

Nationwide Building Society

**Half-Yearly Financial Report
For the period ended
30 September 2008**



CONTENTS

	Page
Highlights	3
Financial Summary	5
Chief Executive’s review	6
Business review	10
Consolidated income statement	33
Consolidated balance sheet	34
Consolidated statement of recognised income and expense	35
Consolidated statement of movements in reserves	35
Consolidated cash flow statement	36
Notes to the Half-Yearly Financial Report	37
Additional information	50
Responsibility statement	52
Independent review report	53
Other information	54
Contacts	54

Underlying Results

This condensed consolidated half-yearly financial report for the half year ended 30 September 2008 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 2008, 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 10. Reported profit before tax of £374 million has been adjusted for the increase in the value of derivatives and hedge accounting of £58 million, and merger and disposal costs of £6 million, to derive an underlying profit before tax of £322 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 2008. This set of results shows a strong and resilient performance in an exceptionally turbulent market place. Nationwide is strong and well placed compared to its competitors, with a Tier 1 ratio of 10.0% and a high quality balance sheet. This half year has seen consumers make a flight to safety as they recognise the strength of Nationwide, helping the Society attract £2.6 billion of net receipts – an estimated market share of 34%.

Resilient performance in difficult market conditions

- Reported profit before tax up 11% at £374 million (30 September 2007: £338 million).
- Underlying profit before tax, which excludes merger costs and fair value gains on derivatives and hedge accounting, of £322 million (30 September 2007: £394 million). This decline primarily reflects our prudent decision to hold significantly higher levels of high grade liquidity and an increase in the cost of retail funding.
- With a continued focus on the delivery of real value to our members, we estimate £350 million benefit has been provided to members in the period through competitive interest rates and lower fees and charges.

Prudent and robust balance sheet

- Total assets up 4% to £186.7 billion (4 April 2008: £179.0 billion).
- Balance sheet funded predominantly by retail savings, with our wholesale funding ratio of 31.3% (4 April 2008: 31.0%) being one of the lowest levels within our peer group.
- Proportion of mortgage accounts more than 3 months in arrears of 0.40%, significantly less than the CML industry average of 1.33% at June 2008 (the latest data available).
- Charge for impairment losses on loans and advances of £74 million (30 September 2007: £61 million).
- Total regulatory capital increased by 3% to £9.8 billion (4 April 2008: £9.5 billion).
- Total capital increased to 12.7%, with Tier 1 of 10.0% and Core Tier 1 of 8.4% (4 April 2008: 12.4%, 9.7%, 8.1%).

Net lending funded from retail deposits

- Exceptional performance in the retail savings market, attracting £2.6 billion of net retail deposits, an estimated market share of 34%.
- Conservative and sustainable approach to lending with focus on quality resulting in Group net residential mortgage lending of £1.0 billion (30 September 2007: £3.6 billion).
- Total Group net lending of £1.2 billion entirely funded by retail deposits.

Response to current market conditions

- Continue to adopt a cash flow approach to balance sheet management with net retail deposits exceeding net lending volumes.
- Material increase in size and quality of liquidity in response to market conditions, with Society core liquidity increasing to 13.0% (4 April 2008: 9.9%), amounting to over £22.5 billion.

Strategic Developments

- Mergers announced with The Derbyshire and The Cheshire building societies by way of two separate transactions.
- Portman integration remains ahead of schedule with merger synergies of £90 million to be delivered by 2009/10.

Nationwide’s chief executive, Graham Beale, said,

“Nationwide has delivered a solid performance in a difficult market with pre-tax profit increasing by 11% to £374 million. Our resilience proves that the building society business model can be particularly effective during turbulent market conditions in providing both security and good value to members.

“Our capital ratios have improved with our total Tier 1 ratio increasing to 10.0%, which is one of the strongest in the banking sector. Our asset quality remains strong reflecting our longstanding conservative approach to lending, which is to focus on quality rather than chasing market share.

“We continue to manage our business prudently in response to market conditions and to maintain our relatively low exposure to wholesale market risks. We estimate that we have taken 34% of UK net retail deposits in the period, and net lending was more than covered by retail inflows.

“We are continuing to transform the business, investing in systems which will improve customer service and help us deliver a more streamlined, cost-effective organisation. Progress on the Portman integration continues to run ahead of schedule with the migration of all savings balances onto Nationwide systems now complete and mortgage migration planned for early 2009. In addition, the mergers with The Derbyshire and The Cheshire building societies, announced in September, provide an excellent opportunity to build on our strong position in the financial services sector by adding two attractive customer franchises, creating an organisation with almost 15 million members, around 1,000 retail outlets, almost £200 billion of assets and over £120 billion of retail deposits.

“Looking forward, the Government’s recently announced scheme to re-capitalise the UK banking system and to provide access to government guarantees to support wholesale funding represents an important initiative on the road to recovery for the sector, which we support.

“Wholesale market conditions remain fragile and we expect the challenging economic environment in the UK to persist well into 2009. However, notwithstanding this, Nationwide is well placed to maintain its strong financial position providing security and a safe haven to investors and depositors in uncertain times.”

FINANCIAL SUMMARY

	Period to 30 September 2008	Period to 30 September 2007*	Year to 4 April 2008
Financial Performance	£m	£m	£m
Underlying total income	1,065	1,044	2,212
Underlying profit before tax	322	394	781
Reported profit before tax	374	338	686
Lending Volumes	£bn	£bn	£bn
Group residential – gross	10.9	13.1	27.1
Group residential – net	1.0	3.6	6.7
Commercial – gross	1.2	2.8	6.1
Commercial – net	0.3	0.9	2.4
Consumer finance – net unsecured lending	(0.1)	(0.1)	(0.2)
Savings Volumes	£bn	£bn	£bn
Retail savings deposits growth	4.6	5.8	13.3
Net receipts	2.6	4.1	9.1
Key Ratios	%	%	%
Cost to income ratio – underlying basis	58.9	53.5	55.7
Cost to income ratio – reported basis	56.4	58.5	59.4
Net interest margin	0.99	1.18	1.12

	30 September 2008	4 April 2008
Balance Sheet	£m	£m
Total assets	186,712	179,027
Loans and advances to customers	144,271	142,804
Member savings balances	118,379	113,816
Total shares, deposits and loans (SDLs)	175,593	167,365
Total regulatory capital	9,773	9,474
Asset Quality	%	%
Group residential mortgages:		
Proportion of accounts 3 months or more in arrears	0.40	0.36
Average indexed loan to value of residential mortgage book	47	43
Key Ratios	%	%
Solvency ratio (Basel II)	12.7	12.4
Tier 1 ratio	10.0	9.7
Core Tier 1 ratio	8.4	8.1
Core liquidity ratio**	13.0	9.9
Wholesale funding ratio	31.3	31.0
Loan to deposit ratio ***	114.5	117.2

* The period to 30 September 2007 only includes the impact of the Portman merger from the date of completion on 28 August 2007.

** Core liquidity ratio represents high grade liquidity balances in the Society which qualify for inclusion within “8-day” liquidity for regulatory purposes.

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

CHIEF EXECUTIVE'S REVIEW

Stability in extreme market conditions

We have delivered robust profitability in market conditions which are both unprecedented and unpredictable. The relatively stable profile of profits that we have reported throughout the last 18 months is testament both to our mutual business model and the priority we give to sound risk management and prudent lending policies. As a result of the financial strength of the Group, we have been able to react quickly and positively to issues within our sector and announced a merger with The Derbyshire and The Cheshire building societies on 8 September.

Statutory reported profit before tax, which includes fair value gains and merger and similar costs, was up 11% at £374 million, (30 September 2007: £338 million). We estimate that benefits of £350 million have been provided to members in the period through competitive interest rates and lower fees and charges.

The Group's underlying profit before tax for the period was £322 million, compared with the comparable period level of £394 million. This reduction in profitability is principally attributable to reduced margins as a result of substantially increased holdings of high grade liquidity in response to current market conditions and increased retail funding costs.

Although lower than the prior year we believe our underlying profitability, even after allowing for the impact of the extreme events of recent months, represents a demonstration of the long term stability of our business which is not exposed to volatility arising from concentrations in high risk assets.

Prudent balance sheet management

As a building society, our balance sheet naturally reflects our focus on retail funding and prudent lending. As a result we are relatively less reliant on wholesale markets, sustain levels of arrears and default which are consistently well below industry norms, and maintain strong capital ratios well in excess of regulatory requirements.

During the period we attracted £2.6 billion of retail funds which we estimate represents a market share of 34% of UK net receipts, continuing the strong performance delivered in 2007/08 when we achieved a 19% market share with £9.1 billion of retail inflows. This level of retail receipts substantially exceeds our net mortgage, commercial property and consumer finance lending for the period of £1.2 billion, maintaining our strategy of ensuring that throughout the credit crunch net lending has been funded entirely from retail sources. Our loan to deposit ratio at 30 September was 115% (4 April 2008: 117%) and is one of the lowest in the sector.

Our asset quality is high and current stressed market conditions provide clear evidence to differentiate Nationwide's balance sheet in this respect. Residential mortgages more than three months in arrears at 30 September 2008 were 0.40% (4 April 2008: 0.36%), less than a third of the industry average of 1.33% (based on June 2008 CML data). Prime mortgages account for 74% (4 April 2008: 74%) of our total loans and advances to customers and three month plus arrears on this portfolio amount to 0.33% (4 April 2008: 0.30%).

The Group's Core Tier 1 capital ratio on a standardised Basel II basis has improved to 8.4% (4 April 2008: 8.1%) and Total Tier 1 capital now stands at 10.0% (4 April 2008: 9.7%). These ratios are well in excess of regulatory requirements, and are significantly stronger than the majority of the UK banking sector before the impact of changes consequent upon the Government's proposed scheme to re-capitalise the sector, which we support.

Well diversified commercial loan portfolio

Our commercial loan portfolio of £20.9 billion (4 April 2008: £20.6 billion) includes £6.7 billion (32%) of loans to Registered Housing Associations and £1.1 billion (5%) advanced under the Private Finance Initiative (PFI). These are very strong portfolios, both of which benefit from sustainable cashflows largely underpinned by UK Government funding. There were no arrears of three months or more on these portfolios at 30 September 2008 (4 April 2008: nil).

Nationwide Building Society – Half-Yearly Financial Report

The balance of our commercial loan portfolio (“Property Finance”), which amounts to £13.1 billion, is secured on commercial property across a range of sectors and widely spread predominantly throughout the UK. Non UK based commercial lending amounts to £1.1 billion in total and is located in Germany, France, Ireland and the Netherlands. 99.7% of Property Finance advances are secured on pure investment properties typically relying on well diversified tenant cashflows. Arrears of more than three months on the portfolio at 30 September 2008 amounted to £3.5 million and related to 75 cases (4 April 2008: £2.4 million, 66 cases).

During the period, notwithstanding the quality and diversity of our portfolio, we have booked individual provisions of £25 million against commercial property cases, demonstrating the greater stress evident in this sector as a result of falling capital values and the onset of recessionary conditions. Whilst we cannot expect our commercial property finance portfolio to be immune from market forces during the second half of our financial year and into 2009/10, we are confident that our cautious underwriting philosophy means that we expect to out-perform strongly relative to the majority of our competitors.

Proactive funding and liquidity management

We have continued to manage our liquidity to ensure that the Group is well placed to respond to the difficult and unpredictable wholesale funding conditions which remain a feature of the market. The Society core liquidity ratio increased to 13.0% (4 April 2008: 9.9%). This is made up of extremely high grade predominantly Government backed liquidity amounting to over £22.5 billion (4 April 2008: £16.2 billion).

Our wholesale funding ratio has remained consistent at 31.3% (4 April 2008: 31.0%) and we have continued to access wholesale funding throughout the period. The Society has continued to diversify its funding sources with the completion of the Silverstone Master Trust securitisation structure in July. The ratio of short term to long term funding has remained consistent at 67%/33%.

Recent events, including the failure of Lehman Brothers, Washington Mutual and Bradford & Bingley, and the provision of respective Government support for a number of continental European banks, resulted in a return to extremely stressed wholesale market conditions during September. On 13 October the UK Government announced a financial support package for the banking sector which included re-capitalisation and provision of Government guarantees for debt issuance. We welcome the scheme, which has been used as a model by several other jurisdictions.

Whilst it is too early to assess the full impact of the scheme, we have already seen some modest improvement in funding availability and duration since it was announced and we are optimistic that it will provide a platform for a return to more normal market conditions, albeit over an extended period of time.

High quality treasury assets

Nationwide has no direct US sub-prime investments, no exposure to hedge funds and has already restructured its Structured Investment Vehicles (SIV) portfolio with no unprovided residual exposure to this asset class at 30 September 2008 (4 April 2008: £2 million). Our total liquidity portfolio has increased to £34.2 billion (4 April 2008: £27.3 billion), including an increase of £7.7 billion in balances held with the Bank of England. Around £14.4 billion (42%) of our liquidity portfolio was UK Government based with a further £0.9 billion (3%) in supranational bonds. At 30 September 2008, 99% of the liquidity portfolio was rated A or better with 86% rated AA or better (4 April 2008: 100% A, 78% AA).

