

Nationwide Building Society

**Half-Yearly Financial Report
For the period ended
30 September 2007**



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IFRS Underlying Results

This condensed consolidated half-yearly financial report for the half year ended 30 September 2007 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, ‘Interim financial reporting’ as adopted by the European Union. The half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 4 April 2007, which have been prepared in accordance with IFRS as adopted by the European Union. Where appropriate, certain aspects of the results are presented to reflect management’s view of the underlying results in order to provide a clearer representation of the performance of the Group.

Profit before tax shown on a reported and underlying basis are set out on page 14. Reported profit before tax of £338.3 million has been adjusted for movements in the value of derivatives and hedge accounting of £11.2 million, policyholder tax of £2.1 million, and merger and disposal costs of £47.0 million, to derive an underlying profit before tax of £394.4 million.

Forward Looking Statements

Certain statements in this half-yearly report are forward looking. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will prove to be an accurate reflection of actual results. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements.

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

HIGHLIGHTS

Nationwide Building Society today announced its results for the half year ended 30 September 2007.

Business Highlights

- Underlying profit before tax up 29% to £394.4 million (30 September 2006: underlying £306.0 million).
- Reported profit before tax, which includes merger and disposal costs of £47.0 million, up 1% to £338.3 million (30 September 2006: £336.4 million).
- Strong margin performance, with net interest income up 23% to £835.9 million (30 September 2006: £679.4 million).
- Underlying cost to income ratio improved to 53.5% (30 September 2006: 58.7%).
- Following the merger with Portman, total assets up 21% to £166.0 billion (4 April 2007: £137.4 billion).
- Total number of product sales up 19% on the same period last year. Sales excluding mortgage and savings products up 8%.
- Exceptional performance in the retail savings deposit market as savers seek safe haven. Net deposits increased by 96% to £4.1 billion and balances (including accrued interest) increased by £5.8 billion, representing a 15% share of the overall increase in UK retail savings balances.
- Conservative and sustainable approach to lending and focus on quality delivered prime net lending of £3.3 billion (September 2006: £5.6 billion) and total group net lending of £3.6 billion (September 2006: £5.9 billion) while ensuring asset quality remains much stronger than industry averages.
- Proportion of mortgage accounts 3 months or more in arrears is 0.31% for prime mortgage business and 0.35% across the group, which is less than a third of the industry average of 1.06%.
- The prudent approach applied to prime residential lending was also adopted in the non-retail market. Commercial net lending totalled £0.9 billion (September 2006: £1.8 billion). Specialist net lending totalled £0.3 billion (September 2006: £0.3 billion), with very strong asset quality maintained – the proportion of specialist lending accounts more than 3 months in arrears is 0.98%, which is below the industry average for overall mortgage lending of 1.06%.

Member Value

- An estimated £300 million benefit has been provided to members over the period through competitive interest rates and lower fees and charges.
- Further progress with our branch refurbishment programme, with 94 branches refurbished or re-sited in the six months to 30 September 2007.
- Nationwide appeared in best buy tables 614 times between April and September 2007, across all products.
- New products launched, including a one year loyalty fixed rate bond, a ‘fee free’ member exclusive mortgage, and the re-launch of our 25 year fixed rate mortgage.

Strategic Developments

- Merger with Portman Building Society successfully implemented on 28 August 2007. The enlarged society has over 900 retail outlets and around 13 million members. Synergies of approximately £90 million per year are expected to be achieved by 2009/10.
- Strategic Distribution Agreement with Legal & General for the supply of life insurance, investment and pension products to become effective from February 2008. As part of the agreement, Legal & General will purchase two subsidiaries, Nationwide Life and Nationwide Unit Trust Managers. Nationwide's customers will benefit from access to a wide range of competitively priced products from one of the UK's top financial services companies.

Graham Beale, Chief Executive, said:

“This has been an exceptional and challenging six months, a period in which we have merged with Portman Building Society and the industry has seen unprecedented market conditions arising from the “credit crunch”. Despite this, we have achieved record results, increasing our underlying profits by 29%, retail deposits have increased by 96% and we have maintained our already strong asset quality. At the same time we have returned over £300 million to our members through better interest rates and lower fees and charges than the banks.

“Our merger with Portman Building Society, which took effect on 28 August, was the largest ever building society merger. The merger makes us the UK’s second largest mortgage provider and reinforces Nationwide’s position as the UK’s second largest savings provider, giving us the scale and distribution to offer a real alternative to the banks. We now have assets exceeding £166 billion and over 13 million members making us the world’s largest building society.

“We have one of the strongest and safest balance sheets of any financial organisation in the UK – our assets are of the highest quality and over 70% of our funding comes from member based retail deposits.

“Our long-standing prudent approach to lending means we have a mortgage book of outstanding quality; our arrears remain at very low levels and are less than a third of the industry average. We deliberately focus on quality of lending rather than pursuing market share and we intend to maintain this prudent approach. The quality of our commercial lending and treasury portfolios is also excellent. We have no direct exposure to U.S. sub-prime lending resulting in an overall balance sheet of the highest quality.

“As the financial markets have experienced unprecedented turmoil in recent months, savers have been looking for a safe home for their money. Nationwide is regarded by many as offering both a safe haven and good value and we have seen a significant inflow of savings. Inflows in the last six months amounted to £4.1 billion, an increase of 96% on the same period last year. Trends for October and early November follow a similar pattern. The high level of savings inflows enabled us to fund all residential mortgage lending in the half year from retail receipts.

“The strength of our mutual franchise combined with our prudent approach to lending gives Nationwide a strong and sustainable business model that enables us to provide confidence to consumers and corporate investors alike during times of market turbulence.”

OPERATING HIGHLIGHTS

Retail financial services activity

- Prime mortgage gross lending of £11.9 billion (30 September 2006 - £13.5 billion), and net lending of £3.3 billion (30 September 2006 - £5.6 billion) reflect our cautious approach to lending in a fiercely competitive market.
- Proportion of prime mortgage accounts 3 months or more in arrears at 0.31% is significantly below the industry average of 1.06%.
- Strong retail savings deposits growth of £5.8 billion represents a 15% share of the overall increase in UK retail savings.
- Total current accounts up 6% to 4,316,000 (4 April 2007 - 4,083,000). New accounts opened of 303,000 (30 September 2006 – 322,000) represents an estimated market share of 8%.
- Total credit card accounts up 3% to 1,160,000 (4 April 2007 - 1,122,000).
- Gross unsecured lending reduced to £0.3 billion (30 September 2006 - £0.6 billion). Asset quality remains strong with the proportion of personal loan balances 30+ days in arrears reducing to 5.92%, compared to the industry average of 10.00%.
- Strong insurance, investment and protection sales of 486,000 (September 2006: 375,700), up 29% on the comparable period last year, with general insurance sales up 39% to 358,000 (September 2006: 258,000), reflecting the success of both our new products and our innovative marketing campaigns.

Non-Retail financial services activity

- We adopted the same cautious approach with our non-retail lending as we did retail lending.
- Against a background of uncertain market conditions we have focused on quality of lending to our existing commercial customers. Commercial gross lending was £2.8 billion (30 September 2006 - £3.6 billion) with net lending of £0.9 billion (30 September 2006 - £1.8 billion).
- Specialist Lending Division comprises UCB Home Loans and The Mortgage Works (TMW, formerly the specialist lender of Portman Building Society). The Division delivered gross lending of £1.2 billion (30 September 2006 - £1.0 billion) and net lending of £0.3 billion (30 September 2006 - £0.3 billion).
- Proportion of specialist lending accounts 3 months or more in arrears at 0.98% is below the industry average for overall mortgage lending of 1.06%.

Balance Sheet

- Balance sheet funded predominantly by retail savings, with our wholesale funding ratio of 29.0% (4 April 2007 – 28.4%) being one of the lowest levels in the industry.
- Proportion of wholesale funding for which original maturity date is greater than one year has remained stable at 50.4% (4 April 2007: 48.5%).
- Prudential liquidity ratio increased to 12.1% (4 April 2007 – 10.4%).
- Strong capital position, with a solvency ratio of 10.5%.

Social Responsibility

- At Nationwide's 2007 AGM in July, members voted in favour of achieving the PerCent Standard – a commitment to invest at least 1% of pre-tax profit in community, charitable and environmental activities from 2008.
- In support of its commitment to financial education, Nationwide has sponsored the *Teenagers Guide to Money*, a paperback published earlier this month.
- Celebrating its tenth anniversary this year, the Nationwide Foundation (a registered charity set up and funded by Nationwide) has approved grants totalling over £22 million to over 2,300 charities since 1997.
- The Society has entered into an agreement with the Heritage Lottery Fund which will widen the scope of the Nationwide Awards for Voluntary Endeavour, the Society's long-standing award scheme for people involved in volunteering which this year has recognised over 1,400 volunteers contributing to communities across the UK.
- Nationwide has extended its community & environmental affairs programme to include some former Portman Building Society activities, such as supporting the Bournemouth Symphony Orchestra, a national youth cricket scheme, and the Wessex Autistic Society's 10k run.

FINANCIAL SUMMARY

	Period to 30 September 2007	Period to 30 September 2006	Change
Financial Performance	£m	£m	%
Total income net of claims on insurance contracts	1,035.2	910.3	13.7
Underlying profit before tax	394.4	306.0	28.9
Reported profit before tax	338.3	336.4	0.6
Profit after tax	235.9	233.4	1.1
Lending Volumes	£bn	£bn	
Group residential – gross	13.1	14.5	(9.7)
Group residential – net	3.6	5.9	(39.0)
Commercial – gross	2.8	3.6	(22.2)
Commercial – net	0.9	1.8	(50.0)
Savings Volumes			
Retail savings deposits growth	5.8	3.2	81.3
Net receipts	4.1	2.1	95.6
Sales Volumes	‘000	‘000	
Sales of non-mortgage and savings products	850.3	789.5	7.7
Key Ratios	%	%	
Cost to income ratio – underlying basis	53.5	58.7	
Cost to income ratio – reported basis	58.5	56.7	
Net interest margin	1.18	1.11	
	30 September 2007	4 April 2007	Growth
Balance Sheet	£m	£m	%
Total growth (including merger with Portman)			
Total assets	166,027.0	137,378.5	20.9
Loans and advances to customers	137,456.0	115,938.4	18.6
Member savings balances	106,365.3	86,795.4	22.5
Total regulatory capital	9,152.6	7,960.7	15.0
Organic growth (excluding merger with Portman)			
Total assets	146,045.8	137,378.5	6.3
Loans and advances to customers	120,459.2	115,938.4	3.9
Member savings balances	92,602.1	86,795.4	6.7
Key Ratios	%	%	
Solvency ratio	10.5	11.0	
Wholesale funding ratio	29.0	28.4	
Prudential liquidity ratio	12.1	10.4	

CHIEF EXECUTIVE'S REVIEW

INTRODUCTION

This has been an exceptional and challenging six months, a period in which we have merged with Portman Building Society and the industry has seen unprecedented market conditions, arising from the “credit crunch”. Despite this, we delivered a record set of results for our members in the six months to 30 September 2007.

Underlying profit before tax increased by 29% to £394.4 million and we delivered an estimated £300 million to members through competitive interest rates and lower fees and charges. The increase in underlying profit in part reflects the growth of the organisation with product sales up 19% and total assets up 21% since the year end. In addition, the profit was also favourably impacted by the unusually high differential between the Bank of England base rate and inter-bank interest rates (Libor.) As reported below, our progress on integrating the Portman business is on track to deliver significant future benefits for the Group.

Following recent very difficult conditions in the money markets, it is also pleasing to report the continued strength of our balance sheet. The majority of our funding (71%) comes from retail savings balances, rather than the wholesale markets. As a result, we have been less exposed to the liquidity problems experienced globally since August than many of our competitors.

Our performance in attracting retail funding, one of the cornerstones of our mutual status, has been exceptional in this period. Our net receipts of £4.1 billion have been sufficient to fund our entire residential mortgage lending for the past six months. In September alone, we took £1.8 billion of savings receipts, helped by our excellent one year loyalty bond.

We have managed our lending at sustainable levels, through this challenging period. Our approach to risk continues to be cautious, and we have focused on the quality and value of our lending, as opposed to pursuing high volumes. Overall, our gross and net lending, for both our residential and commercial books, are less than in the comparable period last year. Our balance of lending is heavily biased towards prime residential mortgages. Lending to self employed and non-conforming borrowers represents around 4%, and Buy to Let around 5%, of our total loans and advances to customers. Our credit quality continues to be excellent across all of our product categories and significantly stronger than industry averages. In particular, the proportion of our mortgage accounts which are three months or more in arrears is 0.31% for our prime lending, and 0.35% overall, significantly lower than the industry average of 1.06%.

