0.1)</b>	<b>1.2</b>	<b>(2.7)</b>	<b>(2.5)</b>	<b>0.6</b>	<b>-</b>	<b>241.4</b>
Taxation expense	72.5	-	-	-	(1.8)	-	(0.5)	70.2
<b>Net profit for the six months ended 4 October 2004</b>	<b>172.4</b>	<b>(0.1)</b>	<b>1.2</b>	<b>(2.7)</b>	<b>(0.7)</b>	<b>0.6</b>	<b>0.5</b>	<b>171.2</b>

Restated Financial Information - Excludes the effects of IAS 32, IAS 39 & IFRS 4<sup>1</sup>

## Consolidated Balance Sheet at 4 April 2005

	UK GAAP	Retirement benefits	Fixed assets and intangibles	Investment properties	Insurance	Other	Tax	IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>								
Cash and balances with the Bank of England	362.5							362.5
Loans and advances to banks	635.6				116.0			751.6
Investment securities - available for sale	14,145.0							14,145.0
Other financial instruments at fair value through I&E	-				1,825.2			1,825.2
Loans and advances to customers	92,721.9							92,721.9
Investment in equity shares	14.9							14.9
Intangible fixed assets	-		44.2					44.2
Property, plant and equipment	660.9		(31.6)	(9.3)				620.0
Investment properties	233.3			9.3				242.6
Accrued income and expenses prepaid	463.6	(96.0)			9.1	(10.0)		366.7
Deferred tax assets	39.9				(32.5)		74.5	81.9
Other assets	396.7				23.6			420.3
Long term life assurance business assets	1,917.3				(1,917.3)			-
<b>Total assets</b>	<b>111,591.6</b>	<b>(96.0)</b>	<b>12.6</b>	<b>-</b>	<b>24.1</b>	<b>(10.0)</b>	<b>74.5</b>	<b>111,596.8</b>
<b>Liabilities</b>								
Shares	72,594.1							72,594.1
Deposits from banks	1,650.6				802.7			2,453.3
Other deposits	2,819.5				(17.1)			2,802.4
Due to customers	2,257.0							2,257.0
Debt securities in issue	22,377.6							22,377.6
Insurance contracts liabilities	-				1,132.1			1,132.1
Other liabilities	390.1				14.8			404.9
Provisions for liabilities and charges	60.7	(5.5)						55.2
Accruals and deferred income	353.5	2.2			1.2	10.3		367.2
Subordinated liabilities	1,439.8							1,439.8
Subscribed capital	692.2							692.2
Current taxes	100.3				5.5			105.8
Retirement benefit obligations	-	351.6						351.6
Long term life assurance business liabilities	1,917.3				(1,917.3)			-
<b>Total liabilities</b>	<b>106,652.7</b>	<b>348.3</b>	<b>-</b>	<b>-</b>	<b>21.9</b>	<b>10.3</b>	<b>-</b>	<b>107,033.2</b>
General reserve	4,710.9	(444.3)	(0.9)	102.2	2.2	(20.3)	110.8	4,460.6
Revaluation reserve	228.0		13.5	(102.2)			(36.3)	103.0
<b>Total equity &amp; liabilities</b>	<b>111,591.6</b>	<b>(96.0)</b>	<b>12.6</b>	<b>-</b>	<b>24.1</b>	<b>(10.0)</b>	<b>74.5</b>	<b>111,596.8</b>

<sup>1</sup>For explanation of the IFRS adjustments see Section 3.1 on pages 6 & 7

**Restated Financial Information - Includes the effects of IAS 32, IAS 39 & IFRS 4<sup>1</sup>****Consolidated Balance Sheet at 5 April 2005**