Our treasury investment portfolio totalled £3.9 billion at 30 September 2008 (4 April 2008: £4.3 billion) and included 66% AAA rated assets, 24% AA rated and 8% A rated (4 April 2008: 70%, 18% and 8% respectively). In the context of current market conditions, the assets we acquired in restructuring our SIV investments last year are performing in line with expectations, and we continue to believe that we will recover the major part of the losses on the related SIV investments through realisation of these assets over time.

Nationwide Building Society – Half-Yearly Financial Report

No financial institution will have been immune from the impact of the unprecedented events of recent months, and despite our prudent approach to liquidity management, our results for the half year have been affected by provisions we have had to make in relation to our exposure to the failure of Lehman Brothers and Washington Mutual. Our exposure to Lehman Brothers was £3 million and we have had to provide £34 million in respect of Washington Mutual. During the second half of the year we expect to make further provisions to cover a proportion of our aggregate £19 million exposure to Icelandic banks.

The mark-to-market adjustment on our treasury portfolio recorded through the Available For Sale Reserve (AFS) in the period, net of amounts transferred to the income statement on disposal and impairment, amounts to a deficit of £416 million net of tax, bringing the cumulative mark-to-market adjustments at 30 September 2008 to a deficit of £834 million net of tax (4 April 2008: £418 million deficit). The total deficit of £834 million represents approximately 3.9% of the total AFS portfolio of £21.5 billion and only 2.2% of the total portfolio of £38.1 billion. This adjustment reflects the significant widening in market spreads, particularly in relation to financial institution risk. The assets concerned are performing in line with expectations, are not impaired and we continue to believe that we will recover full value for them on maturity.

Financial Services Compensation Scheme (FSCS)

Following the transfer of Bradford & Bingley's savings business to Abbey and the nationalisation of the Icelandic banking industry, we will be required to bear our proportion of the cost of the levy due to the Financial Services Compensation Scheme, necessary to absorb losses relating to these institutions. Whilst we believe this levy can be absorbed within our income statement, as a prudently run organisation it is highly regrettable that the cost of failure of banks who took on substantially greater levels of risk than we are prepared to should be borne by Nationwide's members. The Society recognises the importance of depositor protection in maintaining investor confidence and thereby promoting financial stability, but we will be lobbying the Tripartite authorities to review the way in which FSCS levies are allocated across the industry to ensure that low risk organisations such as Nationwide are not unfairly disadvantaged by a basis of allocation which does not recognise the level of risk which individual institutions pose to the system.

Improving our infrastructure

Ongoing investment in systems and infrastructure will improve customer service and help us deliver a more streamlined, cost-effective organisation. Our programme to replace core systems with modern flexible technology remains on track to deliver new systems for our banking products by the first quarter 2010, and to replace our core systems by 2012. In addition we continue to invest in distribution, particularly through upgrade of our branch network and improved systems to allow more rapid response to customer service requests over the telephone.

Alongside these initiatives we will maintain our focus on costs and remain committed to sustainable improvements in our cost income ratio. Progress on the Portman integration continues to run ahead of schedule with the migration of all savings balances onto Nationwide systems now complete and mortgage migration planned for early 2009; our target of £90 million of cost and revenue synergies from the Portman transaction will be achieved by 2010. In addition, the mergers with The Derbyshire and The Cheshire building societies, announced in September, provide an excellent opportunity to build on our strong position in the financial services sector by adding two attractive customer franchises, creating an organisation with almost 15 million members, around 1,000 retail outlets, almost £200 billion of assets and over £120 billion of retail deposits.

Social Responsibility

Our Corporate Social Responsibility strategy reflects our commitment to financial education and housing inclusion through a number of exciting new partnerships and initiatives. In addition we continue to support a range of community and environmental programmes, working with organisations such as Disability Sports Events, the Heritage Lottery Fund and Macmillan Cancer Support.

Nationwide Building Society – Half-Yearly Financial Report

Building on the success of our Nationwide Education road safety programme, we have developed a new financial literacy initiative, which was launched in September 2008 by Ed Balls MP. This new resource offers a fun and interactive way to deliver serious messages and is available freely to teachers, children and parents across the UK.

In the current economic climate our commitment to investing in educational and preventative measures is stronger than ever. In January we will be widening the reach of Nationwide Education to include 11-14 year olds and our *Teenagers' Guide to Money* continues to empower young people to be financially independent and responsible in the future. In October 2008 we announced our partnership with Citizenship Advice. Our £3 million investment will fund the recruitment and training of 1,300 volunteers over the next three years who will provide financial education training and advice on money matters.

October 2008 saw the launch of the Nationwide Sustainable Housing Awards, which promotes economic and environmental sustainability. Working with the Royal Institute of British Architects (RIBA), we have opened the competition to all undergraduate architecture and design students and will be announcing the winners at an awards ceremony hosted by *Grand Design's* Kevin McCloud in February 2009.

In line with our focus on housing inclusion we are proud to announce our partnership with Shelter. Our pilot investment in Bristol will help maintain and strengthen their services including the *Bristol Keys for the Future* programme for homeless children.

Outlook

As a result of the unprecedented turmoil in global financial markets and increases in inflation, we expect that the UK economy will remain under significant pressure. Economic output has begun to contract in the second half of 2008, and we expect tough conditions to continue for some time to come. It is difficult to know precisely when conditions will improve materially, but we believe the co-ordinated actions of Governments around the world have helped to lay the foundations for a future sustainable recovery of financial markets.

We expect the housing market to remain subdued, with market prices likely to continue to fall in 2009/10. Rate cuts will help to minimise payment difficulties and alleviate payment shock as borrowers reach the end of their existing deals. Reducing prices will improve affordability, which should bring about a recovery in the first time buyers' market.

In light of this economic background, conditions in Nationwide's main markets will remain challenging for the foreseeable future. However, the Society has always adopted a prudent and responsible approach to its business, recognising the possibility of a more adverse economic environment. As a result we are well positioned with a strong balance sheet that will enable us to support our members during difficult times and take advantage of opportunities that may arise.

Graham Beale
Chief Executive

7 November 2008

BUSINESS REVIEW

INCOME STATEMENT OVERVIEW

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 and items related to the Portman merger. The comparative periods additionally include an adjustment for policyholder tax and the net impact of disposal of our investment and protection subsidiaries to Legal and General.

Period to 30 September 2008	As reported	Fair value and other adjustments	Merger and disposal costs	Underlying
	£m	£m	£m	£m
Net interest income	880	-	-	880
Other income	185	-	-	185
Fair value adjustments from derivatives and hedge accounting	58	(58)	-	-
Total income	1,123	(58)	-	1,065
Administrative expenses	572	-	-	566
Depreciation and amortisation	61	-	-	61
Impairment losses on loans and advances to customers	74	-	-	74
Provisions for liabilities and charges	3	-	-	3
Impairment losses on investment securities	39	-	-	39
Profit before tax	374	(58)	6	322

Period to 30 September 2007	As reported	Fair value and other adjustments	Merger and disposal costs	Underlying
	£m	£m	£m	£m
Net interest income	836	-	-	836
Other income net of claims on insurance contracts	210	(2)	-	208
Fair value adjustments from derivatives and hedge accounting	(11)	11	-	-
Total income net of claims on insurance contracts	1,035	9	-	1,044
Administrative expenses	545	-	(47)	498
Depreciation and amortisation	61	-	-	61
Impairment losses on loans and advances to customers	61	-	-	61
Provisions for liabilities and charges	(5)	-	-	(5)
Impairment losses on investment securities	35	-	-	35
Profit before tax	338	9	47	394

Year to 4 April 2008	As reported	Fair value and other adjustments	Merger and disposal costs	Underlying
	£m	£m	£m	£m
Net interest income	1,796	-	-	1,796
Other income net of claims on insurance contracts	411	15	(10)	416
Fair value adjustments from derivatives and hedge accounting	(31)	31	-	-
Total income net of claims on insurance contracts	2,176	46	(10)	2,212
Administrative expenses	1,168	-	59	1,109
Depreciation and amortisation	124	-	-	124
Impairment losses on loans and advances to customers	106	-	-	106
Provisions for liabilities and charges	(10)	-	-	(10)
Impairment losses on investment securities	102	-	-	102
Profit before tax	686	46	49	781

Profit

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

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Year to 4 April 2008 £m
Net interest income	880	836	1,796
Other income	185	208	416
Total income	1,065	1,044	2,212
Expenses	627	559	1,233
Impairment and other provisions	116	91	198
Underlying profit before tax	322	394	781

Underlying profit for the half year was £322 million (30 September 2007: £394 million), demonstrating a significant level of sustained profitability despite extreme market conditions. In response to these conditions we have increased our levels of liquidity whilst at the same time experiencing an increase in our retail funding costs. As a result of this total income growth has been restricted to 2.0% in the period to £1,065 million. In the same period expenses have increased by 12.2% reflecting the increased size of the business following the merger with Portman and increased investment spend.

Impairment and other provisions have increased by 27.5% to £116 million principally attributable to the impact of write offs in relation to Washington Mutual, Lehman Brothers and individual commercial loans offset by the charge for SIVs in the first half of last year.

On a reported basis, profit before tax was £374 million, 10.7% higher than the same period last year. The reported profit includes £6 million (30 September 2007: £47 million) of merger and similar costs and a £58 million gain in relation to the fair value of derivatives and hedge accounting (30 September 2007: £11 million charge).

PERFORMANCE BY INCOME STATEMENT CATEGORY

Net interest income

Net interest income increased by 5.3% over the comparable period to £880 million. This increase, however, is entirely attributable to the significant growth in our balance sheet following the merger with Portman and the net interest margin in the period has declined to 0.99% (30 September 2007: 1.18%).

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Year to 4 April 2008 £m
Net interest income	880	836	1,796
Weighted average total assets	181,750	145,279	160,265
	%	%	%
Net interest margin	0.99	1.18	1.12

Nationwide Building Society – Half-Yearly Financial Report

We have responded prudently to the exceptional market conditions by significantly increasing our levels of liquidity and by ensuring that this increased liquidity is concentrated in highly liquid securities such as Gilts and our Bank of England reserve account. The Society core liquidity ratio at the end of the period was 13.0% (30 September 2007: 5.6%, 4 April 2008: 9.9%). The increase in weighted average total assets attributable to this greater holding of liquidity has reduced our net interest margin by around 4bps. In addition the increased cost of holding higher grade liquidity with corresponding lower yields amounts to approximately 5bps.

The remaining decline (c10bps) in net interest margin is attributable to a declining retail spread with an increased cost of retail funding being partially offset by an improvement in mortgage margins.

Other income

Other income represents income earned from the sale of insurance and investment products together with administration and transaction fees not included within interest margin. Other income also includes dividends on equities held within the Treasury investment portfolio.

Underlying Other Income in the half year was £185 million (30 September 2007: £208 million). The sale of our life insurance and unit trust businesses in February 2008 combined with our new distribution agreement with Legal & General has had the effect of reducing both income and costs by about £14 million as gross income and costs have been replaced with a net commission income stream. In addition, other income in the first half of last year was £8 million higher than the current year due to distributions received on equity investments.

Adjusting for these two factors, other income is broadly in line with last year reflecting an increase in income arising from the merger with Portman Building Society offset by a reduction in Protection and Investment income due to lower sales in the current market environment.

Expenses

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Year to 4 April 2008 £m
Employee costs:			
• Wages and salaries	234	201	431
• Social security costs	20	15	34
• Pension costs	51	48	100
	305	264	565
Other administrative expenses	261	234	544
Depreciation and amortisation	61	61	124
	627	559	1,233

Total underlying expenses amounted to £627 million, representing an increase of 12.2% over the comparable period. The Portman merger has increased the underlying cost base since its completion in August 2007. We estimate these additional costs to be around £50 million relative to the same period last year. We remain on schedule to deliver the £78 million of cost savings per annum which are planned as part of the overall synergies from the Portman transaction, which are estimated to amount to £90 million in total per annum by the end of 2009/10.

Spend on investment projects and change programmes has increased by £9 million relative to the first half of 2007/08 as we continue to improve the Society's infrastructure. This increased investment should ensure that we continue to improve the overall quality of our customer experience and increase our penetration in our core personal financial services markets.

Nationwide Building Society – Half-Yearly Financial Report

Adjusting for these additional Portman costs, investment spend and the effect of the sale of our life insurance and unit trust businesses referred to above, underlying expenses have increased by only 4.1% reflecting the continued focus on our cost base.

Our underlying cost income ratio for the half year was 58.9% (4 April 2008: 55.7%, 30 September 2007: 53.5%). The pressures on income arising from the credit crisis and increasing investment spend have impacted the ratio in the period. However delivery of the Portman synergies and efficiency benefits arising from the investment spend to improve our infrastructure will lead to savings in future years. We remain committed to delivering sustainable reductions in our cost base through focused investment in infrastructure and operational efficiencies.