PORTMAN MERGER

The merger took effect on 28 August 2007. It represents the biggest ever building society merger, creating an enlarged society with total assets of over £166 billion. The merger will drive efficiencies of scale and provide significant opportunities to enhance growth in core markets. The enlarged society is now the second largest mortgage lender in the UK, and we have reinforced our position as the second largest savings provider in the UK. This puts us in a stronger position to play a leading role in growing a healthy mutual sector in the UK and to champion consumer issues. The benefits of the merger help to make Nationwide a modern mutual and a compelling alternative to the big retail banks.

Following the merger, our branches in some parts of the country were visited by large numbers of members, many of whom were updating their passbooks or banking merger bonus cheques. We underestimated the number of members who would use the branches over this period, and for a short time our quality and speed of service was not what it should have been. I would like to apologise to our members for this reduction in service, and I am confident that we are now returning to normal service levels.

The majority of the first phase of integration activity has been completed and the enlarged society is already seeing the financial benefits. As planned, some further integration work will continue for the next 18 to 24 months. From 2009/10, we expect the merger to deliver synergies of approximately £90 million per year.

We remain committed to a comprehensive branch network and post merger Nationwide has maintained a presence in every location previously represented by Nationwide or Portman. Where branches have been amalgamated, the new branch or agency is within two miles of the previous locations.

I would like to offer a warm welcome to our members and employees who have joined us from Portman. The merger placed additional pressure, particularly on our customer facing employees, and I would like to thank all concerned for their tremendous effort in seeking to provide the best possible customer service during these exceptionally busy times.

STRATEGY

Nationwide is committed to remaining mutual, and we have been reshaping the business, to ensure we can continue to deliver excellent value and service to our members. Following the merger we have put our new management team in place, and structured the business along new lines. Our customer facing activity is now managed within two business streams: Retail and Non-Retail, supported by our Group functions. This structure provides the clarity and accountability that we will need to drive the business forward.

Within the Retail business stream, we have increased the focus on specific product areas. Our three product divisions: Mortgages and Savings, Consumer Finance, and Insurance and Investments, ensure our resources are best utilised in order to support these products. Within the Non-Retail area, we will continue to operate with our strong brands of UCB Home Loans and The Mortgage Works, plus our well established Commercial Lending division.

With this structure in place, we will move forward with our focus on maximising value to our members, providing excellent products and service, and continuing to improve efficiency. Alongside the merger integration programme and our continuing enhancement of our branch network, we will be investing further in our IT infrastructure in order to make further long term improvements to our cost to income ratio.

In addition, we are preparing for our alliance with Legal & General, which will become effective in February 2008. Two of our subsidiaries, Nationwide Life and Nationwide Unit Trust Managers, will be purchased by Legal & General when the transaction is completed. The alliance will result in a more customer-friendly sales process, faster service and a wider range of investment and protection products for our members.

RETAIL

Mortgages and Savings

Mortgage competition has remained strong in the first half of the year. We have taken a measured approach to lending with prime residential gross advances of £11.9 billion (30 September 2006 - £13.5 billion) and net lending of £3.3 billion (30 September 2006 - £5.6 billion), an estimated market share of 5.7%. Our mortgage retention continues to be very strong, with our market share of principal repaid being well below our par share, at 6.5%. Total prime residential mortgage balances increased to £103.7 billion following the merger with Portman. Our asset quality remains excellent, with only 0.31% of our prime residential mortgage accounts being three or more months in arrears. The average loan to value (LTV) ratio of the retail portfolio is 39% with new lending having an average LTV of 59%.

The Society remains the UK's second largest savings provider. Against the background of the credit crunch and its effect on financial services in the UK, customers have viewed Nationwide as a safe haven. This sentiment, together with the launch of our excellent one year loyalty bond at the end of August, has meant that we have been very successful in attracting retail funds. We achieved a 15% share of the overall increase in UK retail savings in the first half of the year. Our net receipts of £4.1 billion, plus interest accrued on our accounts, equates to an increase in members' deposit balances of £5.8 billion. Total retail member deposits amounted to £106.4 billion at 30 September 2007 following the merger with Portman.

Consumer Finance

We opened 303,000 new current accounts (30 September 2006 - 322,000) and issued over 103,000 credit cards (30 September 2006 – 124,000) in the first half year. The total number of current accounts has grown 6% since the year end to just over 4.3 million whilst credit card accounts increased by 3% to over 1.1 million.

Our current account offers a competitive rate of interest and our no charge policy for overseas card transactions continues to help attract new customers. The account is free for day-to-day use and we remain committed to giving our members access to free banking. Our market share of new current accounts is estimated at 8%.

The debate about bank charges has continued to draw publicity. The handling of customer requests for refunds on this issue has now been suspended pending a decision by the UK High Court on the legal position regarding these fees.

We have continued to adopt a cautious approach to unsecured lending, focusing on credit quality. Approximately three in every five unsecured loan applications received are declined. Our credit performance remains better than the industry. Delinquent (30 day +) balances represent 5.92% of the personal loan book, which is significantly better than the industry average of 10.00%. For credit cards, delinquent (30 day +) balances are 4.71% of the overall book, much better than the industry average of 8.05%.

Insurance and Investments

We have achieved good growth in the number of general insurance, investment and protection policies sold, with total sales up 29% on the comparable period last year.

General insurance sales have been particularly strong, up 39% on the comparable period. Our new home insurance policy, launched last summer, had enhanced cover provided as standard. This product has proved popular with customers and early indications show high retention rates at renewal. Our 'Kids go Free' travel campaign has also been a success and has led to a 9% increase in annual travel insurance policies sold in the period.

Investment and Protection sales in total have increased by 9% over the prior period. For investment products, the increase was driven by sales of ISA, Unit Trust and Child Trust Funds, with Term Assurance providing the main increase in sales of protection products.

Distribution

Following the merger, we offer our members a network of around 900 branches and agencies. We have been investing in our physical infrastructure and our customer facing branch employees, and were delighted to be awarded Best National Branch Network 2007 in the Your Money Awards. We have also continued to invest in our six call centres, and have committed that these will remain in the UK. Members can also use our internet banking service, the popularity of which has made Nationwide the number one on-line mortgage retailer in the UK.

NON - RETAIL

Commercial Lending

Nationwide Commercial is one of the UK's leading commercial property lenders, with a loan book at the end of September 2007 of £18.7 billion (4 April 2007 - £17.9 billion). We have been cautious during this period of difficult market conditions, lending predominantly to our existing customers. Gross advances for the six months were £2.8 billion, (30 September 2006 - £3.6 billion), and net advances were £0.9 billion (30 September 2006 - £1.8 billion). The lending in the period has been achieved whilst maintaining credit quality across all loan portfolios. Just 67 commercial accounts are 3 or more months in arrears (4 April 2007 - 84).

Specialist Lending

The Specialist Lending Division comprises UCB Home Loans and The Mortgage Works (formerly the specialist lender of Portman Building Society). Both companies operate primarily through mortgage intermediaries and are established brands in this market. The Division provides mortgage loans to private landlords ('Buy to Let'), self-employed borrowers and other non-conforming lending.

Gross lending was £1.2 billion in the period (30 September 2006 - £1.0 billion). The growth in new lending has been achieved without compromising credit quality. In an increasingly competitive market the growth has been delivered with careful management of lending criteria and with appropriate pricing of credit risk. The largest growth has been in the Buy to Let market, for which we have tightened our criteria to exclude lending on new build flats. We have extended our other non-conforming product range with a focus on near prime lending. Non-conforming lending totalled £72 million, which represents less than 6% of gross advances in the period.

The proportion of accounts more than 3 months in arrears, at 0.98%, is below the industry average for all mortgage lending of 1.06%. The average indexed loan to value (LTV) across all Specialist Lending is 59%.

GROUP

Market Conditions

Wholesale credit market conditions have been difficult since August in the wake of the liquidity crisis emanating from concerns relating to the U.S. sub-prime mortgage market. Aside from the institutions directly affected by mark-to-market losses from sub-prime exposure, the wider impact of the liquidity crisis on the markets has been to create pressure on institutions' ability to fund in wholesale markets, particularly on those which operate Asset Backed Commercial Paper (ABCP) programmes which have been particularly affected by negative investor sentiment.

Liquidity in the short-term money markets has tightened considerably with the majority of banks willing to lend wholesale money only for shorter periods and at more expensive rates. Bank of England intervention to seek to provide greater liquidity to UK markets has proved to be largely ineffective and, whilst some temporary improvements in conditions have been evident from time to time, overall markets remain very challenging and sensitive to concerns over the performance of individual institutions and the wider economic environment.

Despite these challenging conditions we have increased our liquidity, with a prudential liquidity ratio of 12.1% at 30 September, and continue to fund the Group through normal channels. Critical in this regard has been our reputation for asset quality and prudent financial management. As a predominantly retail funded lender we benefit from a more diverse business model than some other institutions. Our strong retail savings franchise provides over 70% of the Group's funding requirements and reduces our reliance on wholesale banking markets. However, notwithstanding availability of this natural source of funding, we have also invested in the development of a wide range of wholesale banking and other institutional relationships, both in the UK and overseas, to ensure that we have the ability to draw on a broad investor base for the wholesale funding we do

require. This flexible and pro-active funding strategy, covering both retail and wholesale markets, has allowed us to withstand the recent unprecedented market turmoil with confidence.

Two aspects of the market crisis which have attracted much comment are the use of off balance sheet vehicles to fund investments; “conduits” and structured investment vehicles (“SIVs”).

The Society has a conduit which comprised a U.S. \$3.1 billion portfolio of high grade investments. The Society has always treated the conduit as on balance sheet for accounting purposes, so that its investment assets and external commercial paper funding have always been fully reflected in the Group balance sheet. During the first half of this year, the conduit’s external funding has been largely refinanced by replacing maturing funding with direct investment by the Society. The modest size of the conduit has meant that this refinancing has not placed significant pressure on the Group’s overall funding position, and at the end of September, outstanding commercial paper remaining to be refinanced by the Group amounted to \$1.2 billion. By the end of October this had reduced to \$0.1 billion.

The Group’s investment in SIV capital notes amounted to £167 million at 30 September, representing only 0.7% of our Treasury portfolios. The investments we have made were carefully selected with a requirement for reputable and financially strong bank sponsors, and prudent investment strategies. The quality of the assets held by these vehicles is sound and whilst their market values have reduced in common with all asset backed securities, as a result of wider market spreads, we remain confident that the risk of significant defaults on the assets remains low.

In accordance with this view, since 30 September we have redeemed two of our SIV investments with a combined value of £34.2 million, by exchanging our capital notes for direct ownership of the corresponding proportion of the underlying asset pools. We are considering further transactions of this type in order to remove the uncertainties currently affecting SIV investments. At 30 September we have recognised an impairment charge of £35.1 million, to reduce the value of our overall SIV investments to their net asset value based on market prices. Although we have recorded this charge to reflect a prudent basis of valuation given current uncertainties surrounding the liquidity of all SIVs, we remain confident of the underlying asset quality of the SIVs in which we have invested.

Mark-to-market movements on our other treasury investment and liquidity assets have been recorded in the Available for Sale Reserve and we do not consider any of these assets to be impaired. Our Treasury liquidity and investment assets are of very high quality. We have no direct exposure to U.S. sub-prime mortgages and 98% of our overall treasury assets are rated A or better (for more information see page 26). As a result, the cumulative mark-to-market adjustment on the Treasury portfolios at 30 September 2007 represents only around 0.7% of their par value.

Whilst we expect market conditions to remain testing for the remainder of 2007/8, and possibly beyond, our financial strength, inherently prudent business model, and capacity to fund through a range of channels and markets mean that we are well placed to continue to manage the business during this difficult period.

OUTLOOK

UK economic growth was strong during the first half of the financial year, providing a supportive environment for our business. Looking forward, recent increases in interest rates and the impact of the pressures in the wholesale banking markets will affect the wider economy. In our view, this is unlikely to lead to a recession with the associated large increases in unemployment.

Strong house price growth has been supporting net lending, but increases in interest rates and deteriorating affordability will slow the growth of lending in the second half of the year. More difficult credit conditions will put pressure on higher risk borrowers, though expectations of lower base rates and falling swap rates should counteract some of the effect on mortgage rates, leaving the market fairly supportive for mainstream borrowers.

Based on these factors, plus the slow response of housing supply in the UK, we expect the housing market to weaken, with modest levels of net lending across the sector.

Uncertainty in equity markets is likely to support growth in retail deposits, as savers look for safe options. However, as liquidity issues in the wholesale markets continue, we expect there to be strong competition for retail funds. With our attractive product range and good reputation with consumers, we expect to be a strong performer in this market.

