

Nationwide Building Society

**Preliminary Results Announcement
For the year ended
4 April 2012**

Nationwide Building Society – Preliminary Results Announcement

CONTENTS

	Page
Financial summary	5
Chief Executive’s review	6
Business review	10
Responsibility statement	35
Consolidated income statement	36
Consolidated statement of comprehensive income	37
Consolidated balance sheet	38
Consolidated statement of movements in members’ interests	39
Consolidated cash flow statement	40
Notes to the Preliminary Results Announcement	41
Additional information	52
Other information	62
Contacts	62

Underlying Profit

Profit before tax shown on a statutory and underlying basis is set out on page 10. Statutory profit before tax of £203 million has been adjusted for a charge of £75 million for the Financial Services Compensation Scheme (FSCS) and bank levy, restructuring costs of £61 million representing the cost of changes to the Group’s operations, and a fair value credit on financial instruments of £35 million to derive an underlying profit before tax of £304 million.

The purpose of this measure is to reflect management’s view of the Group’s underlying performance for the reader of the Annual Report and Accounts with like for like comparisons of performance across years without the distortion of one off volatility and items which are not reflective of the Group’s ongoing business activities. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group’s core business activities.

Certain comparatives have been amended as described in note 2.

Forward Looking Statements

Statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. As a result, Nationwide’s actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward looking statements.

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

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

**NATIONWIDE BUILDING SOCIETY
RESULTS FOR THE YEAR ENDED 4 APRIL 2012**

Graham Beale, Nationwide’s Chief Executive said:

“Nationwide is the UK’s largest mutual building society. We continue to position ourselves as a challenger brand, a real and viable alternative to the established banks for the provision of retail financial services, with a sole focus on the interests and needs of our current and future members and customers.

“The key strategic delivery in the last year has focused on growth across all of our principal product lines. We have bucked market trends by increasing our gross lending by 44% to £18.4 billion, demonstrating our commitment to supporting growth in the economy as well as meeting the needs of borrowers, especially first time buyers. We have increased the level of savings receipts by 67% to £1 billion, confirming our position as the second largest savings provider, and in the personal banking arena we have seen a 13% increase in the sale of current accounts, credit cards and personal loans.

“We have achieved growth without compromising our standards of customer service. We are independently assessed as a leading provider of customer satisfaction in financial services. We report our service performance on our website and, despite our size, we account for only 1.5% of industry complaints as reported by the FSA.

“Our financial position remains strong and robust. Our underlying profit is up 10% and our balance sheet continues to be characterised by high quality assets, high levels of liquidity, a strong and diversified funding platform and peer group leading capital ratios.

“Our plan for the forthcoming year is to do more of the same, to focus on the needs of our members and customers, to play our role in supporting the UK economy and to continue to invest to deliver improved levels of service, efficiency and product choice.”

**Graham Beale
Chief Executive**

KEY HIGHLIGHTS

Strong and profitable performance

- Total underlying income is up 10% at £2.14 billion (2011: £1.95 billion).
- Underlying cost growth contained at 3% before depreciation and 5% including depreciation, reflecting continued investment in our business.
- Credit impairment charge broadly flat year on year at £428 million (2011: £425 million).
- Underlying profit is up 10% to £304 million (2011: £276 million).
- Statutory profit is £203 million (2011: £317 million), having allowed for a fair value credit on financial instruments of £35 million (2011: £120 million), charges of £75 million for FSCS and bank levy (2011: £50 million) and £61 million of restructuring costs (2011: £29 million).
- Underlying profit includes one off gains amounting to £96 million in respect of the acquisition of a prime mortgage portfolio and £70 million relating to changes in assumptions for recognition of residential mortgage fee income, offset by a £103 million provision charge in respect of PPI claims.

Growth of our core business

- Gross residential mortgage lending is up 44% to £18.4 billion (2011: £12.8 billion), compared with a market increase of 5%.
- We helped over 24,000 buyers purchase their first home, a 9% increase on last year (2011: 22,200).
- A portfolio of £1.2 billion of high quality, prime residential mortgages acquired in December 2011.
- Net savings receipts up 67% to £1 billion (2011: £0.6 billion).
- New sales of debit cards, credit cards and personal loans up 13% at 828,000 total product sales (2011: 733,000), including personal loans lending up 43% at £1 billion (2011: £0.7 billion).
- Sales of investment products rose by 33% over the year, taking our assets under advice to £6.7 billion (2011: £5.1 billion).