Impairment losses on loans and advances

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Year to 4 April 2008 £m
Secured lending	30	(8)	(16)
Unsecured lending	44	69	122
	74	61	106

The charge for impairment losses on loans and advances was 21.3% higher than in the comparable period, driven by increased provisions on the secured books, partially offset by a reduction in the charge for unsecured lending. The underlying quality of both secured and unsecured lending remains strong.

Difficult market conditions have resulted in an increased number of commercial loan defaults and the £30 million charge for secured lending includes £25 million of individual commercial loan provisions. The balance relates to an overall increase in secured residential provisions largely attributable to modestly higher arrears levels and house price index (HPI) falls. Residential provision cover (provision as a percentage of assets) has remained unchanged from the year end at 0.03%.

The reduction in the charge for unsecured lending relates to lower levels of write off and delinquent accounts combined with a reduction in the provision required against the up to date book. This reflects our continued cautious approach to book growth on personal loans and increased prudence in our underwriting criteria introduced in 2006.

We expect the rate of increase in our impairment losses on loans and advances to continue into the second half of the year.

Impairment losses on investment securities and other provisions

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Year to 4 April 2008 £m
Other provisions	3	(5)	(10)
Treasury investments	39	35	102

The extremely difficult market conditions have led to the well publicised collapse of a number of global financial institutions. As a result of these failures the Treasury investments impairment charge has increased to £39 million (30 September 2007: £35 million) including £34 million in respect of Washington Mutual and £3 million in respect of Lehman Brothers.

Nationwide Building Society – Half-Yearly Financial Report

Following the collapse of a number of Icelandic banks since the half year end we anticipate further treasury investment impairment charges in the second half of the year. Our total exposure to these institutions is approximately £19 million and we expect our charge to be limited to a proportion of this amount.

Further details on these and other related issues are included in the section on treasury portfolios on pages 17 to 19.

On 24 April 2008, the results of the preliminary hearing into bank charges were announced. Whilst the judgement was made that the charges are subject to a test of fairness, the judgement was subject to appeal and did not deal with the question of whether the amounts charged are in fact judged to be fair. The appeal hearing on the issue of whether the charges should be subject to a test of fairness commenced on 28 October and completed on 5 November with the announcement of a decision expected in due course. To the extent the appeal is unsuccessful, and therefore the test of fairness remains, it is anticipated that the High Court will determine the fairness of the charges in 2009 at the earliest. We continue to believe that our charges are fair and transparent, and given the uncertainty as to the final outcome of the case, we do not currently hold a provision in respect of this issue.

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 market indices. Derivatives are therefore used exclusively to hedge risk exposures and are not used for speculative purposes.

The £58 million gain (30 September 2007: £11 million charge) relating to fair value adjustments on derivatives and hedge accounting represents the net fair value adjustment on derivative instruments that are matching risk exposures on an economic basis. Some income statement volatility arises on these items due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The gain, in so far as it relates to ineffectiveness, is primarily due to timing differences in cashflows and interest rate reset dates between the derivative instruments and the hedged assets and liabilities. The impact can be volatile, and has been especially so in this period given extreme market conditions, but will trend to zero over time and has been excluded in reporting the Group's underlying performance.

Policyholder Tax

Prior to the disposal of Nationwide Life and as a consequence of the requirement to consolidate the Group's life business on a line by line basis, the comparative 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 was 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, the net impact of amounts attributable to policyholders have been removed from underlying results for the comparative periods.

Taxation

The effective tax rate is 27.8% (4 April 2008: 27.8%) compared to the standard rate of tax of 28% (2008: 30%). The tax charge has been calculated as far as possible to approximate to the full year tax rate, although as at half year end it has not been possible to assess what the impact of the forthcoming mergers with The Derbyshire and The Cheshire building societies may be. The main item reducing the tax charge is lower tax rates on net income arising in overseas territories. This has been partially offset by the effects of non deductible expenditure.

BALANCE SHEET

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products with residential mortgages accounting for 83.6% of our total loans and advances to customers, commercial lending 14.5% and consumer finance 1.9%. The mix of lending has remained broadly consistent with that reported at 4 April 2008.

Loans and advances to customers	30 September		4 April	
	2008 £bn	%	2008 £bn	%
Retail-Prime residential mortgages	106.4	73.6	105.5	73.7
Non-Retail - Specialist residential mortgages	14.4	10.0	14.1	9.9
Total residential mortgages	120.8	83.6	119.6	83.6
Commercial lending	20.9	14.5	20.6	14.4
Consumer finance	2.7	1.9	2.8	2.0
Gross balances	144.4	100.0	143.0	100.0
Less: Impairment provisions and fair value adjustment	(0.1)		(0.2)	
Total	144.3		142.8	

Retail residential mortgages of £106.4 billion relate to Nationwide branded advances primarily made through our branch network and intermediary channels. Non-Retail residential mortgages totalling £14.4 billion are advances made through our Specialist Lending brands, UCB Home Loans Ltd (UCB) and The Mortgage Works UK plc (TMW), who primarily operate in the Buy to Let and self-certification markets. Non-Retail residential mortgages include a small exposure to the adverse market, totalling approximately 0.4% (4 April 2008: 0.3%) of total loans and advances to customers.

Asset quality of our residential mortgage portfolios remains strong and we have continued to focus on affordability and loan to value (LTV) ratios. The total number of residential mortgages 3 or more months in arrears as a proportion of the total book remains very low at 0.40% (4 April 2008: 0.36%) and for prime residential mortgages the proportion is 0.33% (4 April 2008: 0.30%). Our arrears remain less than one third of the June 2008 (latest data available) industry average of 1.33% (4 April 2008: 1.21%). Whilst the economic environment will inevitably lead to further increases in residential arrears, the increases we have experienced to date are modest and we remain confident that our asset quality will result in Nationwide continuing to experience arrears which are markedly better than the industry average.

Our positive arrears position is also evidenced in the Specialist Lending portfolios where our levels remain well below comparable market equivalents. Overall, our total specialist lending cases more than 3 months in arrears were 1.33% at 30 September 2008. This is the same as the industry average for all residential lending including prime lending. Furthermore, our position of 1.33% includes buy to let cases where a ‘receiver of rent’ has been appointed under the Law of Property Act 1925 (as amended) (LPA) whereas the CML excludes these cases. On a comparable basis, our Specialist Lending arrears of more than three months are 1.05%.

The average LTV of residential mortgages completed in the half year has been 60% (full year 2007/08: 61%) and the average indexed LTV of residential mortgages at 30 September 2008 is 47% (4 April 2008: 43%).

The number of residential properties taken into possession in the last six months has been 300 representing just 0.02% of all cases (6 months to 30 September 07: 143 properties, 0.01%). This compares favourably to the industry where, in the six month period to June 2008, 0.16% of all cases were taken into possession.

Our commercial lending portfolio of £20.9 billion comprises £13.1 billion secured on commercial property (“Property Finance”), £6.7 billion advanced to Registered Social Landlords and £1.1 billion under the Private Finance Initiative (PFI). There are currently no arrears of three months or more on the Registered Social Landlord or PFI portfolios. Our Property Finance portfolio is well diversified by industry type and by borrower and we have no significant exposure to development finance. Property Finance lending is on investment property supported by

Nationwide Building Society – Half-Yearly Financial Report

strong tenant cashflows, and is therefore not immediately exposed to falls in capital values. There were 75 Property Finance cases three months or more in arrears as at 30 September 2008 (4 April 2008: 66 cases).

In consumer finance, the gross balance of accounts more than 30 days in arrears has slightly reduced and our performance compared to the industry remains positive. For Personal Loans and Credit Cards, the table below shows our arrears levels are significantly lower than averages for the industry (FLA and APACS):

Percentage of accounts more than 30 days in arrears	September 2008*		April 2008	
	NBS %	Industry %	NBS %	Industry %
Personal Loans	6.10	13.00	5.88	11.40
Credit Card	5.85	7.86	4.50	7.99

* Industry figures for September 2008, and Nationwide credit card figures for September 2008, are based on the latest data available, which is as at the end of August 2008.

Funding

The Society has well diversified sources of funding. Almost 70% of funding is provided by retail savings, and we attracted a total of £2.6 billion of net retail deposits in the period, an estimated 34% market share. This excellent performance was driven by our competitive loyalty and fixed rate bond pricing, combined with our commitment to better value savings across the range of products. In addition we received net inflows of £0.5 billion into our offshore subsidiary, Nationwide International Limited. As in 2007/08 net retail deposits provided more than the funding required for our total residential, commercial and consumer finance net lending in the period, which totalled £1.2 billion.

Our strong retail funding base is supported by a well diversified wholesale funding portfolio. Wholesale funding increased to £53.3 billion at 30 September 2008 (4 April 2008: £50.1 billion) and the wholesale funding ratio has remained relatively consistent at 31.3% (4 April 2008: 31.0%). The additional funding has been used to strengthen the liquidity portfolio.

The following table analyses the change in the makeup of wholesale funding and reflects the changes in the marketplace, where secured funding (other than for very short terms) has become commonplace:

Wholesale Funding portfolio mix	30 September 2008 %	4 April 2008 %
Repo & Other Secured Agreements	30.6	17.8
Deposits	10.7	13.2
CDs	14.9	17.6
CP	7.8	8.2
Covered Bonds	17.8	18.7
MTNs	16.2	22.4
Other non-retail	2.0	2.1
Total	100.0	100.0

Nationwide continued its strategic aim of diversifying its funding sources with the completion of the Silverstone Master Trust securitisation structure. Notes have been issued by the Silverstone Master Issuer (2008-1) to the Society, either to create collateral for funding or for subsequent sale to investors outside the Group once markets re-open. This new capability, combined with our Covered Bonds Programme, enables the Society to generate liquidity from its mortgage portfolios. The Society has been successful in expanding its secured funding with a variety of market counterparties for periods from 3 months to 5 years. The short term to long term funding ratio has remained broadly stable at 67%/33%.

Nationwide Building Society – Half-Yearly Financial Report

The Society is a Bank of England (BoE) reserve account holder and benefits from the liquidity provided by the BoE's market operations including through the Special Liquidity Scheme (SLS).

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

	Long Term	Short Term	Subordinated	Outlook
Standard and Poors	A+	A-1	A	Stable
Moody's	Aa2	P-1	Aa3	Negative
Fitch	AA-	F1+	A+	Stable

More information on our management of funding and liquidity risk is included in the Principal Risks section on page 29.

Treasury Portfolios

Group treasury assets at 30 September 2008 were £38.1 billion (4 April 2008: £31.6 billion). These assets are held in two separate portfolios – the liquidity portfolio and the investment portfolio. At 30 September 2008 the liquidity portfolio totalled £34.2 billion (4 April 2008: £27.3 billion) and the investment portfolio £3.9 billion (4 April 2008: £4.3 billion).

Nationwide has no exposure to emerging markets or hedge funds and only minimal exposure to non investment grade debt in the portfolios.

Treasury assets, in the majority of cases, are valued using market prices or prices obtained from counterparties. In cases where market prices are not available, discounted cash flow valuation models are used. Market prices were obtained for over 95% of all the AFS assets that we hold with only short term instruments valued using discounted cash flow valuations.

Out of our total £38.1 billion of treasury assets held in the liquidity and investment portfolios, £21.5 billion are held as AFS and under IFRS they are marked-to-market through reserves. The non-AFS balances are predominately short term loans to financial institutions or deposits with the Bank of England. The fair value movements of AFS assets have no effect on the Group's profit for the period or its regulatory capital. As at 30 September 2008 the balance on the AFS reserve was £834 million negative, net of tax (4 April 2008: £418 million negative), split approximately 45%/55% between the liquidity and investment portfolios respectively. The adjustment in the price of these assets is a reflection of the turbulence in worldwide markets and deteriorating economic conditions and the consequent repricing of the cost of credit. The assets concerned are performing in line with expectations, are not impaired and we continue to believe that we will recover full value for them on maturity.

Impairment losses on investment securities

During the period an impairment loss of £39 million has been recognised in the income statement as a result of liquidity issues faced by a number of counterparties. A loss of £34 million has been recognised on a senior unsecured exposure to Washington Mutual Bank which went into FDIC Receivership and a loss of £3 million was recognised in respect of our exposure to Lehman Brothers which filed for bankruptcy protection during the period. In addition we have also raised a full provision against the remaining £2 million of our original investment in SIVs.

In addition to the above we have an exposure to two Icelandic banks totalling £19 million which went into receivership during October 2008, following the period end. Losses, which will be limited to a proportion of this exposure, will be included in our results for the second half of the year.

It is important to place these provisions in context. The Group has total assets of £186.7 billion and the total Treasury portfolio is spread across over 500 institutions and investments. The impairment charge and Icelandic bank exposures detailed above are only 0.2% of the total Treasury portfolio.

Treasury Liquidity Portfolio

Balance sheet assets held in the Liquidity Portfolio totalled £34.2 billion as at 30 September 2008 (4 April 2008: £27.3 billion). We have continued to increase the quality and liquidity of the assets held, with over 44% of the portfolio held in sovereign exposure and over 99% of our liquidity portfolio is rated A or better with 86% rated AA or above.