CONCLUSION

We remain committed to delivering our mutual agenda; providing fair and competitively priced products on a consistent basis. Our focus on quality business and very strong balance sheet means that Nationwide has the stability and financial strength that our members can rely on during a period of very difficult market conditions. We have created considerable momentum as the UK's largest mutual building society and will continue to grow and deliver more value for our current and future members.

Graham Beale
Chief Executive

21 November 2007

BUSINESS REVIEW

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

Underlying profit before tax equates to reported profit before tax adjusted for the add back of movements in the value of derivatives and hedge accounting, policyholder tax and merger and disposal costs.

Period to 30 September 2007	As reported	Fair value and other adjustments	Merger and disposal costs	Underlying
	£m	£m	£m	£m
Net interest income	835.9	-	-	835.9
Other income net of claims on insurance contracts	210.5	(2.1)	-	208.4
Fair value adjustments from derivatives and hedge accounting	(11.2)	11.2	-	-
Total income net of claims on insurance contracts	1,035.2	9.1	-	1,044.3
Administrative expenses	545.3	-	(47.0)	498.3
Depreciation and amortisation	60.8	-	-	60.8
Impairment losses on loans and advances to customers	60.5	-	-	60.5
Provisions for liabilities and charges	(4.8)	-	-	(4.8)
Impairment losses on investment securities	35.1	-	-	35.1
Profit before tax	338.3	9.1	47.0	394.4

Period to 30 September 2006	As reported	Fair value and other adjustments	Merger and disposal costs	Underlying
	£m	£m	£m	£m
Net interest income	679.4	-	-	679.4
Other income net of claims on insurance contracts	198.7	1.8	-	200.5
Fair value adjustments from derivatives and hedge accounting	32.2	(32.2)	-	-
Total income net of claims on insurance contracts	910.3	(30.4)	-	879.9
Administrative expenses	454.7	-	-	454.7
Depreciation and amortisation	61.5	-	-	61.5
Impairment losses on loans and advances to customers	56.3	-	-	56.3
Provisions for liabilities and charges	4.9	-	-	4.9
Impairment gains on investment securities	(3.5)	-	-	(3.5)
Profit before tax	336.4	(30.4)	-	306.0

Year to 4 April 2007	As reported	Fair value and other adjustments	Merger and disposal costs	Underlying
	£m	£m	£m	£m
Net interest income	1,479.3	-	-	1,479.3
Other income net of claims on insurance contracts	445.9	(2.0)	-	443.9
Fair value adjustments from derivatives and hedge accounting	0.9	(0.9)	-	-
Total income net of claims on insurance contracts	1,926.1	(2.9)	-	1,923.2
Administrative expenses	984.5	-	(14.1)	970.4
Depreciation and amortisation	124.4	-	(5.4)	119.0
Impairment losses on loans and advances to customers	133.6	-	-	133.6
Provisions for liabilities and charges	36.5	-	-	36.5
Impairment gains on investment securities	(4.9)	-	-	(4.9)
Profit before tax	652.0	(2.9)	19.5	668.6

Fair value and other adjustments include movements in the fair value of derivatives and hedge accounting of £11.2 million and policyholder tax of £2.1 million.

PERFORMANCE BY BUSINESS STREAM

From the beginning of this financial year, Nationwide reclassified its business streams, with all customer facing activities classed as either Retail or Non-Retail. This brings the business streams in line with the organisational structure of the Group. The Retail business stream consists of the activities which were previously classed as the Personal Financial Services stream, apart from specialist lending activity, which has now been moved to the Non-Retail stream. In addition, Treasury income generation activities, previously included in the Commercial business stream have now been moved to Group. Comparative numbers have been restated accordingly.

Nationwide now classifies its business streams as follows:

Retail

- Mortgages and Savings
- Consumer Finance
- Insurance and Investments
- Distribution channels supporting these three product divisions

Non-Retail

- Commercial lending
- Specialist mortgage lending

Group

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

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

	Period to 30 September 2007 Underlying £m	Period to 30 September 2006 Underlying £m	Growth %	Year to 4 April 2007 Underlying £m
Retail	120.3	123.8	(2.8)	276.6
Non-Retail	132.2	115.7	14.3	231.9
Group	141.9	66.5	113.4	160.1
Total contribution before tax	394.4	306.0	28.9	668.6

RETAIL BUSINESS STREAM

	Period to 30 September 2007 Underlying £m	Period to 30 September 2006 Underlying £m	Growth %	Year to 4 April 2007 Underlying £m
Net interest income	505.7	464.0	9.0	1,026.4
Other income	178.6	173.9	2.7	383.8
Total income	684.3	637.9	7.3	1,410.2
Expenses	507.0	454.6	11.5	965.0
Impairment and other provisions	57.0	59.5	(4.2)	168.6
Contribution from retail	120.3	123.8	(2.8)	276.6

The underlying contribution from the Retail business stream reduced by 2.8% to £120.3 million, which represents just over 30% 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. This, together with an increase in expenses arising from an increase in the number of member-facing employees and investment in supporting systems, has led to a small reduction in profit compared to the previous period. The total number of retail sales remains strong with performance in non-mortgage and savings sales exceeding that delivered last half year.

Residential mortgages

The UK mortgage market remained relatively buoyant in the first half of 2007/08 with total gross lending up 8% year on year. While the volume of house purchase transactions have been slowing, rising house prices have continued to push up average loan sizes, resulting in a 2% growth in house purchase lending. The Buy to Let sector has remained robust, accounting for 12% of all gross lending in the first quarter of 2007/08.

Growing affordability pressures have led to fewer first-time buyers. This, combined with a significant weakening in equity withdrawal by home movers and remortgages this financial year, has led to much slower growth in net lending. This increased at an annual rate of just 1% in the first half of 2007/08 compared with 19% in the same period last year and to 22% in the second half of 2006/07.

Our prime mortgage net lending was £3.3 billion for the half year, a market share of 5.7%, taking total prime residential mortgage balances to £103.7 billion following our merger with Portman. Retention has been very strong with an estimated 6.5% market share of principal repaid (£8.6 billion). This has been achieved through our highly successful strategy of actively engaging with customers before the end of their product's term, together with our competitive range of products and by further rewarding existing loyal members with a substantial discount against their product reservation fee. Gross advances market share has been a considered 6.3% (£11.9 billion), reflecting our cautious approach in the midst of fierce competition for mortgage market share for much of the half year.

Our prudent lending to creditworthy customers is demonstrated by continuing high asset quality. The average loan to value (LTV) ratio of the Group's retail loan portfolio is estimated at 39% with the average LTV for all new lending being 59%. The number of prime mortgages 3 or more months in arrears as a proportion of the book, at 0.31%, remains very low compared with the industry average of 1.06%.

Following positive member feedback, we re-launched our innovative 25 year fixed rate mortgage during July, with a borrower option to redeem the mortgage after ten years with no early redemption penalty. Our mortgage initiatives and competitive product range has led us to appear in mortgage best buy tables 277 times.

Following the launch of our revised online mortgage application facility for intermediaries last year the proportion of online trading with intermediaries continues to grow. Further investment in our core operating platform has been approved by the Board.

Looking ahead to next year, we expect the weakening trends in UK gross lending to continue as the housing market cools further. We also anticipate weaker levels of net lending as a result of even fewer first-time buyers, subdued levels of equity withdrawal and some moderation in the Buy to Let market.

Retail savings

UK retail savings balances increased by 4% in the six months to 30 September 2007. The growth in balances has been supported by the higher base rate environment and continued competition for retail funds. Looking forward, we expect continued firm growth in the retail savings market during the rest of the financial year. The recent financial market unrest and uncertainty around equity market performance should also support growth in overall balances as competition for retail deposits increases. Households may also choose to move away from equity investments towards the relative safety of deposit accounts.

Retail savings continue to represent our primary source of funding. Following the merger with Portman, the Group's total retail member deposits as at 30 September 2007 amounted to £106.4 billion (4 April 2007 - £86.8 billion). Despite a fiercely competitive savings market, we achieved a 15.4% (30 September 2006 – 8.7%) share of the overall increase in UK retail savings. The largest increases were in our loyalty and fixed rate products which attracted significant inflows of savings in September following the launch of our one year bond, which offered a market leading rate of up to 6.70%.

Current accounts

The Society's current account, FlexAccount, is a key product in developing and retaining lasting customer relationships. The product offers both existing and new customers a rate of interest of up to 4.25% on credit balances and an authorised overdraft rate of 9.9%. In addition, our no charge policy for overseas card transactions helps to attract new customers. Around 49% of FlexAccount customers now regularly use our internet banking service, and over 3 million members are registered to use this service.

The total number of Nationwide current accounts has grown by around 230,000 to just over 4.3 million. Our market share of new accounts is estimated at 8% (based on CACI's Current Account and Savings Database for the period to June 2007). Credit quality remains strong and against this book growth, the balance of delinquent accounts has remained static over the first half of the year.

Along with a number of UK banks, during the first half of 2007 the Society has experienced a number of customer requests for the repayment of overdraft fees. On 27 July 2007, the Society and a number of banks together with the Office of Fair Trading, asked the UK High Court to clarify the legal position regarding these fees. It is unclear how long the case will last but in the meantime the handling of customer requests for refunds of these fees has been suspended pending a decision by the Court.

Credit cards

The Society continues to differentiate its credit card from others in the UK by not charging for international use and by a positive order of payments, in that we allocate payments to clear the most expensive debt first.

The total UK credit card market gross lending of £63.5 billion in the first half year was marginally higher than the same period in 2006. We have continued to see growth with gross lending of almost £1.5 billion (30 September 2006 - £1.3 billion), primarily driven by growth in merchant spend.

In the first half year we issued 103,000 new credit card accounts (30 September 2006 – 124,000). Our total number of accounts is 1,160,000 and balances outstanding on credit cards at 30 September 2007 were £812 million (4 April 2007 - £746 million).

Our overall delinquent balances (30 days +) as a percentage of outstanding balances have fallen since the year end to 4.71%. This is significantly better than the industry average of 8.05%.

Personal loans

Personal loans are offered through Nationwide Trust Limited, a wholly owned subsidiary of the Society. Loans are sold through the branch network, over the telephone and via the internet.

Overall the UK consumer credit market remained weak in the first half year, largely due to lenders continuing strict lending criteria. The UK personal loans market has seen gross lending 3% lower than that of last year, with changes in balances outstanding considerably below that in the first half of 2006, reflecting both lower net lending and higher write offs.

Our gross unsecured lending to 30 September 2007 was £0.3 billion (30 September 2006 - £0.6 billion). The reduction reflects our cautious approach to new lending and an increase in pricing.

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 three in every five unsecured loan applications received being declined. Asset quality remains strong with the value of balances 30 or more days in arrears having fallen during the period to 5.92% (4 April 2007 – 6.12%). This is significantly better than the industry average of 10.00%.

Looking forward, we expect the consumer credit market to remain subdued this financial year as lenders continue to be cautious in their lending practices. We also expect demand for credit to be modest as higher interest rates bite and consumers reign in their spending. Current financial market conditions are also likely to reduce lender appetite for risk further and along with higher funding costs pose downward pressure for the unsecured markets.

General insurance

In the six months to 30 September 2007 we sold 358,000 new general insurance covers, an increase of 39% over the prior period (30 September 2006 – 258,000).

The primary general insurance products offered by the Group are buildings and contents, payment protection policies, motor insurance and travel insurance. Sales of general insurance products are often linked to, and therefore can be largely dependent upon, other product sales such as mortgages, personal loans and credit cards.

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. Over the half year insurance income was up 6% to £53.3 million (30 September 2006 - £50.4 million). The severe storms in January this year and widespread floods in June and July led to a significant increase in insurance claims which, in turn, will impact the level of profit share on the Home Insurance scheme in the second half of the year.

Life assurance and investments

The Society, through its wholly owned subsidiary, Nationwide Life Limited (NL), currently writes a range of investment and protection products. These include two types of insurance product: term life assurance and critical illness cover. Almost 34,000 life policies have been sold during the first half of the year (30 September 2006 – 34,000 policies). Nationwide Life also provides pension contracts and guaranteed equity bonds.

Through our wholly owned subsidiary, Nationwide Unit Trust Managers Limited (NUTM), we currently write a range of investment contracts including unit trusts, ISAs and Child Trust Funds. At 30 September 2007 our range of unit trust investment products held by our customers had a market value of over £2.9 billion (30 September 2006 - £2.6 billion). Sales of the Target Return Fund were particularly strong again in the first half year.