Excellent service and value to our members

- Complaints in 2011 were 56% lower than 2010. Complaints about Nationwide account for only 1.5% of total industry complaints.
- The level of complaints against us which are upheld in customers' favour by the Financial Ombudsman Service (FOS) is only 12%, compared with an industry average of 72% (FOS, H2 2011).
- The value to our members of our Base Mortgage Rate (BMR) pledge is in the region of £750 million, equating to an average of over £1,000 net benefit for each account per annum.

Asset quality, impairments and other provisions

- Group residential mortgage accounts more than three months in arrears were 0.73% (2011: 0.77%) of total accounts compared with CML industry average of 1.96% (March 2012).
- Broadly flat credit impairment charges of £428 million (2011: £425 million) include a strong performance within our retail and treasury portfolios, where impairment has fallen from £250 million to £181 million, offset by an increase in commercial impairments from £175 million to £247 million.
- Payment Protection Insurance (PPI) provision charge is £103 million, reflecting the significant increase in complaints across the industry over the past six months, encouraged by the aggressive activities of Claims Management Companies (CMCs).

Stable and strong balance sheet

- Core Tier 1 capital ratio of 12.5% (2011: 12.5%) and core liquidity of 13.7% (2011: 13.8%).
- £7.9 billion long term wholesale funding raised during the year (with a weighted average life of over 5 years) against maturities of £3.5 billion, and a continued improvement in wholesale funding profile with 62.7% of balances due in more than one year (2011: 56.3%).

FINANCIAL SUMMARY

	2012	2011
Financial Performance	£m	£m
Underlying profit before tax	304	276
Statutory profit before tax	203	317
Lending and Product Volumes	£bn	£bn
Group residential – gross (1)	18.4	12.8
<i>Group residential – gross market share</i>	<i>13.0%</i>	<i>9.5%</i>
Group residential – net (1)	2.7	(3.5)
<i>Group residential – net market share (2)</i>	<i>35.5%</i>	<i>N/A</i>
Commercial – gross	1.7	1.6
Commercial – net	(0.3)	(0.1)
Personal banking product sales	828,000	733,000
Savings Volumes (3)	£bn	£bn
Retail savings balance movement	3.1	1.6
Net receipts	1.0	0.6
Balance Sheet	£m	£m
Total assets	196,129	188,953
Loans and advances to customers	154,169	149,417
Member savings balances	125,617	122,552
Total shares, deposits and loans (SDLs)	180,573	174,677
Total regulatory capital	8,996	9,233
Asset Quality	%	%
Proportion of residential mortgage accounts 3 months+ in arrears	0.73	0.77
Average indexed loan to value of residential mortgage book	50	49
Average indexed loan to value of new residential lending	63	66
Commercial accounts 3 months+ in arrears:		
Nationwide originated	2.33	2.41
Nationwide originated plus acquired (4)	3.31	2.70
Key Ratios	%	%
Financial performance		
Cost to income ratio – underlying basis	61.0	63.9
Cost to income ratio – statutory basis	63.6	61.6
Net interest margin	0.83	0.81
Balance Sheet		
Core Tier 1 ratio	12.5	12.5
Tier 1 ratio	15.9	15.7
Solvency ratio (Basel II)	18.9	19.5
Wholesale funding ratio	25.3	25.9
Core liquidity ratio	13.7	13.8
Loan to deposit ratio (5)	111.4	111.4
Loan to deposit ratio (including long term wholesale funding) (6)	93.8	94.8

(1) In addition £1.2 billion of prime residential mortgage assets acquired from Bank of Ireland

(2) Group residential net lending was a negative £3.5 billion in 2011, and therefore it is not possible to calculate a market share

(3) Savings volumes include current account credit balances

(4) 'Acquired' relates to assets acquired from Derbyshire, Cheshire and Dunfermline building societies. A more prudent measurement of Derbyshire commercial arrears has been taken in the year to 4 April 2012. Comparatives have not been restated due to the unavailability of information.