The following table shows an analysis of the liquidity portfolio at 30 September 2008:

Liquidity Portfolio	30 Sept 2008 £bn	AAA %	AA %	A %	BBB %	UK %	US %	Europe %	Other %	4 Apr 2008 £bn
Loans to financial institutions	5.6	-	81	19	-	63	-	37	-	2.3
Certificates of deposit and commercial paper	4.3	-	73	27	-	84	-	12	4	7.3
Bank of England reserve account	10.6	100	-	-	-	100	-	-	-	2.9
Residential mortgage backed securities (RMBS)	3.0	100	-	-	-	42	-	51	7	3.5
Floating rate notes	5.2	3	49	44	4	24	2	62	12	5.5
Supranational bonds	0.9	100	-	-	-	-	9	88	3	0.5
Covered bonds	0.8	91	9	-	-	-	3	91	6	0.8
Gilts	3.4	100	-	-	-	100	-	-	-	3.3
Treasury liquidity portfolio	33.8	56	30	13	1	70	1	26	3	26.1
Cash and balances with the Bank of England	0.4	100	-	-	-	100	-	-	-	0.4
Clearing accounts	-									0.2
Other (including items in transit)	-									0.6
Total liquidity portfolio	34.2									27.3

An analysis of the 4 April 2008 balances by rating and geography can be found in the 2008 Annual Report and Accounts.

Treasury investment portfolio

The treasury investment portfolio was established to generate additional income for the Group. At 30 September 2008, the investment portfolio totalled £3.9 billion (4 April 2008: £4.3 billion). Over 98% of the investment portfolio is rated A or better with over 90% rated AA or better. In light of current market conditions we have not sought to expand the portfolio and we manage the existing portfolio to minimise potential risk.

The following table shows an analysis of the investment portfolio at 30 September 2008:

Investment Portfolio	30 Sept. 2008 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 Apr 2008 £bn
(i) Residential mortgage backed securities (RMBS)	0.3	57	12	28	3	40	53	7	-	0.3
(ii) Collateralised loan obligations (CLO)	0.5	100	-	-	-	-	73	27	-	0.5
(iii) Collateralised debt obligations (CDO)	0.1	100	-	-	-	-	100	-	-	0.1
(iv) Credit card backed securities	0.3	100	-	-	-	48	52	-	-	0.3
(v) Commercial mortgage backed securities	0.8	81	16	3	-	56	10	34	-	0.9
(vi) US student loan	0.7	98	2	-	-	-	100	-	-	0.7
(vii) Corporate bond portfolio	0.2	7	81	-	12	25	15	60	-	0.2
(viii) Financial institutions including subordinated debt	0.6	-	78	18	4	24	31	38	7	0.6
(ix) Other corporate bonds	0.1	100	-	-	-	100	-	-	-	0.4
(x) Other investments	0.3	32	38	26	4	17	45	35	3	0.3
Total	3.9	66	24	8	2	27	49	23	1	4.3

Nationwide Building Society – Half-Yearly Financial Report

An analysis of the 4 April 2008 balances by rating and geography can be found in the 2008 Annual Report and Accounts.

The main reason for the reduction in the investment portfolio during the period was the maturity in April 2008 of a deep discounted corporate bond with a notional value of £380 million.

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

(i) Our total investment holdings in RMBS are £260 million. Our total US exposure within this portfolio is £139 million of which £130 million is rated AAA. The US exposure is made up of £57 million Prime First Lien and £82 million Alt A. The combined average FICO score at origination was 717 and the average LTV was 76%. The remaining exposure below AAA is to well established UK and European issuers with the exception of one US Alt A which is BB rated, however this is a relatively small exposure of £9 million.

(ii) CLOs comprise £486 million of AAA rated assets. Although corporate default rates are beginning to rise, the underlying portfolios of leveraged loans continue to perform in line with expectations.

(iii) The CDO exposure of £63 million is made up of five CDOs all of which are AAA rated. Two CDOs are backed by AAA rated US Prime RMBS (62%), two CDOs of US ABS were purchased as part of SIV restructures (7%) and we own one US Trust Preferred CDO (31%). There is no direct exposure to commercial real estate CDOs and no exposure to synthetic CDOs.

(iv) The credit card portfolio is all AAA rated and is performing in line with expectations.

(v) The CMBS portfolio is exposed to established commercial real estate markets with the bulk of our holdings in the UK and Germany. Underlying collateral consists of office, retail, industrial and warehouse exposures with experienced sponsors supporting the underlying loans. The CMBS portfolio includes limited exposure to leisure markets.

(vi) The US student loan portfolio comprises 65% FFELP (Federal Family Education Loan Programme) originated loans which are 98% guaranteed by the US Government, and 35% Alternative Student Loans. 98% of the Student Loan exposure is AAA rated.

(vii) The £184 million corporate bond portfolio includes £148 million of assets where the credit risk has been hedged by entering into credit default swaps (CDS) with an AA rated European financial institution.

(viii) Of the £596 million held from financial institutions, £401 million is classified as subordinated debt, of which approximately 86% is from UK or European issuers.

(ix) The other corporate bonds of £56 million are whole business securitisations which all benefit from monoline insurance wraps from either AMBAC or MBIA. Even without the monoline wraps we would anticipate full repayment of principal.

(x) Included within other investments category are £98 million of unrated coupon strips, underpinned by A or above rated financial institutions, £61 million of lease receivables of which 88% are AAA rated, £46 million of AAA rated other European consumer finance loans, £26 million of AAA rated auto finance and £33 million structured notes issued by funding vehicles of AA rated insurance companies.

FINANCIAL SERVICES COMPENSATION SCHEME

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

Nationwide Building Society – Half-Yearly Financial Report

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

For further information see Note 20 on page 48.

CAPITAL STRUCTURE

The following table shows the make up of Group capital as at 30 September 2008. Regulatory capital stood at £9.8 billion (4 April 2008: £9.5 billion). The Group's total solvency ratio stood at 12.7% (4 April 2008: 12.4%) and the Basel II Tier 1 solvency ratio stood at 10.0% (4 April 2008: 9.7%). Both ratios remain well in excess of the minimum established by the Society's Regulator.

Nationwide Building Society – Half-Yearly Financial Report

	30 September 2008 Basel II £m	30 September 2007 Basel I £m	4 April 2008 Basel II £m
Tier 1			
General reserve	6,547	6,051	6,303
Permanent interest bearing shares (Note 1)	1,256	1,212	1,245
Pension fund net deficit add back (Note 2)	35	56	19
Intangible assets (Note 3)	(124)	(109)	(137)
Deductions from Tier 1 capital (Note 4)	(6)	(7)	(6)
	7,708	7,203	7,424
Tier 2			
Revaluation reserve	121	140	121
Subordinated debt (Notes 1 and 8)	1,768	1,883	1,743
Collective impairment allowance	182	210	192
Deductions from Tier 2 capital (Note 4)	(6)	(7)	(6)
	2,065	2,226	2,050
Deductions (note 5)	-	(276)	-
Total capital	9,773	9,153	9,474
Risk weighted assets – Pillar 1 (Note 6)			
Retail mortgages	44,441	60,698	43,836
Commercial loans	17,405	16,852	17,306
Treasury	7,316	8,305	7,891
Other	3,153	1,123	3,604
Operational Risk	4,704	-	3,962
Market Risk	42	-	39
	77,061	86,978	76,638
Key capital ratios:			
Total capital	9,773	9,153	9,474
Core Tier 1 (%) (Note 7)	8.4	6.9	8.1
Tier 1 ratio (%) (Note 7)	10.0	8.3	9.7
Total capital (%) (Note 7)	12.7	10.5	12.4
Tier 2 to Tier 1 ratio (%)	26.8	30.9	27.6

Notes

- (1) Permanent interest bearing shares and subordinated debt include any fair value adjustments arising from micro hedging and adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet.
- (2) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next 5 years, less associated deferred tax.
- (3) Under regulatory capital rules, intangible assets are required to be deducted from Tier 1 capital.
- (4) Certain deductions from capital are required to be allocated, 50% to Tier 1 and 50% to Tier 2 capital.
- (5) The sale of Nationwide Life Limited in 2007/8 allowed the release of the £276 million deduction from capital as at 30 September 2007 shown above.
- (6) The measurement of risk weighted assets differs significantly under Basel II and so the stated figures for 30 September 2007 are not directly comparable with those for 30 September 2008 and 4 April 2008. (For example, under Basel II retail mortgages that are considered to be secured and not past due are weighted at 35%; under Basel I the same mortgage assets were weighted at 50%).
- (7) Calculated as relevant capital divided by Risk Weighted Assets. Core Tier 1 relates to Tier 1 capital excluding Permanent Interest Bearing shares.
- (8) On 11 April 2008 the Group, with the consent of the FSA, redeemed early Euro 400 million of Subordinated Floating Rate Notes due 2013. Because the redemption had been notified to the FSA prior to the year end, these Notes did not qualify as capital at 4 April 2008.

The Group is required to manage its capital in accordance with the rules issued by its regulator, the Financial Services Authority (FSA). Prior to 1 January 2008 the Group followed the requirements of the Capital Accord (Basel I). Since 1 January 2008 the Group has complied with the EU Capital Requirements Directive (Basel II). At 30 September 2008, and throughout the period, the Group complied with the capital requirements that were in force. As at 30 September 2008 and 4 April 2008 the Group calculated its capital requirement on a Standardised basis.

Nationwide Building Society – Half-Yearly Financial Report

The Group's Internal Ratings Based (IRB) Waiver Application was approved by the FSA in May 2008 for capital adequacy monitoring and reporting of credit risks. Consequently, a revised Individual Capital Assessment (ICA) will now be prepared on this basis and submitted to the FSA for review and evaluation later this year.

On 8 September 2008, as part of the announcement of our proposed mergers with The Derbyshire and The Cheshire building societies, we reported that we expected the initial impact of the mergers to result in a reduction in our Core Tier 1, Total Tier 1 and Total Capital ratios of 34bps, 21bps and 16 bps respectively. A comprehensive assessment of the fair value of the Derbyshire and Cheshire balance sheets will be undertaken following completion of the mergers which, subject to approval from the FSA, are expected to occur in December. The actual impact of the transactions on the Group's capital position will differ from these estimates as they will be based on the balance sheets and associated fair value adjustments as at the date of the transfers and will reflect the conditions that exist at the respective completion dates of each of the mergers. We continue to be satisfied that the general reserves of the two societies will be sufficient to cover conservative fair value adjustments including current and future losses.

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

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

The total net retirement benefit liability measured under IAS 19, including the Nationwide Pension Fund and the former Portman Building Society arrangements is £69 million (4 April 2008: £40 million). We have been actively managing our retirement benefit liability and have taken a number of steps to contain and reduce the deficit over the last few years:

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

We will continue to review our options to manage the Funds in a responsible way. Following the full triennial valuation of the Nationwide Pension Fund as at 31 March 2007 a plan has been developed to clear the deficit by 2013.

PERFORMANCE BY BUSINESS STREAM

Nationwide 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.

There are no changes of classification from last year.

Nationwide Building Society – Half-Yearly Financial Report

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 2008 Underlying £m	Period to 30 September 2007 Underlying £m	Year to 4 April 2008 Underlying £m
Retail	146	120	264
Non-Retail	96	132	269
Group	80	142	248
Total contribution before tax	322	394	781

RETAIL BUSINESS STREAM

	Period to 30 September 2008 Underlying £m	Period to 30 September 2007 Underlying £m	Year to 4 April 2008 Underlying £m
Total income	768	684	1,462
Expenses	580	507	1,098
Impairment and other provisions	42	57	100
Contribution from Retail	146	120	264

The overall contribution from the Retail business stream increased to £146 million in the period (30 September 2007: £120 million).

The increase in Retail performance reflects growth in the business following the merger with Portman offset partially by narrowing spreads on retail products as increased funding costs exceeded the impact of widening lending margins. However under the Group's transfer pricing methodology, which is only recalibrated periodically, most of the impact of increased wholesale and retail funding costs during the period has been accounted for within the Group business stream. As a result we estimate that the performance of the Retail business stream is overstated relative to the comparable period by approximately £30 million with a corresponding understatement of performance in the Group business stream.

Expenses have increased by 14% over the comparative period reflecting the full six month impact of operating a larger retail network following the merger with Portman, together with increased investment in the business. Impairment and other provisions fell by £15 million reflecting a lower charge for unsecured lending partly offset by a small increase in the secured lending impairment charge.

Residential mortgages

The UK mortgage market slowed sharply in the first half of the financial year due to the ongoing impact from global financial market instabilities and steep declines in both house prices and consumer confidence, leading to reduced purchase activity. Total gross advances were down 30% on the same period last year.

Stretched affordability coupled with tighter lending criteria has reduced the number of first time buyers in the market. This, combined with a significant weakening in equity withdrawal by home movers and remortgage customers, has led to much weaker levels of net lending. Total UK net lending in the half year was £17.8 billion, down 69% compared with the same period in 2007/08.

Nationwide Building Society – Half-Yearly Financial Report

Remortgaging has held up better than house purchase, supported by high levels of maturing deals, but was still down 5% on the same period last year. Higher swap rates during the summer and reduced availability of refinance options for higher LTV customers have contributed significantly to the slowdown of the remortgage market with borrowers more likely to defer a decision to remortgage either by choice in the light of uncertain market conditions, or out of necessity.