On 7 February 2007 the Society announced its intention to sell both NL and NUTM and enter into a distribution agreement with Legal & General. Under the terms of the agreement, Legal & General will purchase both companies and we will sell Legal & General products via our 2,000 strong team of advisers and consultants. This arrangement, due to become effective in February 2008, will provide an excellent opportunity for our members to choose from a broader range of competitively priced products from one of the UK's top financial services companies and enjoy an enhanced service.

Pricing benefit

Pricing benefit is the value that Nationwide estimates that it distributes to its members in the form of favourable product pricing (including interest rates, fees and charges) compared with our competitors. During the half year we estimate that we generated pricing benefit of approximately £300 million by offering better rates and by charging lower fees and charges than our competitors.

Distribution channels

We are committed to endeavouring to allow our customers to do business with us when, and how, they wish. We are continuing the £300 million, six year investment programme announced in 2004 to develop a modern business and to ensure that our branch, telephone, internet and other access channels are maintained at the high standards expected by our members. This programme continues to progress very well with a number of technology investments having already been successfully deployed.

Following the merger with Portman, the combined Society now has a network of around 900 branches and agencies. In addition to the rebranding of former Portman sites, our investment programme has completed the refurbishment or re-site of 94 branches during the period. The additional sales space created since the start of the programme is equivalent to that from an extra 119 branches. In addition to the investment in physical infrastructure, we are now seeing the benefit from our recent investment in customer facing branch employees in our sales and service proposition. This was reflected in being awarded the Best National Branch Network 2007 in the Your Money Awards, in acknowledgement of the excellent service which we aim to offer to all of our membership.

We have continued our investment in our six call centres and have made a commitment that all will remain in the UK. The Swindon based call centre will move to new, purpose built premises in the town in March 2008. This will see an additional 200 jobs created over the next two years to further enhance our telephone customer service proposition. We have recently upgraded our Telephone Self Service offering, significantly enhancing the choices given to customers in how they run their accounts. The updated service gives them more scope and opportunity to manage their daily banking needs at a time and place that suits them.

We recently celebrated the tenth anniversary of the launch of the UK's first internet banking service on 27 May 1997. We now have over 3 million customers registered to use the service and are now the number one on-line mortgage retailer in the UK. In addition to completing their mortgage application, customers can obtain on-line quotes, purchase the full range of our products, transfer funds from one account to another and receive on-line statements.

Total product sales were up 19% on the same period in 2006/07. We were particularly pleased that sales of non-mortgage and savings products were up 8%, further illustrating our diversification away from our core business lines. This performance was led by sales of investment and protection products. We are committed to giving our members the customer experience that they expect and conduct regular 'member talkbacks' to help us achieve this objective. In addition, we regularly monitor our members' advocacy and loyalty, together with competitor activity.

NON-RETAIL BUSINESS STREAM

	Period to 30 September 2007 £m	Period to 30 September 2006 £m	Growth %	Year to 4 April 2007 £m
Net interest income	155.4	133.6	16.3	279.9
Other income	5.1	18.0	(71.7)	23.8
Total income	160.5	151.6	5.9	303.7
Expenses	31.1	34.2	(9.1)	70.2
Impairment and other provisions	(2.8)	1.7	-	1.6
Contribution from Non-Retail	132.2	115.7	14.3	231.9

The underlying contribution from the Non-Retail business stream increased by 14.3% to £132.2 million. This represents around a third of the Group's total contribution.

The increase in profit is primarily driven by growth in Commercial income, reflecting the impact of the increased volume of lending in previous years, and by the release of provisions on specific cases that have performed better than expectations. The period to 30 September 2007 also includes one month's contribution from TMW, whilst the comparative period included £13.5 million of gross income and £8.5 million profit relating to at-home nationwide.

Commercial lending

The Commercial Division's loan book has grown to £18.7 billion at the end of September 2007 (4 April 2007 - £17.9 billion). Commercial lending is a significant part of our business accounting for 13.5% of total Group loan assets. The commercial portfolio comprises loans in respect of commercial property (64%), social housing (31%) and Private Finance Initiatives (5%).

Commercial property loans are fully secured against properties supported by strong cash flows and tenant covenants. Loans to social housing providers, largely Registered Social Landlords, are secured on residential portfolios whilst loans advanced under Private Finance Initiatives are secured on cash flows from Government backed contracts.

The commercial portfolio is well diversified by industry type and geographic location. We remain the lender with the largest volume of funding commitments to Registered Social Landlords.

As expected, investor returns from commercial property have fallen in the last 6 months from the exceptionally high levels seen in recent years. We have continued to focus on good quality lending for investment property supported by strong tenant cash flows. Gross commercial lending in the period totalled £2.8 billion (30 September 2006 - £3.6 billion). Net lending in the period was £0.9 billion (30 September 2006 - £1.8 billion). Asset quality remains strong with just 67 accounts being 3 or more months in arrears (4 April 2007 – 84 accounts).

Specialist lending

The Specialist Lending Division comprises UCB Home Loans and TMW. Both companies operate primarily through mortgage intermediaries and are established brands in this market. The Specialist Lending Division will maintain and build upon the 'two brand' strategy, which will leverage their respective strengths in product offering and distribution.

The Division provides mortgage loans to private landlords ('Buy to Let'), self-employed borrowers and other non-conforming lending.

- Gross lending increased to £1.2 billion with the emphasis on the ‘Buy to Let’ market.
- The combined gross lending of TMW and UCB positions the Specialist Lending division firmly in the top four Buy to Let providers.
- The total mortgage balances across the two brands exceeds £12.5 billion.
- The product range has been extended during the period with an emphasis on near prime lending and a carefully managed exposure to adverse lending. Total other non-conforming gross advances were £72 million, of which 90% were near-prime.

Asset quality is very strong, with the proportion of accounts more than 3 months in arrears at 0.98%, which is below the industry average of 1.06% for all mortgage lending. The average indexed LTV across all Specialist Lending is 59%, and for new lending the average LTV was 72%.

The period under review has seen unusually competitive and volatile trading conditions. The credit market uncertainties in August and September have caused a number of specialist lenders, particularly those that securitize their mortgage books, to significantly reduce their activity. Our Specialist Lending Division has remained competitively priced throughout this period and continues to provide a broad product range.

GROUP BUSINESS STREAM

	Period to 30 September 2007 £m	Period to 30 September 2006 £m	Growth %	Year to 4 April 2007 £m
Net interest income	174.8	81.8	113.7	173.0
Other income	24.7	8.6	187.2	36.3
Total income	199.5	90.4	120.7	209.3
Expenses	21.0	27.4	(23.4)	54.2
Impairment and other provisions	36.6	(3.5)	-	(5.0)
Contribution from Group	141.9	66.5	113.4	160.1

Contribution from the Group business stream grew significantly this half year to £141.9 million (30 September 2006 - £66.5 million), net interest income being the main driver of the increase.

Net interest income in the Group business stream has benefited from the increased differential between Libor and bank base rate experienced over the half year; the benefit of which is not passed onto the Retail and Non-Retail Business streams.

The Society’s exposure to movements in the differential between Libor and the bank base rate is managed through the prudent use of swaps linked to the base rate. The Society has received more benefit through these swaps in this half year, compared with the same period last year. In addition to the above, the Group business stream also benefits from 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, and from the benefit derived from the Group having an excess of liabilities which are non-interest bearing over non-interest earning assets. The generally higher interest rate environment this half year has generated a greater contribution to net interest income in these areas than the same period last year.

Other income has increased this half year at £24.7 million (30 September 2006 - £8.6 million) due to dividends received on equities held within the Treasury investment portfolio early in the half year.

Expenses are 23.4% lower than last half year at £21.0 million, mainly due to more costs being allocated directly to business streams rather than being held centrally. Impairment provisions increased to £36.6 million compared with a release of £3.5 million last half year. The charge this half year principally relates to a provision against investment in Structured Investment Vehicles (SIVs) capital notes. More information on the Treasury portfolios, including SIVs, is provided on page 26 and analysis by asset type and rating is provided on pages 48 and 49.

PERFORMANCE BY INCOME STATEMENT CATEGORY

Profit

A Summary Income Statement is as follows:

	Period to 30 September 2007 £m	Period to 30 September 2006 £m	Growth %	Year to 4 April 2007 £m
Net interest income	835.9	679.4	23.0	1,479.3
Other income	208.4	200.5	3.9	443.9
Total income	1,044.3	879.9	18.7	1,923.2
Expenses	559.1	516.2	8.3	1,089.4
Impairment and other provisions	90.8	57.7	57.4	165.2
Underlying profit before tax	394.4	306.0	28.9	668.6
Merger and disposal costs	(47.0)	0.0	-	(19.5)
Derivatives and hedge accounting	(11.2)	32.2	-	0.9
Policyholder tax	2.1	(1.8)	-	2.0
Reported profit before tax	338.3	336.4	0.6	652.0

Underlying profit continues to grow strongly and was £394.4 million for the first half year, a 28.9% increase on the same period last year. The increase in profit is consistent with our strategy of retaining sufficient profit to allow continued investment in the business and to support its future growth. This is particularly the case this year given the significant investment planned for the Group. However, the size of the increase has been largely driven by the prevailing interest rate environment, as described in the net interest income section below.

On a reported basis, profit before tax was £338.3 million, an increase of 0.6% compared with the same period last year. The reported 30 September 2007 profit includes £47.0 million of costs associated with the merger with Portman and with the forthcoming sale and transfer of the Society's investment businesses, neither of which impacted significantly last year. Of these costs, £40.5 million are merger related, including £27.2 million of redundancy provision. Management's view is that a comparison of like-for-like underlying results provides the best measure of performance.

Net interest income

Net interest income is the difference between the interest earned on our assets less the interest paid on the liabilities funding those assets. It is largely earned on our Retail and Non-Retail products together with interest income from activity within Group.

Net interest income increased by 23% to £835.9 million for the half year compared with the same period last year. Although volatile towards the end of the half year, the interest rate environment has continued to benefit the Society and this, combined with effective margin management throughout the half year, has helped to improve the Group net interest margin to 1.18%.

	Period to 30 September 2007 £m	Period to 30 September 2006 £m	Year to 4 April 2007 £m
Net interest income	835.9	679.4	1,479.3
Weighted average total assets	145,279.0	124,739.0	129,826.0
	%	%	%
Net interest margin excluding beneficial impact from Libor/ Bank base rate differential	1.07	1.06	1.08
Beneficial impact from Libor /Bank base rate differential	0.11	0.05	0.06
Net interest margin	1.18	1.11	1.14

The Society's Libor denominated net asset exposure has averaged approximately £37 billion over the half year. As a result of this exposure we have benefited from Libor rates received relative to bank base rate being on average 27 basis points higher than the same period last year. The Libor to bank base rate differential contributed around 11 basis points to the Group's net interest margin. Excluding this beneficial impact, the underlying margin was 1.07%.

Other income

Other income continues to primarily comprise income earned from the sale and manufacture of insurance products together with administration and transaction fees not included within interest margin. Underlying other income in the half year showed a small increase on the same period last year, increasing 3.9% to £208.4 million. However, income in the half year to 30 September 2006 included £13.5 million in respect of at.home nationwide comprising income from residential letting and profit from its sale in August last year. This year, income in the first half year has been boosted by £22.1 million from dividends on equities held within the Treasury investment portfolio in April.

Expenses

	Period to 30 September 2007 £m	Period to 30 September 2006 £m	Growth %	Year to 4 April 2007 £m
Employee costs:				
• Wages and salaries	201.3	187.5	7.4%	385.8
• Social security costs	15.4	13.8	11.6%	29.1
• Pension costs	47.8	45.6	4.8%	94.2
	264.5	246.9	7.1%	509.1
Other administrative expenses	233.8	207.8	12.5%	461.3
Depreciation and amortisation	60.8	61.5	(1.1)%	119.0
	559.1	516.2	8.3%	1,089.4

Total expenses amounted to £559.1 million, representing an increase of 8.3% over the period ended 30 September 2006. This increase compares with a rise in underlying total income of 18.7%. Whilst the increase in costs reflects the general growth of the business, there is also significant increase in spend on our infrastructure, ensuring that we continue to improve the experience and security of the service for our members. Our underlying cost to income ratio, one of our principal measures of efficiency, improved to 53.5% (30 September 2006 - 58.7%).

Impairment losses on loans and advances

	Period to 30 September 2007 £m	Period to 30 September 2006 £m	Growth %	Year to 4 April 2007 £m
Secured lending	(8.1)	1.1	-	0.5
Unsecured lending	68.6	55.2	24.3	133.1
	60.5	56.3	7.5	133.6

Our high quality lending policy has resulted in a release of provision for residential lending, plus a release arising from individually significant Commercial cases that have performed better than initial expectations.