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

(6) The loan to deposit ratio (including long term wholesale funding) represents loans and advances to customers divided by (shares + other deposits + amounts due to customers + wholesale funds with a maturity greater than 1 year)

CHIEF EXECUTIVE’S REVIEW

Financial performance

Underlying profit for the year is up 10% at £304 million (2011: £276 million). Total income is up 10% at £2.14 billion, including a £96 million gain on the acquisition of a prime mortgage portfolio and an additional £70 million reflecting a change to assumptions for recognition of residential mortgage fee income. Costs increased by 5%, driven by continuing strategic investment in our business, increasing regulatory costs, transactional volume growth and inflation. Credit impairments were broadly stable at £428 million, with the rise in commercial provisions being largely offset by an improvement in retail and treasury provisions. The PPI provision has been increased by a further charge of £103 million, reflecting the significant increase in complaints across the industry over the past six months, encouraged by the aggressive activities of Claims Management Companies (CMCs).

Statutory profit comprises underlying profit as stated above but adjusted for a fair value credit on financial instruments of £35 million, down £85 million on 2011, a charge of £75 million for the FSCS and the bank levy which is a 50% increase on 2011 and restructuring costs of £61 million representing the cost of changes to the Group’s operations (2011: £29 million).

Financial strength. We have maintained our impressive financial strength, with a balance sheet amongst the strongest of its kind in the industry. Our asset quality is strong, with residential arrears significantly lower than industry levels; in addition, we maintain market leading capital ratios, high levels of liquidity and a diverse funding platform.

	4 April 2012	4 April 2011
	%	%
Core Tier 1 ratio	12.5	12.5
Tier 1 ratio	15.9	15.7
Solvency ratio (Basel II)	18.9	19.5
Core liquidity ratio	13.7	13.8
Wholesale funding ratio	25.3	25.9

Support for the mortgage market

Our commitment to the mortgage market has remained strong: in a market which grew by only 5% over the past twelve months, Nationwide increased its gross lending by 44% to £18.4 billion (2011: £12.8 billion). Our net mortgage lending was £2.7 billion (2011: negative £3.5 billion) and, in addition, we acquired £1.2 billion of high quality prime residential loans.

We have been particularly supportive of first time buyers, providing mortgages that helped over 24,000 people to buy their first home, an increase of 9% year on year (2011: 22,200). This was underpinned by a number of product initiatives, and we were one of the founding lenders participating in the launch of the recent NewBuy scheme.

Nationwide is a leading provider of specialist mortgages in the UK through our subsidiary The Mortgage Works, supporting an expanding rental sector. We have increased our lending in high quality ‘buy to let’ to £4.4 billion (2011: £3.0 billion), taking our specialist lending book to over £23 billion (2011: £20 billion).

We have maintained our Base Mortgage Rate (BMR) pledge, ensuring the majority of our mortgage customers have access to a rate capped at 2% above Bank of England (BoE) base rate. We estimate the customer benefit of our BMR pledge has been in the region of £750 million over the past year, equating to an average of over £1,000 net benefit for each account per annum.

Nationwide Building Society – Preliminary Results Announcement

Support for savers

Nationwide is the second largest savings provider in the UK, and our net savings receipts for the year were up 67% at £1.0 billion (2011: £0.6 billion).

Over the year we have taken a number of steps to enhance our customer proposition, including a relaunch of our savings product range to provide greater clarity to members over product bonus rates and long term value. During the autumn we sent an annual statement to seven million savers, providing details of their savings accounts and full details of our product range, helping them to identify whether their products are the most suitable for their needs. We also became the first major savings provider to launch a junior cash ISA product, and we now have over 41,000 active accounts. We have continued our policy of delivering additional value to our existing members; over the year we delivered four loyalty savings products and an exclusive account for main current account holders, and in April we launched our Flexexclusive ISA, offering an industry leading rate of interest to members using FlexAccount as their main current account.

Diversifying our product franchise

We have made excellent progress in our strategy of diversifying our business through the expansion of our personal banking products. Over the past year we have opened 359,000 full facility current accounts (2011: 353,000). A total of 78,000 customers have taken advantage of our Account Transfer Promise by switching their main accounts to Nationwide, an increase of 90% on 2011. Our total current account base is just under five million, taking our market share of main standard accounts to around 7.0% (2011: 6.2%).