	IFRS Effective Yield 04.04.05	AFS Assets	Derivatives and Hedging	Derecog- nition	Insurance	Loan impairment	Tax	IFRS 05.04.05
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>								
Cash and balances with the Bank of England	362.5							362.5
Loans and advances to banks	751.6							751.6
Investment securities - available for sale	14,145.0		79.9	47.2				14,272.1
Derivative financial instruments	-			262.0				262.0
Fair value adjustment for hedged risk	-			(15.2)				(15.2)
Other financial instruments at fair value through I&E	1,825.2							1,825.2
Loans and advances to customers	92,721.9	(8.7)		78.8		86.0		92,878.0
Investment in equity shares	14.9		6.9					21.8
Intangible fixed assets	44.2							44.2
Property, plant and equipment	620.0							620.0
Investment properties	242.6							242.6
Accrued income and expenses prepaid	366.7			(42.8)				323.9
Deferred tax assets	81.9				1.0		(2.3)	80.6
Other assets	420.3				(3.5)			416.8
<b>Total assets</b>	<b>111,596.8</b>	<b>(8.7)</b>	<b>86.8</b>	<b>330.0</b>	<b>-</b>	<b>(2.5)</b>	<b>(2.3)</b>	<b>112,086.1</b>
<b>Liabilities</b>								
Shares	72,594.1				33.1			72,627.2
Deposits from banks	2,453.3							2,453.3
Other deposits	2,802.4							2,802.4
Due to customers	2,257.0							2,257.0
Derivative financial instruments	-			452.5				452.5
Debt securities in issue	22,377.6	0.8		(27.6)				22,350.8
Fair value adjustment for hedged risk	-			3.4				3.4
Insurance contracts liabilities	1,132.1				(0.5)			1,131.6
Other liabilities	404.9				0.3			405.2
Provisions for liabilities and charges	55.2							55.2
Accruals and deferred income	367.2			(58.0)				309.2
Subordinated liabilities	1,439.8	(0.1)		33.2				1,472.9
Subscribed capital	692.2	(0.7)		20.9				712.4
Current taxes	105.8						11.3	117.1
Retirement benefit obligations	351.6							351.6
<b>Total liabilities</b>	<b>107,033.2</b>	<b>-</b>	<b>-</b>	<b>424.4</b>	<b>33.1</b>	<b>(0.2)</b>	<b>11.3</b>	<b>107,501.8</b>
General reserve	4,460.6	(8.7)	16.0	(94.4)	(33.1)	(2.3)	8.6	4,432.7
Revaluation reserve	103.0							103.0
Available for sale reserve	-		70.8	-			(22.2)	48.6
<b>Total equity &amp; liabilities</b>	<b>111,596.8</b>	<b>(8.7)</b>	<b>86.8</b>	<b>330.0</b>	<b>-</b>	<b>(2.5)</b>	<b>(2.3)</b>	<b>112,086.1</b>

<sup>1</sup>For explanation of the IFRS adjustments see Section 3.2 on pages 7, 8 & 9

**Restated Financial Information - Excludes the effects of IAS 32, IAS 39 & IFRS 4****Consolidated Balance Sheet at 4 October 2004 (unaudited)**

	UK GAAP	Retirement benefits	Fixed assets and intangibles	Investment properties	Insurance	Other	Tax	IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>								
Cash and balances with the Bank of England	367.4							367.4
Loans and advances to banks	1,236.6				931.3			2,167.9
Investment securities - available for sale	13,941.8							13,941.8
Other financial instruments at fair value through I&E	-				970.7			970.7
Loans and advances to customers	88,785.7							88,785.7
Investment in equity shares	11.1							11.1
Intangible fixed assets	-		49.9					49.9
Property, plant and equipment	614.6		(39.6)	(8.2)				566.8
Investment properties	243.1			5.6				248.7
Accrued income and expenses prepaid	489.1	(94.1)			0.4			395.4
Deferred tax assets	44.7				(32.0)		115.1	127.8
Other assets	322.4				65.6	(10.3)		377.7
Long term life assurance business assets	1,785.7				(1,785.7)			-
<b>Total assets</b>	<b>107,842.2</b>	<b>(94.1)</b>	<b>10.3</b>	<b>(2.6)</b>	<b>150.3</b>	<b>(10.3)</b>	<b>115.1</b>	<b>108,010.9</b>
<b>Liabilities</b>								
Shares	69,485.5							69,485.5
Deposits from banks	2,057.3				800.3			2,857.6
Other deposits	3,375.7				(21.7)			3,354.0
Due to customers	1,979.3							1,979.3
Debt securities in issue	21,731.9							21,731.9
Insurance contracts liabilities	-				1,129.9			1,129.9
Other liabilities	253.9				18.1	0.1		272.1
Provisions for liabilities and charges	65.6	(5.6)						60.0
Accruals and deferred income	673.5	2.4			1.0	11.4		688.3
Subordinated liabilities	943.9							943.9
Subscribed capital	692.0							692.0
Current taxes	72.5				5.6			78.1
Retirement benefit obligations	-	465.1						465.1
Long term life assurance business liabilities	1,785.7				(1,785.7)			-
<b>Total liabilities</b>	<b>103,116.8</b>	<b>461.9</b>	<b>-</b>	<b>-</b>	<b>147.5</b>	<b>11.5</b>	<b>-</b>	<b>103,737.7</b>
General reserve	4,514.3	(556.0)	(1.7)	105.0	2.8	(21.8)	144.7	4,187.3
Revaluation reserve	211.1		12.0	(107.6)			(29.6)	85.9
<b>Total equity &amp; liabilities</b>	<b>107,842.2</b>	<b>(94.1)</b>	<b>10.3</b>	<b>(2.6)</b>	<b>150.3</b>	<b>(10.3)</b>	<b>115.1</b>	<b>108,010.9</b>