In line with other lenders offering unsecured products, we have experienced an increase in the impairment charge driven by a higher level of write offs and the balances of accounts moving into arrears. However, the £68.6 million charge is £9.3 million less than the charge for the second half of 2006/07 and our arrears as a percentage of the unsecured books are around 40% lower than industry averages.

Impairment charges on investment securities and other provisions

	Period to 30 September 2007 £m	Period to 30 September 2006 £m	Year to 4 April 2007 £m
Customer redress	(4.8)	4.9	36.5
Treasury investments	35.1	(3.5)	(4.9)

Along with a number of UK banks, during the first half of 2007 the Society has experienced a number of customer requests for the repayment of overdraft fees. On 27 July 2007, the Society and several banks together with the Office of Fair Trading, asked the UK High Court to clarify the legal position regarding these fees. It is unclear how long the case will last but in the meantime the handling of customer requests for refunds of these fees has been suspended pending a decision by the Court. There has been no impairment charge in this period relating to these fees as we provided for them in the second half of last year. We have made a small release of provision in respect of endowment claims and mortgage exit administration fees.

The impairment charge on treasury investments relates to Structured Investment Vehicles (SIVs). Nationwide's exposure to SIVs and the position in respect of these vehicles are covered in more detail in the section below on Treasury portfolios.

Derivatives and hedge accounting

All derivatives entered into by Nationwide are 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, £11.2 million losses from derivatives and hedge accounting have been added back to arrive at underlying profit. In previous periods, net gains have been recorded and these were similarly deducted in calculating underlying profit.

Portman Building Society utilised cash flow hedging to minimise the income statement volatility of its mortgage pipeline's fair value. On transfer of engagements the balance has been recognised in a cash flow hedge reserve (note 15). Amounts are amortised to the income statement in relation to the maturity periods of the underlying mortgages.

Policyholder Tax

As a result of the requirement to consolidate 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. 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 underlying results.

Taxation

The effective tax charge is 30.3% (4 April 2007 – 28.9%). The tax charge has been calculated as far as possible to approximate to the expected full year tax rate. The full year rate includes a one off tax charge (increasing the rate by 1.2%) arising from the release of deferred tax assets across the group, following the change in tax rate to 28% announced in the 2007 budget. A number of items reduce the charge including tax exempt income and gains expected on the sale of NL and NUTM, on disposal of properties and lower tax rates arising in overseas territories. Overall the tax rate is not materially different from the UK statutory rate of 30%. It is expected that the overall rate will trend downwards in future periods as a result of the change in tax rate to 28%.

BALANCE SHEET

Loans and advances to customers

The composition of our £137.8 billion of loans and advances to customers continues to have a low risk profile. The Retail business stream holds £106.6 billion of these assets, comprising prime residential mortgages (97.3%), unsecured personal loans (1.7%), credit cards (0.8%) and overdrafts (0.2%).

In the prime residential mortgage portfolio, 87% of accounts have a loan to value (LTV) of less than 70% and just 1% have an LTV in excess of 90%. We do not lend on LTV's in excess of 95%. Arrears on our Retail loan portfolios compare very well to industry averages. The overall number of prime residential mortgages 3 or more months in arrears as a proportion of the book, at 0.31%, remains very low compared with the industry average of 1.06%. Delinquent balances represent 5.92% of our personal loan balances, compared to the industry average of 10.00%, and 4.71% of our credit card balances, compared to the industry average of 8.05%.

The Non-Retail business stream holds the remaining £31.2 billion loans and advances. This book comprises Commercial loans (59.8%) and Specialist Lending (40.2%). Of the £18.7 billion Commercial book, 64% is secured on commercial property, 31% is to Registered Social Landlords and the remaining 5% is advanced under the Private Finance Initiative. The asset quality of the Commercial portfolio is strong - our commercial property portfolio is well diversified by industry type and we have never suffered losses on our lending to Registered

Social Landlords or Private Finance Initiatives. Levels of arrears remain at very low levels with just 67 accounts having arrears of three months or more.

In our Specialist Lending Division, 60% of the book relates to Buy to Let mortgages and the remaining 40% to self employed and non-conforming borrowers. Within this latter category, 99.6% is prime or near-prime. The average LTV of the portfolio is 59% and less than 1% of cases have an LTV of between 90 and 95%. Arrears performance is also strong on these portfolios with 0.98% of cases being 3 months or more in arrears, compared to the industry average for all mortgage lending of 1.06%.

Treasury Portfolios

Group treasury assets at 30 September 2007 were £23.8 billion (4 April 2007 - £17.5 billion). These assets are held in two separate portfolios – the liquidity portfolio (£19.8 billion) and the investment portfolio (£4.0 billion). More detailed analysis of the portfolios is provided on pages 48 and 49.

A strong focus is placed on rigorous credit assessment at purchase and throughout the life of the asset. Around 30 dedicated staff spread across three independent divisions – Treasury, Risk Management and Group Finance – have the requisite investment, credit, risk management and reporting skills and experience to manage the investment portfolio. The structure ensures that credit approval is undertaken by an independent Risk Management Division distinct from the Treasury originating team.

We continue to have no exposure to emerging markets and only minimal exposure to non investment grade debt. There is no direct exposure to the sub-prime mortgage sector in the U.S. Around 98% of our overall Treasury assets are rated A or better.

The Group accounts for its Treasury liquidity and investment assets as Available for Sale which are marked-to-market with changes going directly to the Available for Sale reserve in the balance sheet. However, we have considered it appropriate to reflect the £35.1 million reduction in fair value of our SIV capital notes in the income statement. This is dealt with in more detail below in the Treasury investment portfolio section. No other impairment is judged to have occurred. Given the high quality of our investment assets, the cumulative mark-to-market adjustment in the treasury portfolios at 30 September 2007 represents only around 0.7% of their par value.

Treasury liquidity portfolio

At 30 September 2007, the liquidity portfolio totalled £19.8 billion (4 April 2007 - £14.0 billion). Of these balances, £17.9 billion qualified as Prudential Liquidity (4 April 2007 - £12.6 billion) representing a Prudential Liquidity ratio of 12.1% (4 April 10.4%). All of the prudential liquidity is rated A or better with 66% rated AA or better.

The merger with the Portman Building Society saw the liquidity portfolio grow by £2.6 billion. As these assets had a very similar breakdown in terms of asset type and credit rating the overall quality of the book was maintained.

Since 30 September we have further increased the size of our liquidity portfolio with the purchase of additional high quality liquid assets and in particular we have added to the Bank of England reserve account. Money in the reserve account is available to the Society on a same-day basis and earns interest at the prevailing base rate.

Treasury investment portfolio

At 30 September 2007, the investment portfolio totalled £4.0 billion (4 April 2007 - £3.5 billion) and it is held to generate additional income for the Group. Around 92% of the investment portfolio is rated A or better with 89% rated AA or better.

At 30 September 2007, SIV capital notes were held in seven separate SIVs with the largest single investment accounting for 26% of the total initial £166.9 million investment. SIVs therefore represented only 0.7% of our treasury assets. Each of the SIVs have AA rated bank sponsors. We do not have any exposure to SIV-Lite vehicles.

The fair value of the SIVs at 30 September 2007 had reduced by £35.1 million to £131.8 million and all of this reduction has been charged to the income statement. However, we remain confident that the quality of the assets held by the SIVs is sound and whilst their market values have reduced (in common with all asset backed securities as a result of wider market spreads) we remain confident that the risk of significant default on these assets remains low. Accordingly since 30 September we have redeemed two of our SIV investments with a combined fair value at that date of £34.2 million, by exchanging the capital notes for direct ownership of the corresponding proportion of the underlying asset pools, and we are considering further transactions of this type.

Wholesale funding

The diversity of our total funding, and in particular the fact that a significant proportion of our book is funded by retail balances, greatly reduces Nationwide's exposure to any reduction in availability of wholesale funding. In addition, our diversity of wholesale funding sources is high thus reducing our dependency on any one source of wholesale funding.

At 30 September 2007, wholesale balances stood at £45.7 billion (4 April 2007 - £38.5 billion) representing a funding ratio of 29.0% (4 April 2007 - 28.4%). This is one of the lowest levels of wholesale funding for organisations of comparable size. The proportion of our wholesale funding for which original maturity date is greater than one year has remained stable at 50.4% (4 April 2007: 48.5%).

During the period we have continued to demonstrate our capability to fund in both our short term and long term funding programmes. This strength has enabled us to fund the increase in our liquidity position by over £2 billion since August.

During the six months to September 2007, our long term funding focused on extending our funding presence as we issued our inaugural US dollar covered bond - \$2 billion in July 2007 which was supplemented by an additional €1 billion of covered bonds issued in the Euro capital markets during September.

During the first half of this year, the external funding of our investment conduit has been largely refinanced by replacing maturing funding with direct investment by the Society. The modest size of the conduit has meant that this refinancing has not placed significant pressure on the Group's overall funding position, and at the end of September, outstanding commercial paper remaining to be refinanced by the Group amounted to only \$1.2 billion. By the end of October this had reduced to \$0.1 billion.

Our short and long term credit ratings from the major rating agencies have not changed during the year. They are as follows:

	Short term	Long term
Fitch Ratings	F1+	AA-
Moody's	P-1	Aa2
S&P	A-1	A+

CAPITAL STRUCTURE

Regulatory capital stood at £9.2 billion (4 April 2007 - £8.0 billion). We had increased our total capital in the second half of last year, in anticipation of the merger and organic balance sheet growth. The Group's total solvency ratio has now returned to 10.5% (4 April 2007 - 11.0%) and the Tier 1 solvency ratio stood at 8.3% (4 April 2007 - 8.7%). Both ratios remain well in excess of the minimum established by the Society's Regulator.

Our capital position will be enhanced by the disposal of NL and NUTM in February 2008, and we will benefit from the introduction of Basel II.

	30 September 2007 £m	30 September 2006 £m	4 April 2007 £m
Tier 1			
General reserve	6,051.1	5,014.1	5,295.8
Permanent interest bearing shares (note i)	1,212.2	700.0	1,045.4
Pension fund net deficit add back (note ii)	55.4	161.5	106.0
Intangible assets	(109.2)	(84.0)	(106.1)
Deductions from Tier 1 capital (note iii)	(6.6)	-	(20.2)
	7,202.9	5,791.6	6,320.9
Tier 2			
Revaluation reserve	139.5	117.0	128.2
Subordinated debt (note i)	1,883.1	1,441.1	1,617.0
Collective impairment allowance	210.3	158.5	184.0
Deductions from Tier 2 capital (note iii)	(6.6)	-	(20.2)
	2,226.3	1,716.6	1,909.0
Deductions	(276.6)	(347.5)	(269.2)
Total capital	9,152.6	7,160.7	7,960.7
Risk weighted assets (£bn)	87.0	68.2	72.5
Tier 1 ratio (%)	8.3	8.5	8.7
Total capital (%)	10.5	10.5	11.0
Tier 2 to Tier 1 ratio (%)	30.9	29.6	30.2

Notes

- (i) For 2007, permanent interest bearing shares and subordinated debt include any fair value adjustments arising from micro hedging and adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet. For 2006, these adjustments are excluded. This change in treatment reflects a change in the calculation of regulatory capital effective from 1 January 2007, as part of the migration to Basel II.
- (ii) 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.
- (iii) For 2007, certain deductions from capital are required to be allocated, 50% to Tier 1 and 50% to Tier 2 capital, whereas in 2006 they were deducted from total capital. As in note (i), this change in treatment is part of the migration to Basel II.

Risk - Basel

Nationwide has applied for a waiver to use an Internal Rating Based (IRB) approach under the Capital Requirements Directive (Basel II). We have continued our preparations in consultation with the FSA and while we are completing our preparations we will calculate our capital requirements on a Standardised basis.

Nationwide is strongly capitalised and manages its capital to maintain a buffer above minimum regulatory ratios. The Society expects to be a beneficiary under Basel II irrespective of the approach adopted due to the overwhelming level of mortgage assets we hold. An Individual Capital Guidance will be provided by the FSA before the end of the year.

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

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

The valuation of the Nationwide Pension Fund at 30 September 2007 resulted in a deficit of £91.0 million (4 April 2007 - £163.0 million) using the methodology set out in IAS 19. Our total retirement benefit liability under IAS 19, including other schemes, is £93.8 million (4 April 2007 - £172.4 million). We have been actively managing the deficit on the Nationwide Pension Fund and have taken a number of steps to contain and reduce the deficit over time:

- Final Salary arrangements closed to new members since 2001 and CARE arrangements closed in May 2007;
- Employee contributions (final salary arrangements) increased from 5% to 7%;
- Special contributions of £150 million were paid in the period 2005/06 – 2006/07; and
- The Trustees continue to work 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. A full triennial valuation of the Fund as at 31 March 2007 has been undertaken and its results are currently being assessed. A plan will be agreed with the Trustees to manage the ongoing funding of the scheme.