Our focus has remained on quality business and as a result our prime retail gross mortgage lending reduced to £9.5 billion (30 September 2007: £11.9 billion). All of our net lending has been funded by retail deposits. Net lending reduced to £0.6 billion (30 September 2007: £3.3 billion), representing a market share of 3.3%, below our natural market share of 9.0%.

We have maintained a low risk-appetite to lending. We closely monitor applicant quality, affordability and loan to value (LTV) profile. All lending is subject to credit assessment. In light of current market conditions we continue to tighten credit criteria in respect of both the borrower and the associated property and have restricted the range and availability of our highest LTV products which are only available through our branches.

Our asset quality remains high. The average LTV ratio of new retail residential lending was 58% whilst the average LTV of the prime residential book was 46%. The number of prime mortgages more than 3 months in arrears as a proportion of the book, at 0.33% (4 April 2008: 0.30%), remains very low compared with the Council of Mortgage Lenders industry average of 1.33% as at June 2008.

Nationwide is supportive of industry initiatives ensuring that repossession is a last resort. The number of retail residential properties taken into possession during the year was 300, which represents less than 1.6% of the total recorded by the Council of Mortgage Lenders in the first half of 2008, much lower than our share of stock of 10.4%.

Under the current market conditions, we understand borrowers' concerns regarding the availability of affordable mortgages. Our principal focus at this time will be our existing members and in continuing to play our part in supporting the first time buyers' market. We are committed to offering good value mortgages underpinned by a focus on prudent and sustainable lending.

We actively engage with our customers before the end of their product's term. Our full range is available to existing mortgage customers whether they are moving house or switching to a new mortgage deal. In addition loyal mortgage members have benefited from substantial discounts against their product reservation fee and our standard variable rate remains below the average of our major high street competitors. As a result, our mortgage retention performance has remained strong. Prime residential mortgage redemptions were £8.9 billion, representing a market share of 7.7%, which is below our par share.

Despite market conditions Nationwide continues to invest in improving the mortgage experience for new and existing mortgage customers through the range of our product features - such as our 'switch and fix' capability allowing members on existing tracker arrangements to switch into any current fixed rate deal without penalty and through ongoing investment in our systems and processes.

Retail savings

UK retail savings balances increased by 3% in the 6 months to 30 September 2008, (30 September 2007: 4%). Balance growth has been slowed by deterioration in economic conditions, with disposable income restricted by inflationary pressures and rising unemployment. The total change in UK deposit balances, including interest capitalised and accrued, amounted to £24.5 billion in the half year, with net receipts estimated at £7.6 billion.

Retail savings continue to represent our primary source of funding and our performance in the market has been excellent. We attracted a total of £2.6 billion of net retail deposits in the half year, an estimated market share of 34%. This significant inflow was driven by our competitive loyalty and fixed rate bond pricing, combined with our commitment to better value savings across the range of products.

Nationwide Building Society – Half-Yearly Financial Report

The Group's total retail member deposits as at 30 September 2008 amounted to £118.4 billion (4 April 2008: £113.8 billion). In addition we received net inflows of £0.5 billion into our offshore subsidiary, Nationwide International Limited.

Competition for retail savings will remain strong in the current environment. New products to enhance our savings range were launched in the first half of the year and further enhancements will be made in the second half. All ex-Portman savings accounts have been successfully migrated to Nationwide systems and this will improve efficiency and functionality for those members.

We remain committed to operating in a clear and transparent way, offering our customers long term good value.

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 3.0% on credit balances and a market leading authorised overdraft rate of 12.9%.

Our internet bank, with over 3.1 million registered customers, has the highest advocacy and loyalty ratings of all internet banking services in the UK. Over 2.7 million of our FlexAccount customers have registered to use this service and around 55% use our internet banking service on a regular basis.

We opened 248,000 new current accounts in the period to 30 September 2008 (30 September 2007: 303,000) and our market share of new accounts is estimated at 8.6% (based on CACI's Current Account and Savings Database for the period to March 2008, the latest data available). The total number of Nationwide current accounts has grown by around 169,000 to just over 4.6 million accounts.

Credit cards

Total UK credit card gross lending in the period to 30 September 2008 was up 4% on the same period in 2007. We have also seen growth in our lending, with gross lending of £1.6 billion (30 September 2007: £1.5 billion). This equates to a market share of 2.5%.

In July 2008 the Society received Your Money awards in respect of 'Best Overall Online Provider' and 'Best Online Credit Card Provider'. The Society was also awarded a five star rating for its Gold Credit Card by the financial research company Defaqto.

Card activation rates have been strong with the number of active accounts now 1,243,000 (30 September 2007: 1,160,000). Balances outstanding on credit cards at 30 September 2008 were £877 million (30 September 2007: £812 million). Despite recent economic events, asset quality remains strong. On a consistent basis with the industry, our percentage of balances more than 30 days in arrears is 5.85% (August 2008) (4 April 2008: 4.50%) compared with the average of 7.86% (August 2008) (4 April 2008: 7.99%). Asset quality is monitored constantly both for new and existing exposures.

A commitment to UK based operations was reaffirmed by switching the servicing of the credit card base to a new third party provider, TSYS in March 2008. The development of the relationship with TSYS continues and provides a more flexible platform from which to launch new product initiatives in the future.

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.

Nationwide Building Society – Half-Yearly Financial Report

We have maintained a cautious approach to unsecured lending, with a focus on credit quality. Our prudent lending criteria employs 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.

The UK personal loans market has seen a marked reduction in gross lending in comparison with the previous year. Our prudent approach, and increase in pricing, has led to a reduction in our gross unsecured lending to £0.2 billion (30 September 2007: £0.3 billion). Balances outstanding on personal loans at 30 September 2008 were £1,577 million (30 September 2007: £1,859 million).

Asset quality remains strong with the proportion of accounts 30 or more days in arrears as at 30 September 2008 amounting to 6.10%. This is significantly better than the industry average of 13.00% (as at August 2008).

General insurance

We sold 358,000 new general insurance covers in the six months to September 2008, in line with the comparable period (30 September 2007: 358,000). This performance in a difficult mortgage market has been driven by continued strong sales of buildings and contents cover to our new and existing mortgage customers as well as growth of our standalone home insurance sales through our direct channels.

The primary general insurance products offered by the Group are buildings and contents, payment protection, motor and travel insurances. 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, although we have seen a significant growth in standalone sales in the year.

We have continued to use leading insurers as third-party underwriters and the commission and profit share we receive is an important source of non-interest income. Income for the period is up 5% to £56 million.

Protection and investments

The six months to 30 September 2008 produced extremely difficult trading conditions both in terms of investment markets and the housing market which has historically accounted for around 70% of our branch based Life Protection sales. Investment sales have held up well with 86,000 sales being just 6% lower than the comparable period. We have seen positive net sales of Unit Trusts and ISAs, contrary to current market trends. Nationwide funds under management with Legal & General, on which we earn trail commission, have fallen to £2.5 billion (4 April 2008: £2.8 billion) due to falls in the stock markets. With lower mortgage volumes we have concentrated more on selling family related Protection through our branch network and this now represents approximately 50% of our Protection sales compared to 30% last year.

Through our new relationship with Legal & General we have been able to bring new products to market and we have seen 5,000 sales of Family Life Insurance Plan, 11,000 of our Deposit Based Guaranteed Equity Bond (GEB) and £9.6 million invested in our new Ethical Trust.

Starting in February 2009 we plan to make significant additions to our Investments product range to enhance our customer offering.

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 six month period to 30 September 2008 we estimate that we generated pricing benefit of approximately £350 million by offering better rates and by charging lower fees and charges than our competitors.

Distribution channels

Performance across all distribution channels has held up well during the first half of the year, with sales activity up nearly 46% in comparison with the corresponding period last year. The main driver of this increase was strong savings inflows compared to the same period last year. Home insurance sales are also at record levels. Customer satisfaction across all channels remains stable.

Significant investment continues in all channels, underpinning Nationwide's commitment to its retail customers. New premises have been acquired in Leeds, Bristol, Portsmouth and Cheltenham along with 55 branch refurbishments completed since April.

The Internet Bank has performed particularly strongly with sales up 27% over the comparable six month period, whilst internet banking activity is up 18%. Nationwide continues to develop its internet offering launching a new on-line Mortgage Switcher process in August. This is the first deployment of its kind in the UK and allows existing customers to transfer into a new mortgage deal quickly and simply. Security of customers' online transactions has also been increased through the deployment of remote card authentication to prevent internet fraud.

Nationwide's commitment to the UK was also reinforced with the move and expansion of our Swindon call centre into a new purpose built 400 seat call centre. New technology has also been deployed across all call centres to improve operational efficiency and performance.

NON-RETAIL BUSINESS STREAM

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Year to 4 April 2008 £m
Total income	165	160	338
Expenses	37	31	74
Impairment and other provisions	32	(3)	(5)
Contribution from Non-Retail	96	132	269

Contribution from the Non-Retail business stream reduced by 27% to £96 million, and represents around 30% of the Group's total underlying profit.

There has been a marginal increase in total income, with the additional income benefit in the period from the inclusion of TMW being substantially offset by an increase in the internal cost of funding.

Total expenses, whilst increasing due to a full six months of TMW being included, have been significantly reduced in real terms. On a like for like basis Specialist Lending costs have fallen by 10% and by 5% in the Commercial division.

The increase in impairment has been driven by a £25 million charge for individual commercial loans together with an increased charge on specialist lending, reflecting increased arrears and lower house prices.

Commercial lending

The Commercial loan book of £20.9 billion (4 April 2008: £20.6 billion) comprises loans in respect of Property Finance (63%), social housing (32%) and Private Finance Initiatives (5%).

Property Finance loans are fully secured and are typically supported by strong or highly diversified cash flows from long term occupational leases and are therefore not immediately exposed to falls in capital values. The portfolio is well diversified by industry type and geographic location, and we have no significant exposure to development finance.

Nationwide Building Society – Half-Yearly Financial Report

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.

Asset quality is high and there are no arrears of three months or more relating to Registered Social Landlords or under Private Finance Initiatives. There were 75 Property Finance cases three months or more in arrears as at 30 September 2008 (4 April 2008: 66 cases). Individual provisions have been raised in the period in respect of a small number of cases.

The Division is currently implementing a cost reduction programme that will further reduce operating costs and is restructuring its operations to improve efficiency and better serve its key markets.

Specialist lending

The Specialist lending division comprises UCB and TMW. Both companies distribute primarily through mortgage intermediaries and are well established brands in this market. To reduce operating costs, on 20 October 2008 the Group announced that it would cease writing new business under the UCB brand and concentrate the division's activities under the TMW brand.

The division primarily provides buy to let (BTL) loans to private landlords (62%) and loans to prime borrowers who have self certified their income (35%). The division has a very small exposure to other non-conforming lending (3%), including sub-prime lending (£78m: 0.5%), all of which is self originated. The total mortgage balances across the two brands is £14.4 billion.

The market slowdown has prompted a planned reduction in new business volumes. During the reporting period we took the decision not to aggressively expand market share, rather seeking to maintain a selective approach in our chosen markets. As a result of this approach, despite the withdrawal of many key competitors, we have maintained a stable market share of the core BTL market. We have benefited from improving margins in this market.

The mortgage market experienced significant turbulence and a marked slowdown during the period. We took the opportunity to reduce costs and achieve efficiency savings. The migration of UCB's operational activities, as part of our Portman merger integration programme, continues to be delivered ahead of plan, achieving better than anticipated cost savings, whilst maintaining outstanding standards of service.

In line with others in the industry, we have experienced an increase in our level of arrears over the first half and this is expected to continue. Our levels however remain well below comparable market equivalents. BTL lending cases more than three months in arrears at 30 September 2008 were 0.98% which compares favourably with the CML industry average of 1.10% at June 2008. Self-certificated lending cases more than three months in arrears at 30 September 2008 were 1.53%. Whilst there is no industry average available, we believe this compares favourably with other reported equivalents. Overall, our total specialist lending cases more than 3 months in arrears were 1.33% at 30 September 2008. This is the same as the CML industry average for all residential lending including prime lending at June 2008. Furthermore, our position of 1.33% includes BTL cases where a "receiver of rent" has been appointed under the Law of Property Act 1925 (as amended) (LPA) whereas the CML exclude these cases. On a comparable basis, our specialist lending arrears of more than 3 months is 1.05%.

In the context of reduced competition, adverse market conditions and falling house prices, the Division has continued to tighten its criteria to manage new business volumes within operational capacity and to improve risk adjusted returns. In March 2008, for example, we reduced its maximum LTV to 75%. The Division wrote no new sub-prime business during the reporting period and has no plans to do so in the future.

GROUP BUSINESS STREAM

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Year to 4 April 2008 £m
Total income	132	200	412
Expenses	10	21	61
Impairment and other provisions	42	37	103
Contribution from Group	80	142	248

Contribution from the Group business stream was £80 million (30 September 2007: £142 million).