Throughout the year our main current account holders have benefitted from free European travel insurance and a range of linked 'Flexexclusive' product offers, which have been extended to include preferential savings, mortgage and credit card rates. 2011/12 also saw the launch of our 'Simply Rewards' scheme, providing account holders with discounts at a range of retailers when they use either their Visa debit or credit cards. FlexAccount continues to be a *Which?* 'recommended bank account' and has retained its Defaqto 5 star rating for the sixth consecutive year.

Our credit card business has grown strongly. In January 2012 we launched our new Select Credit Card exclusively to main FlexAccount customers, rewarding them with cashback on purchases and commission-free overseas usage. Unsurprisingly, the card has attracted significant positive media comment, and supported our total card sales of 357,000 for the year, an increase of 20% on last year (2011: 298,000), with a similar percentage rise in active card usage to over one million.

Our success in the personal loans market has continued, with total gross lending up 43% at £1 billion (2011: £0.7 billion). We have continued our policy of rewarding our most loyal customers by offering our best rate to customers holding a main FlexAccount.

Ahead of the implementation of the Retail Distribution Review, we have begun to break the mould of traditional financial advice by offering a more comprehensive financial solutions proposition, including an inheritance tax planning service and our new annuity service. We offer access to 90% of the best annuity rates through a panel of six major providers and initial reaction has been very positive, with *Which? Magazine* stating that 'Nationwide's new service is good news for consumer choice'.

Our investments business has performed well, with sales over the year up 33%, and we now have assets under advice of £6.7 billion (2011: £5.1 billion).

Customer service

We pride ourselves not only on the quality of our products, but also on the provision of top quality service to all of our customers, and this is captured in our brand proposition of being 'On your side'. When compared with our peer group of high street competitors, we are ranked as one of the best performers for product

Nationwide Building Society – Preliminary Results Announcement

service satisfaction¹ and our own customer service survey has reported high and growing satisfaction with our branch, telephone and internet services. In addition, in 2011 we again finished top of the PressWatch Financial Products analysis, receiving favourable UK press coverage over the full range of our products throughout the year.

Despite being the second largest savings provider, third largest mortgage lender and having an increasing market share across consumer banking products, we account for only 1.5% of total industry complaints. In the latest publication of FSA complaints data, Nationwide saw complaints in 2011 56% lower than in 2010, at a time when complaints against the majority of our high street peers rose rapidly. We are also pleased that the level of complaints against us which are upheld in the customer's favour by FOS is only 12%, compared with an industry average of 72% (FOS, H2 2011).

In line with other financial services institutions, we have experienced a significant increase in the number of complaints relating to the sale of PPI. These have quadrupled in the last six months, encouraged by the aggressive activities of CMCs, and have resulted in a significant charge of £103 million (2011: £16 million), 40% of which is to deal with the administration of the claims. One in three complaints we receive is false, in that no policy had actually been sold, and 75% of these false claims originate from CMCs. Such claims incur unnecessary costs and delay the processing of legitimate complaints. We are committed to dealing with customer complaints in a fair, transparent and constructive manner, as evidenced by the fact that of the PPI cases referred to FOS, only 7% of our original decisions were not upheld in our favour (compared with 88% for the industry). Along with others in the industry we advise and encourage customers to submit their legitimate claim directly rather than use a CMC, and we call for stricter regulation of the CMCs.

Transforming our business

We have invested heavily in our transformation programme in recent years, making the business fit for the future and developing systems that will provide the best customer experience in the industry. We have had a number of important successes over the past year, including the delivery of a new internet bank with features that have greatly enhanced the experience for our customers. In addition, our new mortgage sales system has improved the service we are able to offer our intermediary customers, and the introduction of our faster payments service across all of our brands ensured both that we are fully compliant with European directives and improved the speed at which customers can transfer money and make electronic payments.

Strategy

Our success is based on our long term strategy of delivering value to our members through consistently excellent products and services. Our vision is to be the UK's leading retail financial services provider, offering a meaningful and unique alternative to the established banks. We aim to achieve this through three core pillars: being true to our Mutual Values, acting as a challenger brand in the interests of consumers, and diversifying our business model. Our mutual status allows us to be different: we do not need to maximise our profits to pay shareholders; instead, we focus on supporting our members, generating sufficient profit to maintain our strong balance sheet and invest in the future development of the business.