## Restated Financial Information - Excludes the effects of IAS 32, IAS 39 &amp; IFRS 4

## Consolidated Balance Sheet at 5 April 2004

	UK GAAP	Retirement benefits	Fixed assets and intangibles	Investment properties	Insurance	Other	Tax	IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>								
Cash and balances with the Bank of England	310.5							310.5
Loans and advances to banks	1,464.1				941.3			2,405.4
Investment securities - available for sale	15,650.8							15,650.8
Other financial instruments at fair value through I&E	-				990.2			990.2
Loans and advances to customers	80,706.2							80,706.2
Investment in equity shares	9.0							9.0
Intangible fixed assets	-		56.4					56.4
Property, plant and equipment	621.0		(47.4)	(8.2)				565.4
Investment properties	236.6			8.2				244.8
Accrued income and expenses prepaid	237.4	(108.3)			0.4	(10.2)		119.3
Deferred tax assets	40.5				(31.0)		113.4	122.9
Other assets	369.4				25.5			394.9
Long term life assurance business assets	1,782.9				(1,782.9)			-
<b>Total assets</b>	<b>101,428.4</b>	<b>(108.3)</b>	<b>9.0</b>	<b>-</b>	<b>143.5</b>	<b>(10.2)</b>	<b>113.4</b>	<b>101,575.8</b>
<b>Liabilities</b>								
Shares	65,943.9							65,943.9
Deposits from banks	2,229.3				806.4			3,035.7
Other deposits	3,069.1				(11.0)			3,058.1
Due to customers	1,767.4							1,767.4
Debt securities in issue	19,706.5							19,706.5
Insurance contracts liabilities	-				1,106.9			1,106.9
Other liabilities	361.5				9.0	0.3		370.8
Provisions for liabilities and charges	55.4	(5.5)						49.9
Accruals and deferred income	284.6	2.6			1.7	12.0		300.9
Subordinated liabilities	925.6							925.6
Subscribed capital	691.7							691.7
Current taxes	57.5				9.9			67.4
Retirement benefit obligations	-	446.0						446.0
Long term life assurance business liabilities	1,782.9				(1,782.9)			-
<b>Total liabilities</b>	<b>96,875.4</b>	<b>443.1</b>	<b>-</b>	<b>-</b>	<b>140.0</b>	<b>12.3</b>	<b>-</b>	<b>97,470.8</b>
General reserve	4,341.1	(551.4)	(3.0)	108.5	3.5	(22.5)	142.9	4,019.1
Revaluation reserve	211.9		12.0	(108.5)			(29.5)	85.9
<b>Total equity &amp; liabilities</b>	<b>101,428.4</b>	<b>(108.3)</b>	<b>9.0</b>	<b>-</b>	<b>143.5</b>	<b>(10.2)</b>	<b>113.4</b>	<b>101,575.8</b>

**Reconciliation of Statutory and Pro forma Results for the Year Ended 4 April 2005<sup>1</sup>****Consolidated Pro-forma IFRS Income & Expenditure Account (unaudited)**