The Portman final salary scheme was closed to new entrants in 2001. Additional contributions of £3.5 million per annum are being paid to ensure that the scheme is fully funded.

PRINCIPAL RISKS

The Disclosure and Transparency Rules (DTR 4.2.7) require that a description of the principal risks and uncertainties are given in the Half-Yearly Financial Report for the remaining six months of the financial year. Nationwide's principal inherent risks are described in the Risk Management and Control section of the Business Review, on pages 23 to 25 of the 2007 Annual Report and Accounts, and fall within the following categories:

- Credit risk;
- Market risk;
- Liquidity risk; and
- Operational risk.

The Business Review and the Chief Executive's Review of this Report comment on the primary uncertainties affecting Nationwide for the remaining six months of the year. This includes reference to the economic outlook, including the housing market, interest rates, and the ongoing impact of the recent issues in the wholesale banking markets.

Signed by

Mark Rennison
Group Finance Director
21 November 2007

CONSOLIDATED INCOME STATEMENT
For the period ended 30 September 2007

	Notes	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
Interest receivable and similar income	3	4,280.9	3,111.5	6,890.9
Interest expense and similar charges	4	3,445.0	2,432.1	5,411.6
Net interest income		835.9	679.4	1,479.3
Fee and commissions income		157.5	153.4	335.4
Fee and commissions expense		(0.8)	(1.9)	(3.6)
Premiums on insurance contracts and fair value gains on insurance assets	5	120.9	97.4	224.9
Income from investments		22.1	4.4	23.1
Other operating income		0.6	22.0	36.0
(Losses)/gains from derivatives and hedge accounting		(11.2)	32.2	0.9
Total income		1,125.0	986.9	2,096.0
Insurance claims and change in liabilities		89.8	76.6	169.9
Total income net of claims on insurance contracts		1,035.2	910.3	1,926.1
Administrative expenses	6	545.3	454.7	984.5
Depreciation and amortisation		60.8	61.5	124.4
Impairment losses on loans and advances to customers	7	60.5	56.3	133.6
Provisions for liabilities and charges	8	(4.8)	4.9	36.5
Impairment losses/(gains) on investment securities		35.1	(3.5)	(4.9)
Profit before tax		338.3	336.4	652.0
Analysed as:				
• Profit before tax and merger and disposal costs		385.3	336.4	671.5
• Merger and disposal costs		(47.0)	-	(19.5)
Profit before tax		338.3	336.4	652.0
Taxation		102.4	103.0	188.4
Profit after tax		235.9	233.4	463.6

Merger and disposal costs relate to the merger with Portman Building Society on 28 August 2007, and the forthcoming disposal of Nationwide Life Limited and Nationwide Unit Trust Managers Limited.

The notes on pages 34 to 46 form an integral part of this condensed consolidated half-yearly financial report.

CONSOLIDATED BALANCE SHEET
As at 30 September 2007

	Notes	30 September 2007 (Unaudited) £m	30 September 2006 (Unaudited) £m	4 April 2007 (Audited) £m
ASSETS				
Cash and balances with the Bank of England		1,180.6	322.2	364.0
Loans and advances to banks		4,322.3	1,488.5	1,490.1
Investment securities – available for sale		18,278.1	14,905.7	15,600.6
Derivative financial instruments		1,478.3	589.6	1,071.6
Insurance and other financial assets at fair value		-	1,848.0	-
Fair value adjustment for portfolio hedged risk		(425.5)	(206.3)	(619.5)
Loans and advances to customers	10	137,456.0	109,071.4	115,938.4
Investments in equity shares		43.1	28.7	36.7
Value of in force life insurance contract business		-	127.6	-
Intangible fixed assets		109.2	84.0	106.1
Property, plant and equipment		799.1	643.4	663.7
Investment properties		14.8	34.0	15.1
Accrued income and expenses prepaid		130.0	175.6	76.3
Deferred tax assets		61.6	114.6	77.2
Other assets		125.4	362.9	161.6
Assets classified as held for sale	9	2,454.0	-	2,396.6
Total assets		166,027.0	129,589.9	137,378.5
LIABILITIES				
Shares		106,365.3	84,137.5	86,795.4
Deposits from banks		5,109.8	3,504.7	3,288.7
Other deposits		4,834.0	4,018.1	3,406.7
Due to customers		3,136.0	2,811.2	2,926.1
Debt securities in issue		32,601.8	24,577.9	28,871.7
Fair value adjustment for portfolio hedged risk		(20.8)	(4.9)	(30.2)
Derivative financial instruments		934.4	493.0	703.2
Insurance contracts liabilities		-	1,208.7	-
Other liabilities		844.7	498.8	516.5
Provisions for liabilities and charges	8	31.2	27.1	50.3
Accruals and deferred income		709.4	476.2	367.0
Subordinated liabilities	11	1,883.1	1,452.8	1,617.0
Permanent interest bearing shares	11	1,212.2	740.8	1,045.4
Current tax liabilities		32.8	141.5	93.2
Retirement benefit obligations		93.8	299.1	172.4
Liabilities directly associated with assets classified as held for sale	9	2,136.8	-	2,090.7
Total liabilities		159,904.5	124,382.5	131,914.1
General reserve	12	6,051.1	5,014.1	5,295.8
Revaluation reserve	13	139.5	117.0	128.2
Available for sale reserve	14	(70.5)	76.3	40.4
Cash flow hedge reserve	15	2.4	-	-
Total reserves & liabilities		166,027.0	129,589.9	137,378.5

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the period ended 30 September 2007

		Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
Available for sale investments				
- net fair value (loss)	14	(135.9)	(17.1)	(69.0)
Property revaluation	13	-	-	21.4
Cash flow hedge amortisation	15	(0.1)	-	-
Actuarial gain / (loss) on retirement benefit obligations	12	73.2	(64.2)	1.6
Taxation on items through reserves		10.5	23.9	15.4
Net expense recognised directly in reserves		(52.3)	(57.4)	(30.6)
Net profit for the period		235.9	233.4	463.6
Total recognised income and expense for the period		183.6	176.0	433.0

CONSOLIDATED STATEMENT OF MOVEMENTS IN RESERVES
For the period ended 30 September 2007

		Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
At 5 April 2007		5,464.4	5,031.4	5,031.4
Total recognised income and expense for the period		183.6	176.0	433.0
Acquired on transfer of engagements	19	704.7	-	-
Merger related bonus to Portman members		(328.7)	-	-
Taxation on merger related bonus to Portman members		98.5	-	-
At 30 September 2007		6,122.5	5,207.4	5,464.4

CONSOLIDATED CASH FLOW STATEMENT
For the period ended 30 September 2007

	Notes	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
Cash flows from operating activities				
Profit before tax		338.3	336.4	652.0
Adjustments for:				
• Non-cash items included in profit before tax	16	182.2	86.3	272.6
• Changes in operating assets	16	(24,898.7)	(7,218.2)	(13,664.1)
• Changes in operating liabilities	16	28,368.0	8,810.4	15,724.3
• Interest paid on subordinated liabilities		(35.6)	(30.8)	(68.2)
• Interest paid on permanent interest bearing shares		(34.3)	(23.5)	(44.9)
• Taxation		(14.7)	(116.3)	(178.3)
Net cash flows from operating activities		3,905.2	1,844.3	2,693.4
Cash flows from investing activities				
Purchase of investment securities		(7,014.0)	(3,419.2)	(10,983.8)
Sale and maturity of investment securities		4,016.3	2,789.9	9,268.7
Purchase of property, plant and equipment		(94.1)	(51.5)	(111.2)
Sale of property, plant and equipment		-	4.4	21.7
Purchase of investment properties		-	-	(5.4)
Sale of investment properties		-	253.1	286.6
Purchase of intangible fixed assets		-	(20.8)	(58.6)
Cash and cash equivalents acquired on transfer of engagements		958.7	-	-
Cash flows from investing activities		(2,133.1)	(444.1)	(1,582.0)
Cash flows from financing activities				
Issue of subordinated liabilities		-	-	201.8
Issue of subordinated capital		-	-	347.3
Cash flows from financing activities		-	-	549.1
Net increase in cash		1,772.1	1,400.2	1,660.5
Cash and cash equivalents at start of period		5,622.6	3,962.1	3,962.1
Cash and cash equivalents at end of period	16	7,394.7	5,362.3	5,622.6

Changes in operating assets and changes in operating liabilities include £19,981.2 million of assets and liabilities acquired on transfer of engagements from Portman Building Society.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

1 Reporting period

These results have been prepared as at 30 September 2007 and show the financial performance for the period from, and including, 5 April 2007 to this date.

2 Basis of preparation

This condensed consolidated half-yearly financial report for the half year ended 30 September 2007 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 4 April 2007, which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies adopted by the Group in the preparation of its 2007/08 half-yearly financial report and those which the Group currently expects to adopt in its annual accounts for the year ended 4 April 2008 are consistent with those disclosed in the annual accounts for the year ended 4 April 2007, copies of which are available at www.nationwide.co.uk/about_nationwide/results_and_accounts. The accounting policies and disclosures adopted reflect the Group's current view of best practice.

In the first half of the financial year, the Group has adopted the following amendment and IFRIC interpretation:

- Amendment to IAS 1 'Presentation of Financial Statements: Capital Disclosures'. This amendment requires disclosure on the level of the Group's capital and how this is managed. This disclosure will be provided in the 2008 Annual Report and Accounts.
- IFRIC 10 'Interim Financial Reporting and Impairment'. This interpretation addresses the conflict between IAS 34 'Interim Financial Reporting' and other standards on the recognition and reversal of impairment losses on certain financial assets.

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

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Details of the critical accounting estimates will be provided in the 2008 Annual Report and Accounts.

Related party transactions

As part of the transitional arrangements prior to the merger, the Society provided a facility to Portman Building Society from 6 August 2007. The total amount provided was £1 billion, of which £755 million was drawn down. The facility was made on commercial terms.

The Group has had no other material or unusual related party transactions during the half-year to 30 September 2007. Related party transactions for the half-year to 30 September 2007 are similar in nature to those for the year ended 4 April 2007. Full details of the Group's related party transactions for the year to 4 April 2007 can be found in the 2007 Annual Report and Accounts.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

The Portman Building Society completion accounts are available on application from the Financial Services Authority. Portman Building Society directors' emoluments are disclosed in note 6 of the Portman completion accounts. Remuneration of Nationwide directors will be included in the 2008 Annual Report and Accounts in the Report of the Directors on Remuneration. This will include details of ex - Portman directors' remuneration received as directors of Nationwide. The remuneration policy applied to ex – Portman directors is consistent with existing directors of Nationwide.

Transfer of engagements

The transfer of engagements has not been accounted for in accordance with IFRS 3 'Business Combinations' as this standard specifically excludes business combinations involving two mutual entities. The assets and liabilities acquired on transfer of engagements from Portman Building Society are incorporated at their carrying values in the Portman cessation accounts, adjusted to reflect the Group's accounting policies. Details of the transfer are given in note 19. The income statement includes the results of the engagements transferred from Portman Building Society since 28 August 2007.

3 Interest receivable and similar income

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
On loans fully secured on residential property	2,922.5	2,327.4	5,029.7
On other loans	492.6	407.0	879.8
On investment securities	433.3	313.0	703.3
On other liquid assets	96.0	65.1	132.4
Other interest receivable	0.7	0.6	1.4
Foreign exchange difference	5.1	-	-
Net income/(expense) on financial instruments hedging assets	262.9	(56.6)	33.2
Expected return on pension assets	67.8	55.0	111.1
	4,280.9	3,111.5	6,890.9

4 Interest expense and similar charges

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
On shares	2,159.1	1,609.3	3,489.3
On permanent interest bearing shares	34.8	23.1	51.0
On deposits and other borrowings			
• Subordinated liabilities	39.0	32.3	68.8
• Other	320.4	215.4	488.3
Debt securities in issue	731.1	488.9	1,155.5
Foreign exchange difference	-	0.4	2.6
Net expense on financial instruments hedging liabilities	106.5	16.7	64.0
Pension interest cost	54.1	46.0	92.1
	3,445.0	2,432.1	5,411.6

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

5 Premiums on insurance contracts and fair value gains on insurance assets

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
Net insurance premiums receivable	84.8	80.9	163.6
Fair value gains on insurance assets	36.1	16.5	61.3
	120.9	97.4	224.9

The Group, as a proxy for policyholders, is required to record taxes on investment income and gains each year. Fair value gains on insurance assets therefore include a gain of £2.1 million (30 September 2006 – loss of £1.8 million; 4 April 2007 - gain of £2.0 million) on policyholder assets which are offset by gains/losses included in the taxation charge.