Total income is £68 million lower than the comparable period to 30 September 2007. This reduction reflects the increased cost of retail funds, which have not yet been fully allocated to the Retail business stream, and the cost of holding higher grade liquidity balances in the current market environment. This reduction has been partially offset by the continued benefit to the Group arising from the increased differential between Libor and bank base rate and the contribution from capital held for regulatory purposes in excess of that allocated to other business streams.

Impairment and other provisions increased to £42 million and principally relate to impairment losses on investment securities. More information is provided on page 13.

PRINCIPAL RISKS

The Disclosure and Transparency Rules (DTR 4.2.7R) require that a description of the principal risks and uncertainties are given in the Half Yearly Financial Report for the remaining six months of the financial year. Nationwide's principal inherent risks are described in the Risk Management and Control section on pages 24 to 27 of the 2008 Annual Report and Accounts. Additional information on risk is also provided in the Pillar 3 disclosure available at www.nationwide.co.uk/abouts_nationwide/results_accounts.

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

Credit risk

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

Market background

The key drivers of credit risk for residential mortgages and unsecured lending include the slowdown in the UK economy leading to higher unemployment, deterioration in household finances due to inflation or other pressures, and further contraction in the UK housing market leading to falling security values. The extent of further economic slowdown and the extent of further falls in house prices in the second half of the year will affect the level of impairment losses.

For commercial lending, the most significant area of exposure is in respect of our property finance portfolio. Whilst we principally assess counterparties on the strength of tenant cashflows rather than the value of collateral, a failure of these borrowers to operate successfully through the economic cycle due to tenant failures, increased void periods or for any other reason, combined with reduced collateral values and the potential for further falls would lead to increased impairment losses.

Nationwide Building Society – Half-Yearly Financial Report

Wholesale credit markets remain volatile and dislocated. Any worsening in conditions could lead to further mark to market adjustments in the Group's portfolio of Available for Sale assets and potentially impairment in respect of both our liquidity and investment portfolios.

Risk Management response

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

In respect of our residential mortgage businesses, the focus will remain on the quality of the business we write. We will continue to closely monitor applicant quality, affordability and loan to value profiles. In the light of current market conditions, we will continue to keep under review credit criteria in respect of both the borrower and the associated property and will further tighten if appropriate. In our specialist lending market, we have not sought to aggressively grow our market share despite the withdrawal of many key competitors from this market and we will continue this strategy into the second half of the year. We remain cautious on unsecured and commercial lending given the current stage of the economic cycle and will continue to prioritise quality of lending ahead of volume targets in these portfolios.

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

Liquidity and funding risk

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

Market background

Increased arrears and losses in mortgage debt, combined with reduced confidence in the rating agency process have reduced prices and liquidity in asset backed markets. Many banks have suffered substantial losses through their direct or indirect exposures to asset backed securities and some institutions have failed due to these factors. As a consequence confidence in the sustainability of other financial institutions has weakened.

Nationwide, as a leading UK mortgage lender, has been impacted by these developments in its wholesale funding activities. Opportunities to raise long term funding in public debt markets have remained more limited and more expensive. Wholesale lenders have also preferred secured over unsecured funding arrangements and their preference for term to maturity has progressively shortened.

Risk management response

We have continued to monitor a number of internal classifications of liquidity and review the position using a number of stress scenarios. Attention has been focused towards the more severe of the liquidity stress scenarios and as a consequence we have increased both the size and quality of our liquidity which has served us well given the unprecedented turmoil in financial markets in the latter part of our half year.

Executive management has met on a frequent basis to review the business plans and liquidity position of the Group and this will continue until wholesale markets stabilise.

Nationwide Building Society – Half-Yearly Financial Report

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

The Group will continue to make use of secured funding into the second half of the year and will also consider using the UK government guarantee for debt issuance. As opportunities arise we will look to increase our ratio of long term to short term wholesale funding.

Around 70% of the Group's funding comes from retail and we have been particularly successful in these markets over the last 18 months or so as savers have sought a safe harbour for their savings. We expect increasing levels of competition for retail savings and we will continue to enhance our savings range to maintain our competitive position. We will continue to apply our cash flow approach to balance sheet management with all lending funded from net retail deposits. We expect to maintain our ratio of retail funding at approximately 70%.

Whilst it is still too early to assess the full impact of the UK Government's financial support package we have already seen some modest improvement in funding availability and duration. It is likely to take some time for a return to more normal market conditions but providing conditions continue to improve we will consider a prudent decrease in our liquidity as the average duration of our funding increases. However, given the experience of the credit crunch it is inevitable that we will continue to hold an amount and quality of liquidity materially in excess of that held before the onset of credit crunch conditions.

Market risk

Market risk incorporates a range of risks, but the principal elements are interest rate risk and foreign currency risk.

Market background

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

Risk management response

The Group runs minimal market risk positions. A Group Asset and Liabilities Management Department has been established during the period to enhance the risk management of group earnings and the consistency of risk based practices throughout the Group.

FUTURE BUSINESS PERFORMANCE

The developing recessionary environment in the UK will result in challenging trading conditions for the remainder of 2008/9 and, we anticipate, throughout 2009/10.

Margins will continue to be affected by intense competition for retail funds and the aggregate price of wholesale funding. We expect that these factors will be offset to some degree by improved spreads in relation to both new lending and progressive re-pricing of maturing mortgage deals. In addition to the extent that wholesale markets stabilise in response to the support measures introduced both here in the UK and overseas, we will prudently allow liquidity levels to fall slightly which will have a beneficial impact on reported net interest margins. Overall we expect net interest margins for the second half to be slightly higher than those reported in the first half, and combined with other income which we expect to broadly match our first half performance, we anticipate total income to also marginally exceed the levels implied by the first half result.

Nationwide Building Society – Half-Yearly Financial Report

Business as usual costs for the year are expected to accrue in line with experience to date, but with some potential to accelerate business investment during the second half. We remain committed to delivering sustainable reductions in our cost base through focused investment in infrastructure and operational efficiencies.

During the first six months of the year our performance has been impacted by write offs in relation to both bank failures and commercial property exposures. Whilst we enter the second half of the year with high quality portfolios and a strong balance sheet, it is realistic to assume that losses of this type will continue as wholesale markets adjust and the economic cycle unfolds. In addition we anticipate that the deteriorating economic outlook will result in rising unemployment which will in turn result in a continuing upward trend in residential mortgage provisions though at rates which are manageable and we expect will be notably better than industry benchmarks.

Depending upon how the costs attributable to Bradford & Bingley and the Icelandic banks are dealt with under the Financial Services Compensation Scheme (see Note 20) it may be necessary to recognise a charge in the second half of our financial year. Until this position becomes clearer, it is not possible to be precise about the amount or timing of any Financial Services Compensation Scheme levy.

Based on the above considerations we expect a stable performance from our core business during the second half of the year, but overall performance remains subject to inherent uncertainties in relation to the timing and quantum of FSCS levies and the impact of impairment charges as a result of the recessionary economic environment.

Our lending strategy will continue to prioritise credit quality and ensure we manage net lending volumes in line with growth in retail funding balances. Subject to fluctuations in market size which remain difficult to predict, we expect our total net lending in the second half to be moderately higher than the first half.

Our results for the first half of 2008/9 demonstrate the Group's ability to withstand the impact of adverse market conditions which are unprecedented in terms of their severity. The resilience of our robust business model has been tested and proven and our strong balance sheet and focus on risk management will enable us to continue to maintain our strong financial position and to support our members through difficult times.

Signed by

Mark Rennison
Group Finance Director
7 November 2008

CONSOLIDATED INCOME STATEMENT
For the period ended 30 September 2008

	Notes	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Interest receivable and similar income	3	5,098	4,281	9,701
Interest expense and similar charges	4	4,218	3,445	7,905
Net interest income		880	836	1,796
Fee and commissions income		168	157	333
Fee and commissions expense		(1)	(1)	(1)
Premiums on insurance contracts and fair value gains on insurance assets	5	-	121	142
Income from investments		14	22	25
Other operating income		4	1	3
Gains/(losses) from derivatives and hedge accounting		58	(11)	(31)
Profit on sale of a subsidiary		-	-	10
Total income		1,123	1,125	2,277
Insurance claims and change in liabilities		-	90	101
Total income net of claims on insurance contracts		1,123	1,035	2,176
Administrative expenses	6	572	545	1,168
Depreciation and amortisation		61	61	124
Impairment losses on loans and advances to customers	7	74	61	106
Provisions for liabilities and charges	8	3	(5)	(10)
Impairment losses on investment securities		39	35	102
Profit before tax		374	338	686
Analysed as:				
• Profit before tax and merger and similar costs		380	385	745
• Merger and similar costs		(6)	(47)	(59)
Profit before tax		374	338	686
Taxation		104	102	191
Profit after tax		270	236	495

Results relating to the business acquired as a result of the merger with Portman Building Society are included with effect from the date of the completion of the merger, 28 August 2007.

Merger and similar costs relate to the merger with Portman Building Society and setting up of the new distribution agreement with Legal and General.

The accounting policies and notes on pages 37 to 49 form an integral part of this condensed consolidated half-yearly financial report.

CONSOLIDATED BALANCE SHEET
As at 30 September 2008

	Notes	30 September 2008 (Unaudited) £m	30 September 2007 (Unaudited) £m	4 April 2008 (Audited) £m
ASSETS				
Cash and balances with the Bank of England		10,993	1,181	3,353
Loans and advances to banks		5,564	4,322	2,837
Investment securities – available for sale	10	21,514	18,278	25,486
Derivative financial instruments		2,673	1,478	2,408
Fair value adjustment for portfolio hedged risk		358	(425)	247
Loans and advances to customers	11	144,271	137,456	142,804
Investments in equity shares		71	43	61
Intangible fixed assets		124	109	137
Property, plant and equipment		857	799	811
Investment properties		15	15	15
Accrued income and expenses prepaid		103	130	555
Deferred tax assets		120	62	116
Other assets		45	125	191
Assets classified as held for sale	9	4	2,454	6
Total assets		186,712	166,027	179,027
LIABILITIES				
Shares		118,379	106,365	113,816
Deposits from banks		17,636	5,110	11,777
Other deposits		3,687	4,834	4,567
Due to customers		3,939	3,136	3,433
Debt securities in issue		31,952	32,602	33,772
Fair value adjustment for portfolio hedged risk		47	(21)	-
Derivative financial instruments		975	934	1,201
Other liabilities		907	845	751
Provisions for liabilities and charges	8	14	31	16
Accruals and deferred income		241	710	355
Subordinated liabilities	12	1,768	1,883	2,058
Permanent interest bearing shares	12	1,256	1,212	1,245
Current tax liabilities		7	33	(12)
Retirement benefit obligations	13	69	94	40
Liabilities directly associated with assets classified as held for sale	9	-	2,137	-
Total liabilities		180,877	159,905	173,019
General reserve	14	6,547	6,051	6,303
Revaluation reserve	15	121	140	121
Available for sale reserve	16	(834)	(71)	(418)
Cash flow hedge reserve	17	1	2	2
Total reserves & liabilities		186,712	166,027	179,027

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the period ended 30 September 2008

	Notes	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Available for sale investments				
- net fair value (loss)	16	(578)	(136)	(633)
Revaluation of property	15	-	-	(19)
Cash flow hedge amortisation	17	(1)	-	-
Actuarial (loss)/gain on retirement benefit obligations	14	(36)	73	61
Taxation on items through reserves		172	11	166
Net expense recognised directly in reserves		(443)	(52)	(425)
Net profit for the period		270	236	495
Total recognised income and expense for the period		(173)	184	70

CONSOLIDATED STATEMENT OF MOVEMENTS IN RESERVES
For the period ended 30 September 2008

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
At 5 April	6,008	5,465	5,465
Total recognised income and expense for the period	(173)	184	70
Acquired on transfer of engagements	-	704	704
Merger related bonus to Portman members	-	(329)	(329)
Taxation on merger related bonus to Portman members	-	98	98
At 30 September	5,835	6,122	6,008

CONSOLIDATED CASH FLOW STATEMENT
For the period ended 30 September 2008

	Notes	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Cash flows from operating activities				
Profit before tax		374	338	686
Adjustments for:				
• Non-cash items included in profit before tax	18	141	182	400
• Changes in operating assets	18	(817)	(24,899)	(31,432)
• Changes in operating liabilities	18	7,539	28,368	40,990
• Interest paid on subordinated liabilities		(43)	(35)	(87)
• Interest paid on subscribed capital		(40)	(34)	(75)
• Taxation		83	(15)	(67)
Net cash flows from operating activities		7,237	3,905	10,415
Cash flows from investing activities				
Purchase of investment securities		(8,815)	(7,014)	(23,571)
Sale and maturity of investment securities		11,787	4,016	16,260
Purchase of property, plant and equipment		(105)	(94)	(179)
Sale of property, plant and equipment		4	-	21
Sale of investment properties		-	-	1
Purchase of intangible fixed assets		(5)	-	(39)
Sale of subsidiary undertaking		-	-	289
Cash and cash equivalents acquired on transfer of engagements		-	959	392
Cash flows from investing activities		2,866	(2,133)	(6,826)
Cash flows from financing activities				
Maturity of subordinated liabilities		(325)	-	-
Cash flows from financing activities		(325)	-	-
Net increase in cash		9,778	1,772	3,589
Cash and cash equivalents at start of period		9,212	5,623	5,623
Cash and cash equivalents at end of period	18	18,990	7,395	9,212

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

1 Reporting period

These results have been prepared as at 30 September 2008 and show the financial performance for the period from, and including, 5 April 2008 to this date.