	Statutory IFRS	Effective Yield	AFS assets	Insurance	Loan Impairment	Pro- forma IFRS
	£m	£m	£m	£m	£m	£m
Interest receivable and similar income	5,139.1	(24.2)				5,114.9
Interest expense and similar charges	3,947.5					3,947.5
<b>Net interest income</b>	<b>1,191.6</b>	<b>(24.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,167.4</b>
Fees and commissions receivable	384.0	(111.0)				273.0
Fees and commissions payable	102.8	(99.9)				2.9
<b>Net fees and commissions income</b>	<b>281.2</b>	<b>(11.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>270.1</b>
Income from other financial assets at fair value	55.6					55.6
Income from investments	0.3					0.3
Net premiums from insurance	155.6			(4.2)		151.4
Other operating income	17.6					17.6
<b>Operating income</b>	<b>1,701.9</b>	<b>(35.3)</b>	<b>-</b>	<b>(4.2)</b>	<b>-</b>	<b>1,662.4</b>
Other operating charges	152.4			(4.3)		148.1
Administrative expenses	833.2					833.2
Depreciation and amortisation	107.1					107.1
<b>Operating profit before provisions</b>	<b>609.2</b>	<b>(35.3)</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>574.0</b>
Impairment losses on loans and advances	46.6				10.0	56.6
Provisions for contingent liabilities and commitments	46.7					46.7
Amounts written off fixed asset investments	2.0		5.1			7.1
<b>Profit before tax</b>	<b>513.9</b>	<b>(35.3)</b>	<b>(5.1)</b>	<b>0.1</b>	<b>(10.0)</b>	<b>463.6</b>
Taxation expense	146.9	(10.6)	(1.5)	0.5	(3.0)	132.3
<b>Net profit for the year</b>	<b>367.0</b>	<b>(24.7)</b>	<b>(3.6)</b>	<b>(0.4)</b>	<b>(7.0)</b>	<b>331.3</b>

<sup>1</sup>For explanation of the IFRS adjustments see Section 3.2 on pages 7, 8 & 9

**Reconciliation of Statutory and Pro forma Results for the 6 Months Ended 4 October 2004****Consolidated Pro-forma IFRS Income & Expenditure Account (unaudited)**

	Statutory IFRS	Effective Yield	AFS assets	Insurance	Loan Impairment	Pro-forma IFRS
	£m	£m	£m	£m	£m	£m
Interest receivable and similar income	2,436.8	(12.9)				2,423.9
Interest expense and similar charges	1,831.9					1,831.9
<b>Net interest income</b>	<b>604.9</b>	<b>(12.9)</b>	-	-	-	<b>592.0</b>
Fees and commissions receivable	172.8	(56.3)				116.5
Fees and commissions payable	63.2	(60.4)		0.4		3.2
<b>Net fees and commissions income</b>	<b>109.6</b>	<b>4.1</b>	-	(0.4)	-	<b>113.3</b>
Income from other financial assets at fair value	10.6					10.6
Income from investments	0.2					0.2
Net premiums from insurance	84.4			(1.8)		82.6
Other operating income	6.4					6.4
<b>Operating income</b>	<b>816.1</b>	<b>(8.8)</b>	-	(2.2)	-	<b>805.1</b>
Other operating charges	69.3			(2.6)		66.7
Administrative expenses	406.4					406.4
Depreciation and amortisation	54.5					54.5
<b>Operating profit before provisions</b>	<b>285.9</b>	<b>(8.8)</b>	-	0.4	-	<b>277.5</b>
Impairment losses on loans and advances	20.1				5.7	25.8
Provisions for contingent liabilities and commitments	20.8					20.8
Amounts written off fixed asset investments	3.6		3.6			7.2
<b>Profit before tax</b>	<b>241.4</b>	<b>(8.8)</b>	(3.6)	0.4	(5.7)	<b>223.7</b>
Taxation expense	70.2	(2.6)	(1.1)	-	(1.7)	64.8
<b>Net profit for the six months ended 4 October 2004</b>	<b>171.2</b>	<b>(6.2)</b>	(2.5)	0.4	(4.0)	<b>158.9</b>

## Appendix 4

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### **Special Purpose Audit Report of PricewaterhouseCoopers LLP to Nationwide Building Society ('the Society') on its International Financial Reporting Standards ('IFRS') Financial Information**

We have audited the accompanying consolidated IFRS balance sheets of Nationwide Building Society and its subsidiaries ('the Group') as at 5 April 2004 and 4 April 2005, the related consolidated IFRS income and expenditure account for the year ended 4 April 2005, the 5 April 2005 balance sheet and transition adjustments relating to the adoption of IAS 32, IAS 39 and IFRS 4, set out on pages 11 and 12 and the associated IFRS 1 reconciliations and consolidated statement of recognised income and expenditure set out on pages 13, 14, 16, 17 and 19 prepared in accordance with the basis of preparation and the provisional accounting policies set out on pages 26 to 33 (hereinafter referred to as 'the IFRS financial information').