6 Administrative expenses

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
Employee costs:			
• Wages and salaries	201.3	187.5	385.8
• Social security costs	15.4	13.8	29.1
• Pension costs	47.8	45.6	94.2
	264.5	246.9	509.1
Other administrative expenses	280.8	207.8	475.4
	545.3	454.7	984.5

Administrative expenses include £40.5 million (30 September 2006 – nil; 4 April 2007 - £10.8 million) directly relating to the merger with Portman Building Society, and £6.5 million (30 September 2006 – nil; 4 April 2007 - £3.3 million) directly relating to the forthcoming disposal of Nationwide Life Limited and Nationwide Unit Trust Managers Limited.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT**7 Impairment losses on loans and advances to customers**

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
Impairment charge / (credit) for the period			
Loans fully secured on residential property	(3.8)	(0.2)	0.2
Loans fully secured on land	(4.3)	1.3	0.3
Other loans	68.6	55.2	133.1
	60.5	56.3	133.6
Impairment provision at the end of the period			
Loans fully secured on residential property	47.4	30.9	30.4
Loans fully secured on land	28.1	32.9	30.6
Other loans	151.2	106.3	142.8
	226.7	170.1	203.8

These provisions have been deducted from the appropriate asset values in the balance sheets. The provision for loans fully secured on residential property includes £18.5 million relating to loans transferred following the transfer of engagements from Portman Building Society.

8 Provisions for liabilities and charges

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
At 5 April 2007	50.3	40.3	40.3
Provisions utilised	(14.3)	(18.1)	(26.5)
(Release)/charge for period	(4.8)	4.9	36.5
At 30 September 2007	31.2	27.1	50.3

Provisions have been made in respect of various customer claims.

9 Assets classified as held for sale and associated liabilities

On 7 February 2007 the Group announced the proposed sale of its life, investment and pensions subsidiaries, Nationwide Life Limited and Nationwide Unit Trust Managers Limited to Legal & General. This sale is expected to become effective in February 2008. Consequently, the assets and liabilities of these undertakings are disclosed separately as required by IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations).

The proceeds of disposal are expected to exceed the carrying value of the related net assets and, accordingly, no losses have been recognised.

As previously announced, following the merger with Portman Building Society, a number of locations have been identified where the enlarged Society will operate out of a single branch. Consequently, a number of branches which are to be disposed of qualify as non-current assets held for sale as defined by IFRS 5.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

9 Assets classified as held for sale and associated liabilities (continued)

An analysis of the assets classified as held for sale and associated liabilities is as follows:

Balance sheet

	30 September 2007 (Unaudited) £m	30 September 2006 (Unaudited) £m	4 April 2007 (Audited) £m
ASSETS			
Loans and advances to banks	312.3	-	198.8
Insurance assets at fair value	1,772.3	-	1,909.6
Other assets	362.9	-	288.2
Branches	6.5	-	-
Total assets held for sale	2,454.0	-	2,396.6
LIABILITIES			
Deposits from banks	831.4	-	875.0
Insurance contract liabilities	1,214.8	-	1,178.0
Other liabilities	90.6	-	37.7
Total liabilities directly associated with assets classified as held for sale	2,136.8	-	2,090.7

10 Loans and advances to customers

	30 September 2007 (Unaudited) £m	30 September 2006 (Unaudited) £m	4 April 2007 (Audited) £m
Loans fully secured on residential property	123,055.4	96,089.8	101,883.3
Loans fully secured on land	10,609.7	9,214.1	10,072.2
Other loans	3,907.4	3,679.5	4,084.1
	137,572.5	108,983.4	116,039.6
Fair value adjustment for micro hedged risk	(116.5)	88.0	(101.2)
	137,456.0	109,071.4	115,938.4

Loans fully secured on land include £408.8 million (30 September 2006 - £510.4 million, 4 April 2007 - £524.2 million) of loans which are fully secured on residential property but are classified as 'loans fully secured on land' in accordance with the Building Societies Act 1997.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

10 Loans and advances to customers (continued)

	30 September 2007 (Unaudited) £m	30 September 2006 (Unaudited) £m	4 April 2007 (Unaudited) £m
Residential mortgages	103,705.3	83,881.9	88,794.6
Commercial	18,672.0	16,328.0	17,854.9
UCB – buy to let	3,153.0	2,153.9	2,741.8
UCB - other lending	3,516.0	4,081.3	3,817.0
The Mortgage Works - buy to let	4,368.7	-	-
The Mortgage Works – other lending	1,489.0	-	-
Unsecured personal lending	1,859.2	1,766.4	2,030.6
Credit card	812.3	741.1	746.1
Overdrawn current accounts	223.7	200.9	258.4
	137,799.2	109,153.5	116,243.4
Impairment provisions	(226.7)	(170.1)	(203.8)
Fair value adjustment for micro hedged risk	(116.5)	88.0	(101.2)
	137,456.0	109,071.4	115,938.4

11 Subordinated liabilities and permanent interest bearing shares

	30 September 2007 (Unaudited) £m	30 September 2006 (Unaudited) £m	4 April 2007 (Audited) £m
Subordinated liabilities			
Subordinated notes	1,898.2	1,441.1	1,622.1
Fair value adjustment for micro hedged risk	(8.1)	18.2	2.2
Unamortised premiums and issue costs	(7.0)	(6.5)	(7.3)
	1,883.1	1,452.8	1,617.0
Subscribed capital			
Permanent interest bearing shares	1,235.0	700.0	1,050.0
Fair value adjustment for micro hedged risk	(12.6)	48.8	5.9
Unamortised premiums and issue costs	(10.2)	(8.0)	(10.5)
	1,212.2	740.8	1,045.4

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

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

NOTES TO THE HALF-YEARLY FINANCIAL REPORT**12 General reserve**

Movements in general reserve were as follows:

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
At 5 April 2007	5,295.8	4,825.6	4,825.6
Acquired on transfer of engagements	696.9	-	-
Merger related bonus to Portman members	(328.7)	-	-
Tax on merger related bonus to Portman members	98.5	-	-
Profit for the period	235.9	233.4	463.6
Actuarial gain/(loss) on retirement benefit obligations	73.2	(64.2)	1.6
Tax on actuarial gain/(loss) on retirement benefit obligations	(20.5)	19.3	(0.4)
Transfer from the revaluation reserve	-	-	5.4
At 30 September 2007	6,051.1	5,014.1	5,295.8

During the period an impairment loss of £35.1 million (30 September 2006 – a gain of £3.5 million, 4 April 2007 – gain of £4.9 million) has been recognised in the income statement as a result of deterioration in the credit quality of available for sale investment securities. The cumulative impairment loss charged to the general reserve at 30 September 2007 was £40.7 million (30 September 2006 - £7.0 million, 4 April 2007 - £5.6 million).

13 Revaluation reserve

Movements in the revaluation reserve were as follows:

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
At 5 April 2007	128.2	117.0	117.0
Acquired on transfer of engagements	7.9	-	-
Revaluation increase on land and buildings	-	-	21.4
Decrease/ (increase) in deferred tax liability on revaluation of land and buildings	3.4	-	(4.8)
Transfer to general reserve	-	-	(5.4)
At 30 September 2007	139.5	117.0	128.2

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

14 Available for sale reserve

Movements in the available for sale reserve were as follows:	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
At 5 April 2007	40.4	88.8	88.8
Acquired on transfer of engagements	(2.6)	-	-
Net loss from changes in fair value	(136.1)	(20.4)	(73.2)
Amounts transferred to income statement on disposal and impairment	0.2	3.3	4.2
Decrease in tax liability	27.6	4.6	20.6
At 30 September 2007	(70.5)	76.3	40.4

15 Cash flow hedge reserve

Movements in the cash flow hedge reserve were as follows:	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
At 5 April 2007	-	-	-
Acquired on transfer of engagements	2.5	-	-
Amortisation	(0.1)	-	-
At 30 September 2007	2.4	-	-

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

16 Notes to the cash flow statement

	Period to 30 September 2007 (Unaudited) £m	Period to 30 September 2006 (Unaudited) £m	Year ended 4 April 2007 (Audited) £m
Non-cash items included in profit before tax			
Net increase in impairment provisions	0.8	13.5	47.3
Impairment losses/(gains) on investment securities	35.1	(3.5)	(4.9)
Depreciation and amortisation	60.8	61.5	124.4
Loss/(profit) on sale of property, plant and equipment and investment property	0.5	(8.4)	(10.5)
Interest on subordinated liabilities	39.0	32.3	68.8
Interest on permanent interest bearing shares	34.8	23.1	51.0
(Gain) on the revaluation of land and buildings	-	-	(0.9)
(Gain) on the revaluation of investment properties	-	-	(1.7)
Losses/(gains) from derivatives and hedge accounting	11.2	(32.2)	(0.9)
	182.2	86.3	272.6
Changes in operating assets			
Loans and advances to banks	(14.2)	(203.8)	(10.4)
Investment securities	(2,589.6)	284.5	468.2
Derivative financial instruments and fair value adjustment for portfolio hedged risk	(596.6)	300.7	389.7
Other financial assets at fair value	13.4	43.0	159.8
Loans and advances to customers	(21,533.7)	(7,767.2)	(14,857.0)
Other operating assets	(178.0)	124.6	185.6
	(24,898.7)	(7,218.2)	(13,664.1)
Changes in operating liabilities			
Shares	19,569.9	3,218.9	5,876.8
Deposits from banks, customers and others	3,426.4	1,866.9	1,966.8
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	240.7	(280.4)	(95.6)
Debt securities in issue	3,730.1	3,810.3	8,104.1
Insurance contract liabilities	38.3	18.2	38.2
Retirement benefit obligations	(78.6)	4.9	(120.2)
Other operating liabilities	1,441.2	171.6	(45.8)
	28,368.0	8,810.4	15,724.3
Cash and cash equivalents			
Cash and balances with the Bank of England	1,180.6	322.2	364.0
Loans and advances to other banks repayable in 3 months or less *	4,782.4	1,353.5	1,779.2
Investment securities with a maturity period of 3 months or less	1,431.7	3,686.6	3,479.4
	7,394.7	5,362.3	5,622.6

* The loans and advances to other banks repayable in 3 months or less include amounts classified as 'Assets classified as held for sale' on the balance sheet.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT**16 Notes to the cash flow statement (continued)**

The Group is required to maintain balances with the Bank of England which, at 30 September 2007, amounted to £180.3 million (30 September 2006 - £143.5 million, 4 April 2007 - £152.1 million). These balances are included within loans and advances to banks on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

17 Segmental reporting

Period to 30 September 2007 (unaudited)	Retail	Non-Retail	Group	Total
	£m	£m	£m	£m
Net interest income	325.9	793.7	(283.7)	835.9
Revenue from other segments	179.8	(638.3)	458.5	-
	505.7	155.4	174.8	835.9
Other income	180.7	5.1	24.7	210.5
Total revenue	686.4	160.5	199.5	1,046.4
Expenses (note i)	564.0	28.3	104.6	696.9
Segment results (note ii)	122.4	132.2	94.9	349.5
Fair value adjustments from derivatives and hedge accounting				(11.2)
Profit before tax				338.3
Taxation				102.4
Profit after tax				235.9

Period to 30 September 2006 (unaudited)	Retail	Non-Retail	Group	Total
	£m	£m	£m	£m
Net interest income	427.6	614.2	(362.4)	679.4
Revenue from other segments	36.4	(480.6)	444.2	-
	464.0	133.6	81.8	679.4
Other income	172.1	18.0	8.6	198.7
Total revenue	636.1	151.6	90.4	878.1
Expenses (note i)	514.1	35.9	23.9	573.9
Segment results (note ii)	122.0	115.7	66.5	304.2
Fair value adjustments from derivatives and hedge accounting				32.2
Profit before tax				336.4
Taxation				103.0
Profit after tax				233.4

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

17 Segmental reporting (continued)

Year to 4 April 2007 (audited)	Retail	Non-Retail	Group	Total
	£m	£m	£m	£m
Net interest income	884.5	1,328.1	(733.3)	1,479.3
Revenue from other segments	141.9	(1,048.2)	906.3	-
	1,026.4	279.9	173.0	1,479.3
Other income	385.8	23.8	36.3	445.9
Total revenue	1,412.2	303.7	209.3	1,925.2
Expenses (note i)	1,133.6	71.8	68.7	1,274.1
Segment results (note ii)	278.6	231.9	140.6	651.1
Fair value adjustments from derivatives and hedge accounting				0.9
Profit before tax				652.0
Taxation				188.4
Profit after tax				463.6

Notes

- (i) Expenses includes impairment losses on loans and advances to customers, provisions for liabilities and charges and impairment losses/gains on investments but excludes losses/(gains) from derivatives and hedge accounting.
- (ii) The Retail segment differs from the corresponding underlying result in the Business Review (see page 15) as the latter excludes the tax attributable to policyholder earnings. The Group segment differs from the corresponding underlying result in the Business Review (see page 21) as the latter excludes costs relating to the merger and the disposal of Nationwide's life, investment and pensions subsidiaries.