We will maintain our position as one of the UK's largest providers of mortgage and savings products, using our mutual status to offer a range of long term good value products that are designed to meet the needs of our members in a fair and transparent way. We will continue to play the role of the primary challenger to the banks by expanding our capability and market presence in current accounts, personal loans, credit cards, insurance and financial planning markets. Over the coming years we will also develop and offer a full range of financial services to small and medium sized enterprises (SME), playing an increasing role in providing credit to an important part of the UK economy. By doing so we aim to support more needs for more customers and provide a diversified business mix that reduces our reliance on margin income. In support of

¹ Source: GfK NOP's Financial Research Survey (FRS), 12 months ending March 2012, proportion of extremely and very satisfied customers summed across current account, mortgage and savings, peer group is Barclays, Halifax, HSBC, Lloyds TSB, NatWest and Santander.

Nationwide Building Society – Preliminary Results Announcement

our strategy, we will also continue to maximise revenues from our non-member businesses, using the profits to support our member proposition and our financial strength.

Our expectation is that both the housing and savings markets will be broadly flat until the economy recovers. However, we are already reaping the benefits of our strategy to diversify our business, with a growing share of the banking and financial planning markets, and the coming year will see us delivering a range of programmes that will strengthen our franchise and enhance customer service. Amongst the major deliverables will be a new and improved range of current accounts, a mobile banking app, and the roll out of our new mortgage systems throughout our branch network. We will also expand our financial solutions business in line with the Retail Distribution Review, providing access to financial advice for our customers.

The strength of the Nationwide brand is increasingly compelling, and we believe that over the longer term we will be able to offer customers of our regional brands an improved proposition under a single Nationwide platform. As such, in the coming years we will migrate our regional brands to the Nationwide brand. We will continue to manage the size of the Group according to economic and market conditions, and emerging customer preferences.

We are well placed to broaden our franchise, deliver long term value to our members and achieve our vision of being the UK's leading retail financial services provider.

Graham Beale
Chief Executive

22 May 2012

Nationwide Building Society – Preliminary Results Announcement

BUSINESS REVIEW

INCOME STATEMENT OVERVIEW

Profit before tax on a statutory basis and an underlying basis are set out below. Certain aspects of the results are presented to reflect management's view of the Group's underlying performance.

Underlying profit before tax equates to statutory profit before tax adjusted for the positive impact of movements in the value of derivatives and hedge accounting of £35 million, a charge of £59 million in respect of the Financial Services Compensation Scheme (FSCS), restructuring costs of £61 million and the bank levy of £16 million.

Year to 4 April 2012	Statutory profit	FSCS and bank levy	Restructuring costs	Movements on derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	1,623	-	-	-	1,623
Other income	520	-	-	-	520
Movement on derivatives and hedge accounting	35	-	-	(35)	-
Total income	2,178	-	-	(35)	2,143
Administrative expenses	(1,205)	16	61	-	(1,128)
Depreciation and amortisation	(180)	-	-	-	(180)
Impairment losses	(428)	-	-	-	(428)
Provisions for liabilities and charges	(162)	59	-	-	(103)
Profit before tax	203	75	61	(35)	304

Year to 4 April 2011	Statutory profit	FSCS and bank levy	Restructuring costs	Movements on derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	1,536	-	-	-	1,536
Other income	411	-	-	-	411
Movement on derivatives and hedge accounting	120	-	-	(120)	-
Total income	2,067	-	-	(120)	1,947
Administrative expenses	(1,123)	-	29	-	(1,094)
Depreciation and amortisation	(150)	-	-	-	(150)
Impairment losses	(425)	-	-	-	(425)
Provisions for liabilities and charges	(52)	50	-	-	(2)
Profit before tax	317	50	29	(120)	276

Nationwide Building Society – Preliminary Results Announcement

PERFORMANCE BY INCOME STATEMENT CATEGORY

Net interest income

Net interest income, at £1,623 million was £87 million higher than the previous year.