In addition to the above noted opening and year end balance sheets, full year income and expenditure account, associated IFRS reconciliations and statement of recognised income and expenditure, included with the financial information set out on pages 11 to 13 are the half-year balance sheet, half-year income and expenditure account, associated IFRS reconciliations and statement of recognised income and expenditure. We have not audited the half-year balance sheet, half-year income and expenditure account, associated IFRS reconciliations and statement of recognised income and expenditure, and these are not covered by this opinion and do not form part of the above defined IFRS financial information.

The IFRS financial information has been prepared by the Group as part of its transition to IFRS and to establish the financial position, and results of operations of the Group to provide the comparative financial information expected to be included in the first complete set of consolidated IFRS financial statements of the Group for the year ended 4 April 2006.

#### **Respective responsibilities of Directors and PricewaterhouseCoopers LLP**

The Directors of the Society are responsible for the preparation of the consolidated IFRS financial information which has been prepared as part of the Group's transition to IFRS. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board, our profession's ethical guidance and the terms of our engagement. Under the terms of engagement we are required to report to you our opinion as to whether the IFRS financial information has been prepared, in all material respects, in accordance with the basis of preparation and provisional accounting policies set out on pages 26 to 33.

This report, including the opinion, has been prepared for, and only for, the Society for the purposes of assisting with the Group's transition to IFRS and for no other purpose. To the fullest extent permitted by law we do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We read the other information contained in this Restatement of 2004/05 Financial Results to International Financial Reporting Standards and consider its implications for our report if we became aware of any apparent misstatements or material inconsistencies with the above defined IFRS financial information.

#### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the IFRS financial information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the IFRS financial information, and of whether the accounting policies are appropriate to the Group's circumstances and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the IFRS financial information is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the IFRS financial information.

**Emphasis of matter**

Without qualifying our opinion, we draw your attention to the fact that the IFRS financial information may require adjustment before its inclusion as comparative information in the Group's first set of IFRS financial statements for the year ended 4 April 2006. This is because Standards currently in issue and adopted by the EU are subject to interpretation issued from time to time by the International Financial Reporting Interpretations Committee (IFRIC) and further Standards may be issued by the International Accounting Standards Board (IASB) that will be adopted for financial years beginning on or after 1 January 2005.

Additionally, without qualifying our opinion, IFRS is currently being applied in the United Kingdom and in a large number of other countries simultaneously for the first time. Furthermore, due to a number of new and revised Standards included within the body of Standards that comprise IFRS, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Group's first IFRS financial statements for the year ended 4 April 2006 may be subject to change.

**Opinion**

In our opinion, the accompanying IFRS financial information comprising the consolidated IFRS balance sheets as at 5 April 2004 and 4 April 2005, the related consolidated IFRS income and expenditure account for the year ended 4 April 2005, the 5 April 2005 balance sheet and transition adjustments relating to the adoption of IAS 32, IAS 39 and IFRS 4, set out on pages 11 and 12 and the associated IFRS 1 reconciliations and the consolidated IFRS statement of recognised income and expenditure set out on pages 13, 14, 16, 17 and 19, have been prepared, in all material respects, in accordance with the basis of preparation and the provisional accounting policies set out on pages 26 to 33, which describe how IFRS have been applied under IFRS 1, including the assumptions made by the Directors of the Society about the standards and interpretations expected to be effective, and the policies expected to be adopted, when they prepare the first complete set of IFRS financial statements of the Group for the year ended 4 April 2006.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
21 September 2005

## **Special Purpose Review Report of PricewaterhouseCoopers LLP to Nationwide Building Society (the 'Society') on its Preliminary Interim Comparative International Financial Reporting Standards ('IFRS') Information for the Six Months ended 4 October 2004**

### **Introduction**

We have been instructed by the Society to review the preliminary interim comparative (IFRS) consolidated financial information of Nationwide Building Society and its subsidiaries ('the Group') for the six months ended 4 October 2004 which comprise the consolidated balance sheet as at 4 October 2004, the consolidated income and expenditure account and the consolidated statement of recognised income and expenditure for the six months ended 4 October 2004 (hereinafter referred to as 'the preliminary interim comparative IFRS financial information').