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

18 Debt securities

During the six months our long term funding focused on extending our funding presence as we issued our inaugural US dollar covered bond - \$2 billion in July 2007 and an additional €1 billion during September 2007.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

19 Transfer of engagements

On 28 August 2007, the Society merged with Portman Building Society (PBS). The Group assets and liabilities acquired and associated accounting policy alignments are set out below:

Balance sheet	Notes	PBS Cessation Accounts £m	Adjustments £m	PBS take on balances £m
ASSETS				
Cash and balances with the Bank of England		8.7		8.7
Loans and advances to banks		97.2		97.2
Investment securities – available for sale		2,552.8		2,552.8
Derivative financial instruments		178.3		178.3
Loans and advances to customers	19a	17,010.8	(14.0)	16,996.8
Intangible fixed assets		34.5		34.5
Property, plant and equipment	19b	59.7	4.5	64.2
Accrued income and expenses prepaid		3.8		3.8
Deferred tax assets	19c	4.5	1.5	6.0
Other assets		32.7		32.7
Assets classified as held for sale		6.2		6.2
Total assets		19,989.2	(8.0)	19,981.2
LIABILITIES				
Shares		13,763.2		13,763.2
Deposits from banks		1,052.0		1,052.0
Due to customers		772.5		772.5
Debt securities in issue		2,933.3		2,933.3
Derivative financial instruments		67.9		67.9
Other liabilities		231.4		231.4
Accruals and deferred income		16.9		16.9
Deferred tax liabilities		1.7		1.7
Subordinated liabilities		250.2		250.2
Permanent interest bearing shares		175.9		175.9
Current tax liabilities	19c	-	(1.2)	(1.2)
Retirement benefit obligations		12.7		12.7
Total liabilities		19,277.7	(1.2)	19,276.5
General reserve		711.6	(14.7)	696.9
Revaluation reserve		-	7.9	7.9
Available for sale reserve		(2.6)	-	(2.6)
Cash flow hedge reserve		2.5	-	2.5
Total reserves and liabilities		19,989.2	(8.0)	19,981.2

The Consolidated Income Statement of the Group includes merger related administrative expenses of £40.5 million. An additional £10.8 million of merger related administrative expenses was disclosed in the 2007 Annual Report and Accounts.

Reserves transferred from Portman Building Society to the Group were reduced by a £4.7 million charge to income for merger related redundancy costs within the Portman completion accounts.

The completion accounts of Portman Building Society for the period 1 January 2007 to 27 August 2007, audited by KPMG, reported a pre-tax profit of £57.6 million, including exceptional, merger-related costs of £29.0 million. To calculate an estimate of the results of the business combination from the beginning of the half year, we estimate that £41.4 million relating to Portman Building Society would be added to the pre-tax profit figure as reported in the Consolidated Income Statement on page 30. Since 28 August, operations of Portman Building Society have been combined with the Society, so it is no longer practicable to separate the two sets of results.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

19 Transfer of engagements (continued)

Explanation of the Adjustments to the take on balances

19a Effective Interest Rate

Both Portman and Nationwide used the effective interest rate method to measure the carrying value of loans and advances to customers; however the policies in applying the effective interest method differed. An adjustment is required to the carrying value of the Portman loans and advances to customers to align them with the policies applied by Nationwide. The impact on the general reserve at take on is a reduction of £14.0 million, with an associated deferred taxation asset of £2.8 million and corporation tax receivable of £1.2 million.

19b Property Valuation.

Portman applied the cost model to all its property, plant and equipment. Nationwide uses the revaluation model for its branches and non-specialised buildings. Consequently, the take on balances have been adjusted to reflect the revalued amounts of the former Portman branches and non-specialised buildings. The impact on the revaluation reserve is an increase of £11.0 million, less adjustment for the associated deferred tax liability of £3.1 million. The impact on the general reserve is a reduction of £6.5 million with an associated deferred taxation asset of £1.8 million.

19c Taxation

This reflects the tax consequences of the above adjustments.

20 Contingent Liabilities

Along with a number of UK banks, during the first half of 2007 the Society has experienced a number of customer complaints for the repayment of overdraft fees. On 27 July 2007, the Society and a number of banks together with the Office of Fair Trading, asked the UK High Court to clarify the legal position regarding these fees. It is unclear how long the case will last but in the meantime the handling of customer requests for refunds of these fees has been suspended pending a decision by the Court.

In common with other financial institutions, the Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme. The Society has not been notified of any claims against the scheme.

ADDITIONAL INFORMATION

a) Group residential loan portfolio

The average loan to value ('LTV') ratio of the Group's residential loan portfolio is estimated at 40% (4 April 2007 - 39%) whilst the average LTV of new residential mortgage lending was 60% (4 April 2007 - 58%). Further LTV information on the Group's residential loan portfolio is set out as follows:

	30 September 2007 %	4 April 2007 %
Loan to value analysis:		
Total book		
<70%	85	87
70% - 80%	8	7
80% - 90%	6	5
>90%	1	1
Average loan to value of stock (indexed)	40	39
Average loan to value of new business	60	58

	30 September 2007 %	4 April 2007 %
New business profile:		
First time buyers	20	19
Home movers	36	31
Remortgagers	39	46
Buy to Let	5	4

b) Retail loan portfolio

The table below provides further information on retail loans and advances by payment due status:

	30 September 2007		4 April 2007	
	£bn	%	£bn	%
Not impaired:				
Neither past due nor impaired	104.7	98	90.3	98
Past due but not impaired	1.6	2	1.1	2
Impaired				
Past due 3 to 6 months	0.2	-	0.2	-
Past due 6 to 12 months	0.1	-	0.1	-
Past due over 12 months (£37.0 million)	-	-	-	-
	106.6	100	91.7	100

Balances in possession totalled £6.3 million, against which £6.3 million of collateral is held.

c) Non-Retail loan payment due status

The table below provides further information on commercial and specialist loans by payments due status:

	At 30 September 2007		At 4 April 2007	
	£bn	%	£bn	%
Not impaired:				
Neither past due nor impaired	29.7	95	23.5	96
Past due but not impaired	1.3	5	0.8	4
Impaired				
Past due 3 to 6 months	0.1	-	0.1	-
Past due 6 to 12 months	0.1	-	0.1	-
Past due over 12 months (£25.9 million)	-	-	-	-
	31.2	100	24.5	100

Balances in possession totalled £12.5 million, against which £12.1 million of collateral is held.

d) Treasury liquidity portfolio

An analysis of the liquidity portfolio at 30 September 2007 by asset type and rating is as follows:

	£bn	AAA %	AA %	A %
Loans to financial institutions	3.0	-	44	56
Certificate of deposit and commercial paper	3.5	-	59	41
Bank of England reserve account	0.8	100	-	-
Residential mortgage backed securities – RMBS (Note 1)	3.2	96	1	3
Floating rate notes	5.7	1	37	62
Covered bonds	0.7	80	20	-
Gilts	1.0	100	-	-
Sub-total – Prudential Liquidity	17.9	31	32	37
Cash and balances with the Bank of England	0.3	100	-	-
	18.2	37	29	34
Clearing accounts	0.9			
Other (including items in transit)	0.7			
Total liquidity portfolio	19.8			

Notes

1. Within this section of the liquidity portfolio are £259.1 million of AAA rated exposures to UK non-conforming RMBS. The originators include GMAC, Britannia Building Society and Bradford & Bingley. In addition to the limited non-conforming RMBS, we hold £47.3 million of AAA rated Buy to Let exposures issued by Paragon. The remainder of this section of the portfolio comprises conforming UK and European RMBS.

e) Treasury investment portfolio

An analysis of the investment portfolio at 30 September 2007 by asset type and rating is as follows:

	£bn	AAA %	AA %	A %	BBB %	BB/B %	Unrated %
Retail mortgage backed securities – RMBS (Note 1)	0.4	100	-	-	-	-	-
Collateralised loan and debt obligations - CLO & CDO (Note 2)	0.5	100	-	-	-	-	-
Credit card backed securities	0.3	100	-	-	-	-	-
Commercial mortgage backed securities	0.9	77	20	3	-	-	-
US student loan	0.7	100	-	-	-	-	-
Legacy corporate bond portfolio (Note 3)	0.3	7	86			-	7
CLO warehousing line (Note 4)	0.2	-	-	-	-	100	-
Financial institutions including subordinated debt	0.3	-	91	9	-	-	-
SIV capital notes (Note 5)	0.1	-	-	56	44	-	-
Other (Note 6)	0.3	75	5	5	5	-	10
Total	4.0	71	18	3	2	5	1

In addition to the assets held on the balance sheet we have an exposure to a liquidity facility referencing AAA rated European ABS. The size of this facility is £69.7 million and is currently undrawn. The conduit is not permitted to hold CDOs and all of the assets held in this vehicle are subject to Nationwide approval.

Notes

1. RMBS is made up of £270.7 million of U.S. prime and £178.6 million of U.S. Prime Alt A.
2. CLO and CDO comprises £413.1 million of CLO and £100.2 million of CDO. Neither the CDO holdings or any of the CLO is on credit watch. The CDO is made up of two high grade ABS transactions totalling £100.2 million and neither contains exposure to U.S. sub-prime mortgage lending. There is no exposure to commercial real estate CDOs or synthetic CDOs. Nationwide has no exposure to hedge funds.
3. The legacy corporate bond portfolio totals £270.0 million of which £232.0 million is protected by the use of credit default swaps provided by AA rated financial institutions. The remaining £38.0 million are short dated exposures to financial institutions.
4. The CLO warehousing line is to a leading European CLO manager with £239.0 million drawn against a total commitment of £348.9 million. Underlying assets held in the warehousing line are 7% BB and 93% B rated.
5. Capital notes are held in seven separate SIVs with the largest single investment accounting for 26% of the total initial £166.9 million investment. Each of the SIVs has an AA rated bank sponsor. We do not have any exposure to SIV-Lite vehicles. The fair value of the SIVs at 30 September 2007 had reduced by £35.1 million to £131.8 million and all of this reduction has been charged to the income statement. Since the 30 September 2007, Nationwide has entered into transactions to exchange our £45.5 million initial investment in two of the SIVs for a proportionate share of the assets within them. As a result £654.4 million of assets, of which 55% were AAA and 45% AA rated, were taken onto the balance sheet, funded by the exchange of the capital notes and borrowings.
6. Included within the unrated other asset category is £25.0 million in a number of private equity investment funds. Also included within the other asset category is a £16.3 million diversified portfolio of Euro denominated CLO equity tranches. This investment is structured as a principal protected note (PPN) by an AA-rated financial institution.

RESPONSIBILITY STATEMENT

The directors confirm that this condensed consolidated half yearly financial report has been prepared in accordance with IAS 34 as adopted by the European Union. The half yearly management report includes a fair review of the important events that have occurred in the first six months of the financial year and their impact on the financial statements, with a description of the principal risks and uncertainties for the remaining six months required by the Disclosure and Transparency Rules (DTR 4.2.7).

A full list of the Board of Directors can be found in the 2007 Annual Report and Accounts, with the following amendments during the 6 months to 30 September 2007:

Geoffrey Howe	(appointed Chairman 19/7/07)
John Sutherland	(appointed 5/4/07)
Susan Ellen	(appointed 28/8/07)
William Tudor John	(appointed 28/8/07)
Mark Nicholls	(appointed 28/8/07)
Tony Prestedge	(appointed 28/8/07)
Matthew Wyles	(appointed 28/8/07)
Bernard Simpson	(retired 5/4/07)
Jonathan Agnew	(retired Chairman 19/7/07)
Richard Handover	(retired 19/7/07)

Signed on behalf of the Board by

Mark Rennison
Group Finance Director
21 November 2007

INDEPENDENT REVIEW REPORT

Independent Review Report to Nationwide Building Society

Introduction

We have been engaged by the Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2007, which comprises the income statement, balance sheet, statement of recognised income and expense, statement of movements in reserves, cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London

21 November 2007

OTHER INFORMATION

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

The financial information for the year ended 4 April 2007 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 4 April 2007 have been filed with the Financial Services Authority and Registry of Friendly Societies in England and Wales. The Auditors' Report on these Annual Accounts was unqualified.

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

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