2 Basis of preparation

This condensed consolidated half-yearly financial report for the half year ended 30 September 2008 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 2008, 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 2008/09 half-yearly financial report and those which the Group currently expects to adopt in its annual accounts for the year ended 4 April 2009 are consistent with those disclosed in the annual accounts for the year ended 4 April 2008, copies of which are available at www.nationwide.co.uk/abouts_nationwide/results_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 IFRIC interpretation:

IFRIC 14 – 'IAS19 -The limit on a defined benefit asset, minimum funding requirement and their interaction'.

This interpretation provides guidance on the availability of refunds or reductions in future contributions in the recognition of a defined benefit asset. It also specifies how a minimum funding requirement could give rise to a further liability. IFRIC 14 had no impact on the results to 30 September 2008.

The following new standards and amendments to standards have been issued, but are not effective for the financial year beginning 5 April 2008 and have not been early adopted:

- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.
- IAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.

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.

In response to the credit crisis and the resultant deterioration of the world's financial markets, on 13 October 2008 the IASB published amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' which permit the reclassification of certain financial instruments from being valued at fair value to being accounted at amortised cost, narrowing a previous divergence between IFRS and US GAAP. Of particular relevance to the Group is the amendment which permits the reclassification of available for sale assets to loans and receivables under certain conditions. The Group is currently assessing the impacts of the amendments and any reclassifications, if considered appropriate, would be effected in the second half of the financial year.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

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 2009 Annual Report and Accounts.

Related party transactions

The Group has had no related party transactions during the half-year to 30 September 2008, other than as noted in the following paragraph, that were unusual or that have materially affected the results of the Group. Related party transactions for the half-year to 30 September 2008 are therefore similar in nature to those for the year ended 4 April 2008. Full details of the Group’s related party transactions for the year to 4 April 2008 can be found in the 2008 Annual Report and Accounts.

As part of the transitional arrangements prior to the mergers with The Cheshire and The Derbyshire building societies, transitional funding facilities have been put in place. Revolving one month unsecured facilities of £250 million are available for each society. These facilities were undrawn as at 30 September 2008. Subsequent to the half year The Derbyshire Building Society has drawn down £250 million and The Cheshire Building Society has drawn £50 million of their respective facilities. In addition further secured funding arrangements via covered bond or securitisation vehicles have been put in place for £250 million for each of the societies. To date there have been no draw downs on the secured facilities. The facilities are made on commercial terms.

Prior year reclassification

A short term deposit of £2,947 million at 4 April 2008 has been re-classified from loans and advances to banks to be included in cash and balances with the Bank of England on the balance sheet. This change does not affect total assets. The only consequential change to the notes to the half-yearly financial report is to the cash and cash equivalents analysis in the notes to the cash flow statement (note 18). This change has been made to give greater clarity to the cash and balances with the Bank of England and reflects current industry best practice.

Transfer of engagements – Portman Building Society

Just before the end of the first half of last financial year, on 28 August 2007, the Portman Building Society transferred its engagements to the Society. Details of the accounting adopted for the transfer of engagements and assets and liabilities are given in notes 1 and 51 respectively of the Annual Report and Accounts for the year ended 4 April 2008. The comparative figures include the results of the engagements transferred from Portman from 28 August 2007.

3 Interest receivable and similar income

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
On loans fully secured on residential property	3,517	2,922	6,547
On other loans	559	493	1,045
On investment securities	651	433	1,111
On other liquid assets	139	96	247
Other interest receivable	4	1	-
Foreign exchange difference	1	5	-
Net income on financial instruments hedging assets	153	263	609
Expected return on pension assets	74	68	142
	5,098	4,281	9,701

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

4 Interest expense and similar charges

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
On shares	2,682	2,159	4,964
Subscribed capital	40	35	76
On deposits and other borrowings			
• Subordinated liabilities	42	39	90
• Other	535	320	830
Debt securities in issue	735	731	1,565
Foreign exchange difference	-	-	1
Net expense on financial instruments hedging liabilities	114	107	266
Pension interest cost	70	54	113
	4,218	3,445	7,905

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

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Net insurance premiums receivable	-	85	143
Fair value gains on insurance assets	-	36	(1)
	-	121	142

The Group sold its life insurance subsidiary, Nationwide Life, to Legal & General on 31 January 2008. Since the sale, Nationwide has received commission income on the sale and renewal of Legal & General insurance products sold by Nationwide. This income is included in fees and commissions income.

6 Administrative expenses

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Employee costs:			
• Wages and salaries	234	201	431
• Social security costs	20	15	34
• Pension costs	51	48	100
	305	264	565
Other administrative expenses	267	281	603
	572	545	1,168

Administrative expenses include £6 million (30 September 2007: £40 million; 4 April 2008: £52 million) directly relating to the merger with Portman Building Society which took place on 28 August 2007. Administration expenses for the six months ended 30 September 2007 and the year ended 4 April 2008 included £7 million directly relating to the setting up of the new distribution agreement with Legal & General.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

7 Impairment losses on loans and advances to customers

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Impairment charge / (credit) for the period			
Loans fully secured on residential property	5	(4)	(12)
Loans fully secured on land	25	(4)	(4)
Other loans	44	69	122
	74	61	106
Impairment provision at the end of the period			
Loans fully secured on residential property	42	48	38
Loans fully secured on land	54	28	30
Other loans	134	151	144
	230	227	212

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

8 Provisions for liabilities and charges

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
At 5 April	16	50	50
Provisions utilised	(5)	(14)	(24)
Charge/(release) for period	3	(5)	(10)
At 30 September	14	31	16

Provisions have been made in respect of various customer claims.

9 Assets classified as held for sale and associated liabilities

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

	30 September 2008 (Unaudited) £m	30 September 2007 (Unaudited) £m	4 April 2008 (Audited) £m
ASSETS			
Loans and advances to banks	-	312	-
Insurance assets at fair value	-	1,772	-
Other assets	-	363	-
Branches	4	7	6
Total assets held for sale	4	2,454	6

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

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

	30 September 2008 (Unaudited) £m	30 September 2007 (Unaudited) £m	4 April 2008 (Audited) £m
LIABILITIES			
Deposits from banks	-	831	-
Insurance contract liabilities	-	1,215	-
Other liabilities	-	91	-
Total liabilities directly associated with assets classified as held for sale	-	2,137	-

Assets classified as held for sale at 30 September 2008 and 4 April 2008 are former offices and branches of Portman Building Society that were surplus to requirements on transfer of engagements.

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. Consequently, the assets and liabilities of these undertakings were disclosed separately as required by IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations) in the 30 September 2007 results. The subsidiaries were sold on 31 January 2008.

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

Investment securities with a carrying value of £9,816 million (30 September 2007: £884 million, 4 April 2008: £8,857 million) have been sold under sale and repurchase agreements. These assets have not been de-recognised as Nationwide has retained substantially all the risks and rewards of ownership.

Nationwide holds collateral under reverse sale and repurchase agreements with a fair value of £3,652 million (30 September 2007: £388 million, 4 April 2008: £714 million). These transactions are conducted under the terms that are usual and customary to standard stock lending, securities borrowing and reverse repurchase agreements. Nationwide is permitted to sell or repledge the assets received as collateral in the absence of their default. Nationwide is obliged to return equivalent securities. At 30 September 2008 the fair value of the collateral repledged amounted to £Nil (30 September 2007: £Nil, 4 April 2008: £357 million). Nationwide does not recognise securities received under reverse sale and repurchase agreements on the Group balance sheet.

11 Loans and advances to customers

	30 September 2008 (Unaudited) £m	30 September 2007 (Unaudited) £m	4 April 2008 (Audited) £m
Loans fully secured on residential property	128,659	123,055	127,078
Loans fully secured on land	11,367	10,610	11,476
Other loans	4,172	3,907	4,225
	144,198	137,572	142,779
Fair value adjustment for micro hedged risk	73	(116)	25
	144,271	137,456	142,804

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

11 Loans and advances to customers (continued)

Loans fully secured on land include £313 million (30 September 2007: £409 million, 4 April 2008: £294 million) of loans which are fully secured on residential property but are classified as ‘loans fully secured on land’ in accordance with the Building Societies Act 1997.

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

	30 September 2008 (Unaudited) £m	30 September 2007 (Unaudited) £m	4 April 2008 (Unaudited) £m
Residential mortgages	106,372	103,705	105,538
Commercial	20,911	18,672	20,633
UCB – buy to let	3,606	3,153	3,517
UCB - self-certified	3,430	3,516	3,509
The Mortgage Works - buy to let	5,302	4,369	4,941
The Mortgage Works – other lending	2,105	1,489	2,078
Unsecured personal lending	1,577	1,859	1,696
Credit card	877	812	801
Overdrawn current accounts	248	224	278
	144,428	137,799	142,991
Impairment provisions	(230)	(227)	(212)
Fair value adjustment for micro hedged risk	73	(116)	25
	144,271	137,456	142,804

Certain loans and advances to customers are used to secure debt securities in issue (funding) at 30 September 2008 as follows:

	30 September 2008 (Unaudited)		30 September 2007 (Unaudited)		4 April 2008 (Audited)	
	Assets pledged £m	Secured funding £m	Assets pledged £m	Secured funding £m	Assets pledged £m	Secured funding £m
Covered bonds	26,986	9,483	10,808	7,740	18,680	9,356
Securitisations and other secured lending	20,845	1,498	-	-	-	-
	47,831	10,981	10,808	7,740	18,680	9,356

Secured funding disclosed above is that obtained from issuance to external counterparties and does not include self issuances that may be used as collateral for repo and other similar type operations.

The Society established the Silverstone Master Trust securitisation structure on 16 July 2008. Notes are issued by Silverstone Master Issuer Securities (2008-1) plc to the Society, either for the purposes of creating collateral to be used for funding or for subsequent sale of notes to investors outside the Group.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

12 Subordinated liabilities and permanent interest bearing shares

	30 September 2008 (Unaudited) £m	30 September 2007 (Unaudited) £m	4 April 2008 (Audited) £m
Subordinated liabilities			
Subordinated notes	1,752	1,898	2,035
Fair value adjustment for micro hedged risk	22	(8)	29
Unamortised premiums and issue costs	(6)	(7)	(6)
	1,768	1,883	2,058
Subscribed capital			
Permanent interest bearing shares	1,235	1,235	1,235
Fair value adjustment for micro hedged risk	30	(13)	20
Unamortised premiums and issue costs	(9)	(10)	(10)
	1,256	1,212	1,245

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

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

On 11 April 2008 the Group, with the consent of the FSA, redeemed early Euro 400 million of subordinated floating rate notes due 2013 at a cost of £325 million.

13 Retirement benefit obligations

The Group's net retirement benefit obligation at 30 September 2008 totalled £69 million (30 September 2007: £94 million, 4 April 2008: £40 million). The change reflects a fall in the market values of Fund assets following general market movements partly offset by a decrease in the measurement of Fund liabilities. The primary reason for the fall in the value of the liabilities is an increase in the discount rate to 6.9% (30 September 2007: 5.9%, 4 April 2008: 6.4%).

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

14 General reserve

Movements in the general reserve were as follows:

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
At 5 April	6,303	5,296	5,296
Acquired on transfer of engagements	-	697	697
Merger related bonus to Portman members	-	(329)	(329)
Tax on merger related bonus to Portman members	-	98	98
Profit for the period	270	236	495
Actuarial (loss)/gain on retirement benefit obligations	(36)	73	61
Tax on actuarial (loss)/gain on retirement benefit obligations	10	(20)	(18)
Impact of change in deferred tax rate	-	-	(4)
Transfer from the revaluation reserve	-	-	7
At 30 September	6,547	6,051	6,303

During the period an impairment loss of £39 million (30 September 2007 – a loss of £35 million, 4 April 2008: loss of £102 million) has been recognised in the income statement as a result of deterioration in the credit quality of available for sale investment securities.

15 Revaluation reserve

Movements in the revaluation reserve were as follows:

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
At 5 April	121	128	128
Acquired on transfer of engagements	-	8	8
Revaluation decrease on land and buildings	-	-	(19)
Decrease in deferred tax liability on revaluation of land and buildings	-	4	11
Transfer to general reserve	-	-	(7)
At 30 September	121	140	121

16 Available for sale reserve

Movements in the available for sale reserve were as follows:

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
At 5 April	(418)	41	41
Acquired on transfer of engagements	-	(3)	(3)
Net loss from changes in fair value	(606)	(171)	(726)
Amounts transferred to income statement on disposal and impairment	28	35	93
Decrease in tax liability	162	27	177
At 30 September	(834)	(71)	(418)

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

17 Cash flow hedge reserve

Movements in the cash flow hedge reserve were as follows:

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
At 5 April	2	-	-
Acquired on transfer of engagements	-	2	2
Amortisation	(1)	-	-
Movement in deferred tax liability	-	-	-
At 30 September	1	2	2

Nationwide does not use cash flow hedge accounting. The cash flow hedge accounting reserve has arisen from the merger with Portman. The balance taken on at 28 August 2007 is being amortised over the appropriate period.