### **Directors' Responsibilities**

The preliminary interim comparative IFRS financial information is the responsibility of, and has been approved by, the Directors. It has been prepared as part of the Group's conversion to IFRS, in accordance with the basis set out in the basis of preparation on page 9 and provisional accounting policies set out on pages 26 to 33, including the assumptions the directors have made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when the Group prepares its first complete set of IFRS financial statements as at 4 April 2006.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. The report, including the conclusion, has been prepared for, and only for, the Society for the purposes of assisting with the Group's transition to IFRS and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other persons to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Emphasis of matter**

Without modifying our review conclusion, we draw your attention to the fact that, as explained on page 9, the preliminary IFRS financial information may require adjustment before its inclusion as comparative information in the Group's first set of IFRS interim results for the period ended 30 September 2005. This is because Standards currently in issue and adopted by the EU are subject to interpretation issued from time to time by the International Financial Reporting Interpretations Committee (IFRIC) and further Standards may be issued by the International Accounting Standards Board (IASB) that will be adopted for financial years beginning on or after 1 January 2005.

Additionally, without modifying our review conclusion, IFRS is currently being applied in the United Kingdom and in a large number of other countries simultaneously for the first time. Furthermore, due to a number of new and revised Standards included within the body of Standards that comprise IFRS, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Group's first set of IFRS interim results for the period ended 30 September 2005 and the Group's first full annual IFRS financial statements as at 4 April 2006 may be subject to change.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the preliminary interim comparative IFRS financial information as presented for the six months ended 4 October 2004.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London

21 September 2005

## Appendix 5 – Provisional IFRS accounting policies

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As noted in Section 4, the Group has taken advantage of the provisions in IFRS 1 not to restate prior year information for the requirements of IAS 32, IAS 39 and IFRS 4.

### Basis of consolidation

The Group accounts consolidate the assets, liabilities and results of the Society and all its subsidiaries and associate undertakings.

Subsidiaries are all entities including special purpose entities over which the Society has the power to govern the financial and operating policies generally. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances and unrealised gains on transactions are eliminated.

Associates are all entities over which the Group has significant influence but not control of the operating and financial management policy decisions, generally demonstrated by a shareholding of between 20% and 50% of the voting rights. Investments in associates initially recognised at cost are accounted for using the equity method of accounting.

### Interest receivable and expense

For instruments measured at amortised cost the effective interest method is used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges) but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate and all other premiums or discounts above or below market rates.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### Fees and commissions

Direct fees and costs incremental to generating a financial instrument are deferred and spread as interest receivable or expense on an effective interest basis.

Other fees and commissions are recognised on the accruals basis as services are provided, or on the performance of a significant act.

### Goodwill

Goodwill arising on the acquisition of subsidiary undertakings represents the excess of the acquisition cost over the Group's share of the fair value of net identifiable assets acquired. Goodwill arising on the acquisition of subsidiary undertakings is capitalised and included in 'intangible assets'. After initial recognition, goodwill is carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment. On disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is included in the determination of the profit or loss on disposal.

Where the Group's share of the fair value of net identifiable assets acquired exceeds the acquisition cost ('negative goodwill'), the excess is recognised immediately in the income and expenditure account.

**Software**

IAS 38 'Intangible Assets' requires the capitalisation of certain expenditure relating to software development costs. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Where software costs are capitalised, they are amortised using the straight-line method over their estimated useful lives (3 to 5 years). The amortisation periods used are reviewed annually.

Computer application software licences are recognised as intangible fixed assets and amortised using the straight-line method over their useful lives.

**Leases**

Leases entered into by the Group are primarily operating leases.

**(a) As lessee**

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership of the lessee. The Group has entered into operating leases for land and buildings. Operating lease payments are charged to the income and expenditure account on a straight line basis over the life of the lease.

**(b) As lessor**

Lease income receivable under operating leases is credited to the income and expenditure account on a straight line basis over the life of the lease.

**Deferred tax**

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Corporation tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to the available-for-sale reserve, is also credited or charged directly to the available-for-sale reserve and is subsequently recognised in the income statement together with the deferred gain or loss.

**Property, plant and equipment**

Freehold and long leasehold properties comprise mainly branches and office buildings.

Branches and non-specialised buildings are stated at revalued amounts, being the fair value, on the basis of their existing use, at the date of the valuation less any subsequent accumulated depreciation and subsequent impairment. Valuations are completed annually by independent surveyors.