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Net interest income	1,623	1,536
Weighted average total assets	195,612	189,360
	%	%
Net interest margin	0.83	0.81

The Group's net interest margin has improved 2 basis points to 0.83% in the year to 4 April 2012 compared with the prior year. This includes £98 million of gains arising from the management of our liquidity portfolio (2011: £47 million), release of excess credit fair value adjustments of £5 million (2011: £36 million) and an additional £70 million from an update of our effective interest rate assumptions with respect to the recognition of mortgage fee income.

The margin was supported in the year by strong new business asset margins, including the significant positive impact of deal maturities that reprice as customers either revert to BMR or our Standard Mortgage Rate or opt to take a new mortgage product. This has been broadly offset by the increased cost of both liquidity, following full repayment of special liquidity scheme (SLS) balances, and funding as a result of a competitive savings market that has been exacerbated by challenges within the wholesale funding market due principally to uncertainty relating to the ongoing Eurozone crisis.

Nationwide's BMR promise represents a significant distribution of value to our members in line with our mutual principles. However, this distribution of member value continues to be a significant factor contributing to margin compression, with balances in excess of £50 billion capped at 2 percentage points above base rate, which we estimate is having around a £750 million (0.38%) adverse impact on Group margin, by reference to SVRs available elsewhere in the market. We do not expect total BMR balances to grow significantly beyond their current level and forecasts indicate they will decline steadily from the middle of 2013 onwards.

Underlying other income

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Current account	123	106
Protection and investments	106	95
General insurance	103	88
Mortgage	143	57
Credit card	33	32
Commercial	19	20
Other	(7)	13
Total underlying other income	520	411
Movement on derivatives and hedge accounting	35	120
Total statutory other income	555	531

Nationwide Building Society – Preliminary Results Announcement

Underlying other income of £520 million is significantly higher than 2011 and includes a gain of £96 million in relation to the acquisition of a portfolio of UK based prime residential mortgages. Strong income growth in current accounts, protection and investments, and general insurance continues to demonstrate the success of our strategic focus to grow the range and scale of our banking products and to diversify our income stream. The 'Other' category includes personal loans, and other central fee income, offset by servicing fees in relation to the MySave savings product.

Underlying expenses

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Employee costs:		
• Wages and salaries	477	461
• Social security costs	45	40
• Pension costs	62	82
	584	583
Other administrative expenses	544	511
Administrative expenses (underlying)	1,128	1,094
Depreciation and amortisation	180	150
Total underlying expenses	1,308	1,244
Restructuring costs	61	29
Bank levy	16	-
Total statutory expenses	1,385	1,273

Underlying total expenses amounted to £1,308 million, representing an increase of 5% over the previous year. This is primarily driven by revenue expenditure and increased depreciation associated with the continuing strategic investment in our systems. In addition we continue to be impacted by external factors, including increases related to VAT, National Insurance and regulatory costs.

We are now in the final year of our three year cost optimisation programme and remain on track to deliver gross cost savings in excess of £200 million over the life of the project, with a number of new initiatives being identified. The programme has delivered cost reduction through business restructuring, revision of pension terms and increased efficiency. These reductions have enabled the business to absorb a significant proportion of the cost increases relating to growth in our sales and service volumes.

The underlying cost income ratio (CIR) for the year was 61.0% (2011: 63.9%). We remain committed to a medium term target for an underlying CIR of less than 50% in a normalised interest rate environment.

Restructuring costs

These costs relate to the continuing restructuring of our business both to respond to challenging external market conditions and drive cost efficiency. The charge includes anticipated costs associated with completion of our three year cost optimisation programme, ongoing rationalisation of the branch network and progressive consolidation of our regional brands to focus on the core Nationwide brand reflecting its overwhelming strength within the market place.

Bank levy

The bank levy charge of £16 million in the current year represents £3 million for the three month period 1 January 2011 to 4 April 2011 and £13 million for the year ending 4 April 2012. No charge was applied in the year to 4 April 2011 as the 2011 Finance Bill had not been enacted. Three different rates were applied during the accounting period. The averages of these rates were 0.082% for short term chargeable liabilities and 0.041% for long term chargeable liabilities. The Chancellor has announced a further increase in the rates from 1 January 2013 to 0.105% for short term chargeable liabilities and 0.0525% for long term chargeable liabilities. The Group expects this to increase the levy chargeable in 2012/13 by £1 million.