18 Notes to the cash flow statement

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Non-cash items included in profit before tax			
Net increase/(decrease) in impairment provisions on loans	18	1	(14)
Impairment losses on investment securities	39	35	102
Depreciation and amortisation	61	61	124
(Profit) on sale of property, plant and equipment and investment property	(1)	-	(2)
(Profit) on sale of investment property	-	-	(1)
Interest on subordinated liabilities	42	39	90
Interest on subscribed capital	40	35	76
Loss on the revaluation of land and buildings	-	-	3
(Gains)/losses from derivatives and hedge accounting	(58)	11	31
Profit on sale of subsidiary undertaking	-	-	(9)
	141	182	400
Changes in operating assets *			
Loans and advances to banks	47	(14)	(35)
Investment securities	364	(2,589)	(3,126)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	(318)	(597)	(2,359)
Other financial assets at fair value	-	13	(537)
Loans and advances to customers	(1,485)	(21,534)	(26,726)
Other operating assets	575	(178)	1,351
	(817)	(24,899)	(31,432)

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

18 Notes to the cash flow statement (continued)

	Period to 30 September 2008 (Unaudited) £m	Period to 30 September 2007 (Unaudited) £m	Year ended 4 April 2008 (Audited) £m
Changes in operating liabilities *			
Shares	4,563	19,570	27,020
Deposits from banks, customers and others	5,485	3,427	9,343
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	(179)	241	529
Debt securities in issue	(1,820)	3,730	4,900
Insurance contract liabilities	-	38	(1,228)
Retirement benefit obligations	29	(79)	(133)
Other operating liabilities	(539)	1,441	559
	7,539	28,368	40,990
Cash and cash equivalents			
Cash and balances with the Bank of England	10,993	1,181	3,353
Loans and advances to other banks repayable in 3 months or less **	5,410	4,782	2,636
Investment securities with a maturity period of 3 months or less	2,587	1,432	3,223
	18,990	7,395	9,212

* The 'Changes in operating assets' categories of 'Loans and advances to banks', 'Other financial assets at fair value' and 'Other operating assets' in the comparative numbers include movements in assets classified as 'Assets classified as held for sale' on the balance sheet.

The 'Changes in operating liabilities' categories of 'Deposits from banks, customers and others', 'Insurance contracts liabilities' and 'Other operating liabilities' in the comparative numbers include movements in liabilities classified as 'Liabilities directly associated with assets classified as held for sale' on the balance sheet.

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

The Group is required to maintain balances with the Bank of England which, at 30 September 2008, amounted to £154 million (30 September 2007: £180 million, 4 April 2008: £197 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.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

19 Segmental reporting

Period to 30 September 2008 (unaudited)	Retail £m	Non-Retail £m	Group £m	Total £m
Net interest income	114	1,070	(304)	880
Transfer between segments in respect of funding	488	(911)	423	-
Other income	602	159	119	880
Total revenue	166	6	13	185
Expenses (note i)	768	165	132	1,065
Impairment and other provisions (note ii)	580	37	16	633
Segment results (note iii)	42	32	42	116
Gains from derivatives and hedge accounting	146	96	74	316
Profit before tax				58
Taxation				374
Profit after tax				104
				270

Period to 30 September 2007 (unaudited)	Retail £m	Non-Retail £m	Group £m	Total £m
Net interest income	326	794	(284)	836
Transfer between segments in respect of funding	180	(639)	459	-
Other income	506	155	175	836
Total revenue	180	5	25	210
Expenses (note i)	686	160	200	1,046
Impairment and other provisions (note ii)	507	31	68	606
Segment results (note iii)	57	(3)	37	91
Losses from derivatives and hedge accounting	122	132	95	349
Profit before tax				(11)
Taxation				338
Profit after tax				102
				236

Year to 4 April 2008 (audited)	Retail £m	Non-Retail £m	Group £m	Total £m
Net interest income	451	1,831	(486)	1,796
Transfer between segments in respect of funding	637	(1,504)	867	-
Other income	1,088	327	381	1,796
Total revenue	359	11	41	411
Expenses (note i)	1,447	338	422	2,207
Impairment and other provisions (note ii)	1,098	74	120	1,292
Segment results (note iii)	100	(5)	103	198
Losses from derivatives and hedge accounting	249	269	199	717
Profit before tax				(31)
Taxation				686
Profit after tax				191
				495

Notes

- (i) Expenses excludes gains/ losses from derivatives and hedge accounting.
- (ii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges and impairment losses on investment securities.
- (iii) The Retail segment comparative numbers differ from the corresponding underlying result in the Business Review (see page 23) 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 29) as the latter excludes costs relating to the merger and the disposal of Nationwide's life, investment and pensions subsidiaries.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

19 Segmental reporting (continued)

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

20 Financial Services Compensation Scheme

Based on its share of protected deposits, the Group pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business ('Kaupthing Edge') and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from deposits of Landsbanki hf and KSF whose balances have not been transferred to ING direct, but are covered by the FSCS.

The FSCS has met, or will meet, the claims by way of loans received from the Bank of England which will eventually be replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective Bank of England loans.

The Group has not yet been directly notified of the levies payable as a result of the above claims. However the FSCS has announced that, for three years, total levies on the industry to cover the interest on the loans referred to above and expenses cannot exceed £1 billion in any single year. Our levy therefore should not exceed our relevant share (based upon our share of protected deposits) of this capped amount in any of the next three years.

21 Contingent Liabilities

(a) Bank charges

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

On 23 May 2008 the relevant financial institutions were given permission to appeal the High Court's judgement that the charges are assessable for fairness. The appeal hearing took place between 28 October and 5 November 2008. The judgement of the Court of Appeal is awaited. To the extent that the appeal is unsuccessful, and therefore the test of fairness remains, it is anticipated that the High Court will determine the fairness of the charges in 2009 at the earliest. Pending resolution of the test case, the Financial Services Authority (FSA) has made a Direction that, subject to certain conditions, the handling of customer complaints on this issue can be suspended until 26 January 2009.

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

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

21 Contingent Liabilities (continued)

(b) Legal proceedings

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

22 Events occurring after the balance sheet date

a) Investment Securities

Included within Investment securities are amounts due from two Icelandic banks, Glitnir Bank and Kaupthing, Singer & Friedlander, totalling £19 million. Both these banks were placed in receivership during October 2008, after the balance sheet date. The extent of any loss is currently unclear. Losses which arise as a result of the receiverships will be included in the Group's results for the full year ended 4 April 2009.

b) Mergers with The Derbyshire Building Society and The Cheshire Building Society

On 8 September 2008 the Group announced a plan to merge with The Derbyshire Building Society and The Cheshire Building Society. Instruments of transfer have been entered into by the Boards of the Group and the two societies.

We expect the FSA to give their decision on the merger of The Derbyshire and Nationwide Building Societies imminently. Subject to approval by the FSA and the Office of Fair Trading (OFT), the merger is expected to be effective from 1 December 2008.

The FSA are expected to give their decision on the merger of The Cheshire and Nationwide Building Societies on 4 December 2008. Subject to approval by the FSA and the OFT, the merger is expected to be effective from 15 December 2008.

At 31 December 2007 (their last financial year ends) The Derbyshire Building Society had total assets of £7.1 billion and reserves of £259 million and The Cheshire Building Society had total assets of £5.0 billion and reserves of £189 million. The Derbyshire and The Cheshire trading brands will continue to be used within the merged Group.

c) Specialist Lending Division

Following the merger in August 2007 of the Nationwide and Portman Building Societies, the Group has operated two specialist mortgage lending brands, UCB Home Loans and The Mortgage Works (TMW). On 20 October 2008 the Group announced that all new specialist lending (primarily buy to let and self certified mortgages) will be conducted solely through the TMW brand.

ADDITIONAL INFORMATION

a) Group residential loan portfolio

The average indexed loan to value ('LTV') ratio of the Group's residential loan portfolio is estimated at 47% (4 April 2008: 43%) whilst the average LTV of new residential mortgage lending was 60% (4 April 2008: 61%). Further LTV information on the Group's residential loan portfolio is set out as follows:

	30 September 2008 %	4 April 2008 %
Loan to value analysis:		
Total book		
<70%	75	82
70% - 80%	9	8
80% - 90%	8	7
>90%	8	3
	100	100
Average loan to value of stock (indexed)	47	43
Average loan to value of new business	60	61

	30 September 2008 %	4 April 2008 %
New business profile:		
First time buyers	17	19
Home movers	24	39
Remortgagers	51	37
Buy to Let	8	5

b) Retail loan portfolio

The tables below provide further information on retail loans and advances by payment due status:

	30 September 2008				4 April 2008			
	Residential Mortgages £bn	Consumer Finance £bn	Total £bn	%	Residential Mortgages £bn	Consumer Finance £bn	Total £bn	%
Not impaired:								
Neither past due nor impaired	103.7	2.4	106.1	97.3	103.7	2.6	106.3	98.1
Past due up to 3 months but not impaired	2.3	0.1	2.4	2.2	1.5	0.1	1.6	1.5
Impaired	0.3	0.2	0.5	0.5	0.3	0.1	0.4	0.4
	106.3	2.7	109.0	100.0	105.5	2.8	108.3	100.0

ADDITIONAL INFORMATION

b) Retail loan portfolio (continued)

	30 September 2008				4 April 2008			
	Residential Mortgages £m	Consumer Finance £m	Total £m	%	Residential Mortgages £m	Consumer Finance £m	Total £m	%
Impaired status:								
Past due 3 to 6 months	201	63	264	57	190	62	252	58
Past due 6 to 12 months	67	64	131	28	60	71	131	30
Past due over 12 months	17	35	52	11	14	30	44	10
Possessions	17	0	17	4	10	-	10	2
	302	162	464	100	274	163	437	100

£16 million (4 April 2008: £23 million) of loans that would be past due or impaired have had their terms renegotiated in the last 6 months.

c) Non-Retail loan portfolio

The make up of the Non-Retail portfolio is as follows:

	30 September 2008		4 April 2008	
	£bn	%	£bn	%
Self-certified	5.0	14	5.1	15
Buy to Let	8.9	25	8.5	24
Near Prime	0.4	2	0.4	1
Sub Prime	0.1	-	0.1	-
Specialist Lending	14.4	41	14.1	40
Commercial Lending	20.9	59	20.6	60
	35.3	100	34.7	100

The tables below provide further information on commercial and specialist loans by payments due status:

	30 September 2008				4 April 2008			
	Specialist Lending £bn	Commercial Lending £bn	Total £bn	%	Specialist Lending £bn	Commercial Lending £bn	Total £bn	%
Not impaired:								
Neither past due nor impaired	13.1	20.2	33.3	95	13.2	20.4	33.6	96
Past due up to 3 months but not impaired	0.9	0.6	1.5	4	0.7	0.2	0.9	3
Impaired	0.4	0.1	0.5	1	0.2	0.0	0.2	1
	14.4	20.9	35.3	100	14.1	20.6	34.7	100

	30 September 2008				4 April 2008			
	Specialist Lending £m	Commercial Lending £m	Total £m	%	Specialist Lending £m	Commercial Lending £m	Total £m	%
Impaired status:								
Past due 3 to 6 months	203	27	230	52	107	20	127	53
Past due 6 to 12 months	86	20	106	24	51	9	60	25
Past due over 12 months	36	9	45	10	28	9	37	15
Possessions	60	-	60	14	17	-	17	7
	385	56	441	100	203	38	241	100

£24 million (4 April 2008: £28 million) of loans that would be past due or impaired have had their terms renegotiated in the last 6 months.

RESPONSIBILITY STATEMENT

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

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

A full list of the Board of Directors can be found in the 2008 Annual Report and Accounts, with the following amendments during the 6 months to 30 September 2008:

John Sutherland resigned from the Board with effect from 3 September 2008 and retired from the Group on 31 October 2008.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director
7 November 2008

INDEPENDENT REVIEW REPORT

Independent Review Report to Nationwide Building Society

Introduction

We have been engaged by the Society to review the condensed consolidated interim financial information in the half-yearly financial report for the six months ended 30 September 2008, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated statement of movements in reserves, consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the half-yearly financial report for the six months ended 30 September 2008 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

7 November 2008

Nationwide Building Society – Half-Yearly Financial Report

OTHER INFORMATION

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

The financial information for the year ended 4 April 2008 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 4 April 2008 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.

CONTACTS

Alan Oliver
01793 655956
07850 810745 (mobile)
alanm.oliver@nationwide.co.uk

Charlotte Sjoberg
01793 655189
07711 113459 (mobile)
Charlotte.sjoberg@nationwide.co.uk

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