Increases in the valuations of branches and non-specialised buildings are credited to the revaluation reserve except where they reverse decreases for the same asset previously recognised in the income and expenditure account, in which case the increase in the valuation is recognised in the income and expenditure account. Decreases in valuations are recognised in the income and expenditure account except where they reverse amounts previously credited to the revaluation reserve for the same asset, in which case the decrease in valuation is recognised in the revaluation reserve.

Other property, plant and equipment, including specialised administration buildings and short leasehold buildings, are included at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments. Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Land is not depreciated. Depreciation on other assets commences when the assets are ready for their intended use and is calculated using the straight line method to allocate their cost or valuation over the following estimated useful lives:

Branches and non-specialised buildings	60 years
Specialised administration buildings	25 to 43 years
Short leasehold buildings	over the period of the lease
Other equipment	3 to 10 years

Estimated useful lives are reviewed regularly, and adjusted if appropriate, in the light of technological developments, usage and other relevant factors.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset and are included in income and expenditure account.

### **Investment properties**

Investment properties, which comprise properties held for rental, are stated at fair value. The properties are revalued annually by independent surveyors supported by market evidence. Changes in fair value are included in the income and expenditure account.

Depreciation is not charged on investment properties.

### **Borrowings**

Debt securities in issue and subordinated liabilities are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

Borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is adjusted for the amortisation of any transaction costs and premiums and discounts. The amortisation is recognised in interest expense and similar charges using the effective interest method.

Permanent Interest Bearing Shares (subscribed capital), which are redeemable at specific dates at the option of the Society, are classified as financial liabilities and measured at amortised cost.

Borrowings that are designated as hedged items are subject to measurement under the hedged accounting requirements described in the derivatives and hedge accounting policy note.

### **Financial assets**

The Group classifies its financial assets at inception into the following three categories:

- (i) Financial assets at fair value through the income and expenditure account

This category consists of derivative financial assets and those assets designated as financial assets at fair value through the income and expenditure account at inception. Certain of the Group's investment securities are included in this category, as well as mortgage commitments entered into where a loan has not yet been made.

Financial assets at fair value through the income and expenditure account are carried at fair value. The fair values are current market prices (where there is an active market), or are based on valuation techniques (where there is no active market or the securities are unlisted). Valuation techniques include the use of recent arm's length transactions, discounted cash flow analysis and other commonly used valuation techniques.

Gains and losses arising from the changes in the fair values are recognised in the income and expenditure account.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's residential and commercial mortgage loans, personal loans and loans to banks are classified as loans and receivables.

Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest method.

(iii) Available-for-sale ('AFS')

AFS assets are non-derivative financial assets that are not classified into either of the two categories above.

AFS assets are initially measured at fair value. Subsequently, AFS assets are carried at fair value. The fair values are current market prices (where there is an active market), or based on valuation techniques (where there is no active market or the securities are unlisted).

Unrealised gains and losses arising from changes in the fair values are recognised directly in reserves, except for impairment losses, and foreign exchange gains and losses, which are recognised in the income and expenditure account. Gains and losses arising on the sale of AFS assets, including any cumulative gains or losses previously recognised in reserves are recognised in the income and expenditure account.

Financial Assets are derecognised when the rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred.

The impact of hedging on the measurement of financial assets is detailed in the derivatives and hedge accounting policy note.

**Impairment of financial assets**

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments or the debt being restructured to reduce the burden on the borrower.

The Group first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised the provision is adjusted and the amount of the reversal is recognised in the income and expenditure account.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income and expenditure account.

(b) Available for sale assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investment securities classified as available-for-sale, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised – is recognised in the income and expenditure account.

If, in a subsequent period, the fair value of an investment security classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income and expenditure account, the impairment loss is reversed through the income and expenditure account.

**Derivatives and hedge accounting**

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk.

(a) Derivative Financial Instruments

Derivatives are initially measured at fair value and are subsequently remeasured to fair value at each reporting date. Fair values are obtained from quoted prices prevailing in active markets and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

(b) Embedded derivatives

A number of complex contracts contain both a derivative and a non-derivative component, in which case the derivative is termed an embedded derivative. If the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the overall contract itself is not carried at fair value, the embedded derivative is accounted for separately and reported at fair value with gains and losses being recognised in the income and expenditure account.

(c) Hedge accounting

When transactions meet the criteria specified in IAS 39, the Group applies fair value hedge accounting so that changes in the fair value of the underlying asset or liability that are attributable to the hedge risk are recorded in the income and expenditure account to offset the fair value movement of the related derivative.