Nationwide Building Society – Preliminary Results Announcement

Impairment losses

Impairment losses for the year are £428 million (2011: £425 million) and comprise the following elements.

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Prime residential	13	32
Specialist residential	57	69
Residential lending	70	101
Consumer banking	69	83
Retail lending	139	184
Commercial lending	247	175
Other lending	4	-
Impairment losses on loans and advances to customers	390	359
Impairment losses on investment securities	38	66
Total	428	425

Retail impairments have fallen by 24% to £139 million (2011: £184 million). This reduction reflects strong performance across all of the retail portfolios as a result of a combination of stable house prices, a low interest rate environment and relatively robust employment trends. These factors have contributed to stable or improving arrears trends on our residential portfolios and levels of delinquency in consumer banking which have improved year on year and remain ahead of industry norms. The HPI decline of only 0.9% (Nationwide Index) during 2011/12 together with consistently prudent LTV lending policies over many years has restricted negative equity within the residential portfolios and ensured that loss severity for those cases that are in arrears is not increasing.

Commercial loan impairments were £247 million (2011: £175 million) representing an increase of 41%, driven by a return to recessionary conditions in the UK and widespread Eurozone concerns, both undermining investor confidence and appetite for the sector. In consequence after some recovery during 2010/11 the market is now experiencing falls in commercial real estate valuations with an expectation that, whilst not severe, this trend will persist at least throughout 2012. Secondary office and retail sites and certain regional centres are particularly affected and an overall mood of uncertainty is affecting valuations and restricting even further the availability of both equity and debt finance to support restructurings.

The increased impairment in the year is largely attributable to new and additional provisions on existing watch list cases where valuations have been eroded or the commitment of equity providers to further investment has been withdrawn.

In addition we have reflected a more negative outlook for commercial property over the next 12 months with an increase of approximately £23 million in our collective provision which accounts for around 32% of the year on year increase in the impairment charge.

The number of Nationwide originated commercial property cases more than three months in arrears decreased to 210 cases (2011: 235 cases). The total value of arrears on these cases was £59 million (2011: £48 million) reflecting the recessionary market conditions and more restricted ability to resolve certain longer term cases. The overall level of provision for commercial lending as a percentage of Nationwide originated assets is 2.65% (2011: 2.18%), and the provision coverage ratio against balances more than three months in arrears is 67% (2011: 69%).

In relation to Other lending, a net increase in the provision held for restructured loans in the secured portfolio of £3.3 million, in addition to an increase in the collective provision of £0.4 million, resulted in a charge of £3.7 million in the year. Overall, with a £0.5 million charge for the student loan portfolio, there is a total impairment charge of £4.2 million reported in other lending. This lending is included within the Head office functions business segment, as the portfolios were acquired by our Treasury Division.

Nationwide Building Society – Preliminary Results Announcement

The impairment losses on investment securities of £38 million (2011: £66 million) relates to our treasury assets and equity shares impairment charge and includes £17 million for a collateralised debt obligation (CDO) of US residential mortgage backed securities (RMBS), £9 million on a UK commercial mortgage backed security (CMBS), £5 million on Portuguese bank subordinated debt and £7 million in respect of our private equity portfolio. The prior year charge of £66 million was driven by a £22 million impairment of a number of US RMBS exposures, £15 million on a CMBS, £18 million from restructuring of subordinated debt from Irish banks and £11 million on notes of a restructured Structured Investment Vehicle (SIV).

Underlying provisions for liabilities and charges

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Payment protection insurance (PPI)	103	16
Other provisions	-	(14)
Underlying provisions for liabilities and charges	103	2
FSCS	59	50
Statutory provisions for liabilities and charges	162	52

The increase in PPI provision follows significant developments since the initial PPI provision was estimated. The FSA released their Policy Statement 10/12: *The assessment and redress of Payment Protection Insurance complaints* on 10 August 2010 and the Group has been monitoring the subsequent level of complaints. The costs of processing claims, including those that are vexatious, are substantial, and account for 40% of this year's charge.