To qualify for hedge accounting at inception the hedge relationship must be clearly documented. At inception the derivative must be expected to be highly effective in offsetting the hedged risk, and effectiveness must be tested throughout the life of the hedge relationship.

The Group discontinues hedge accounting when:

- i) it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- ii) the derivative expires, or is sold, terminated or exercised; or
- iii) the underlying item matures or is sold or repaid.

The Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge.

If the derivative no longer meets the criteria for hedge accounting, the cumulative fair value hedging adjustment is amortised over the period to maturity of the previously designated hedge relationship using the effective interest rate method. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately reflected in the income and expenditure account.

## Employee benefits

### (a) Pensions

The Group operates a number of pension arrangements. The majority of the Group's employees are members of the Nationwide Pension Fund ('the Fund'). The Group also operates other arrangements for certain current and former Directors and Officers and for one subsidiary undertaking.

All of the pension arrangements are defined benefit plans. A defined benefit plan is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated by the independent actuary using the projected unit credit method and assumptions agreed with the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions. Actuarial gains and losses are recognised in full, in the year they occur, in the statement of recognised income and expenditure.

Past-service costs are recognised immediately in the income and expenditure account, unless the changes to the benefits are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

### (b) Other post-retirement obligations

The Group provides post-retirement healthcare to a small number of former employees. The Group recognises the defined benefit obligation and the actuarial gains and losses in a similar manner to the defined benefit pension plans.

### (c) Other long-term employee benefits

The cost of bonuses payable twelve months or more after the end of the year in which they are earned are recognised immediately in the year in which the employees render the related service.

## (d) Short-term employee benefits

The cost of short-term employee benefits, including wages and salaries, social security costs and healthcare for current employees is recognised in the year of service.

**Long term life assurance**

## (a) Classification of contracts

The Group issues linked contracts that transfer both insurance risk and financial risk, and term and annuity contracts that transfer insurance risk. Contracts that contain significant insurance risk for the Group are accounted for as insurance liabilities. Such contracts may also contain financial risk. Contracts that do not contain significant insurance risk are classified as investment contracts and are accounted for as financial liabilities.

## (b) Recognition and measurement of insurance liabilities

Premiums on term insurance contracts are recognised as revenue when they become due for payment. Single premiums on linked contracts are recognised as revenue when the policy comes into force. A liability for contractual benefits that are expected to be incurred in the future is recognised when the premiums are recognised. Benefits are accounted for on maturity or when the insured event occurs. The increase or decrease in the liability for contractual benefits and benefits paid are included in other operating charges.

The liability for contractual benefits under term insurance contracts is the discounted value of future benefit payments, allowing for assumptions as to mortality, persistency, future premiums, maintenance expenses and investment income. The liability for linked contracts is adjusted for the changes in the fair value of the underlying assets.

The Group enters into reinsurance contracts in relation to some long term insurance contracts. Insurance liabilities that are re-insured are included gross with corresponding re-insurance assets included in other assets.

A liability adequacy test is performed using current best estimates of future contractual cash flows, claims handling and administrative expenses and investment income from assets backing the liabilities. Any deficiency is immediately charged to the income and expenditure account by establishing a provision for losses arising from the liability adequacy test.

## (c) Embedded value and consolidation.

The embedded value method of accounting is used to measure the Group's interest in the long term life assurance business. This represents the present value of in-force business together with the net assets and the surplus retained within the long term life assurance fund.

The value of in-force business is determined using assumed economic parameters (future investment returns, expense inflation and risk discount rate) and mortality, persistency and expense assumptions. The present value of the in-force business is determined on a pre tax basis and is included in Other Assets in the Balance Sheet with changes in the valuation included in other operating income.

Other assets and liabilities relating to the life assurance business are included in the appropriate categories in the group balance sheet.

**Foreign currency translation**

The consolidated financial statements are presented in Sterling, which is the functional currency of the parent undertaking. Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Balances denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income and expenditure account.

Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Exchange differences on equities and similar non-monetary items held at fair value through the income and expenditure account, are reported as part of the fair value gain or loss.

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

**Sale and repurchase agreements (including stock borrowing and lending)**

Investment and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain within the Group, and the counterparty liability is included separately on the balance sheet as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method.

## **Contacts**

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