The previous year's release of other provisions of £14 million principally relates to a provision for historic customer bonus schemes which is no longer required.

Derivatives and hedge accounting

Nationwide uses derivative financial instruments to manage various aspects of risk. In doing so it complies with the Building Societies Act 1986 which limits the use of derivatives to the mitigation of consequences predominantly arising from changes in interest rates, exchange rates or other market indices. During the year the Group has implemented a valuation methodology change to use overnight indexed swap rates (OIS) for the discounting in the valuation of collateralised derivatives in line with best market practice. The Group has also refined its estimation technique for fair valuing certain derivatives and associated assets or liabilities being hedged.

The £35 million credit (2011: £120 million credit) from derivatives and hedge accounting represents the change in fair value during the year of derivative instruments that are matching risk exposures on an economic basis, offset, where applicable, by the change in fair value of the underlying asset or liability attributable to the hedged risk. Even though the Group uses derivatives exclusively for risk management purposes, income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

The overall impact of derivatives will remain volatile year to year as new derivative transactions replace those which mature to ensure that risks are continually managed. Management believes that this volatility arises from application of the accounting rules, which do not reflect the economic reality, and consequently it is excluded from underlying performance.

Additional information on derivatives and hedge accounting is included in note 6.

Nationwide Building Society – Preliminary Results Announcement

Taxation

The statutory reported tax charge for the year is £24 million (2011: £69 million). This represents an effective tax rate of 11.8% (2011: 21.8%), which is lower than the statutory rate in the UK of 26% (2011: 28%). The lower rate is due principally to adjustments with respect to prior periods and the effect of the change in the UK corporation tax rate from 26% to 24%, partially offset by the charge for the bank levy which is not an allowable deduction for corporation tax. The main items included within the adjustments with respect to prior periods are the release of £21 million of provisions held in respect of previously uncertain liabilities on historic transactions which are no longer required.

Corporation tax rate change

The Chancellor announced on 21 March 2012 that the corporation tax rate would reduce from 26% to 24%. As a result the Group has written off £23 million of its deferred tax asset to reserves. This has resulted in credits to the income statement and revaluation reserve of £12 million and £1 million respectively, and debits to the available for sale reserve and general reserve of £12 million and £24 million respectively.

Total tax contribution

During 2012 the Group incurred taxes of £250 million (2011: £200 million) including £133 million (2011: £103 million) of irrecoverable VAT, which represents a cost to the Group charged to profit before tax as part of administrative expenses and depreciation. The increase in the VAT rate from 17.5% to 20% resulted in an additional £11 million of costs to the Group. In addition, the Group collected and remitted on behalf of HM Revenue & Customs a further £436 million (2011: £409 million).

Corporate taxes paid were £37 million (2011: £33 million). The cash tax rate based on these payments was 18.2% (2011: 10.4%). The reason for the low cash tax rate in both periods was due to the availability of taxable trading losses to offset taxable profits and because significant contributions paid to the pension fund during the year have reduced taxable profits but not reported profit before tax. Once the tax losses carried forward are fully utilised the Group expects the cash tax rate and the effective tax rate to be broadly the same.

Total taxes paid directly by the Group

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Taxes paid		
Corporate income taxes	37	33
Indirect taxes (irrecoverable VAT)	133	103
Employment taxes	47	42
Taxes on property	22	22
Bank levy	11	-
Total	250	200
Taxes collected and remitted		
Tax withheld at source (on savings accounts)	281	266
Payroll taxes	134	127
Indirect taxes (Insurance Premium Tax and VAT)	21	16
Total	436	409
Total	686	609

Nationwide Building Society – Preliminary Results Announcement

BALANCE SHEET

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 83.8% of our total loans and advances to customers. The composition of lending has remained broadly consistent with that reported at 4 April 2011.

Loans and advances to customers	4 April 2012		4 April 2011	
	£bn	%	£bn	%
Prime residential mortgages	105.6	68.7	104.3	69.7
Specialist residential mortgages	23.2	15.1	20.3	13.6
Total residential mortgages	128.8	83.8	124.6	83.3
Commercial lending	21.5	14.0	22.0	14.7
Other lending	0.5	0.3	0.5	0.3
Consumer banking	3.0	1.9	2.5	1.7
Gross balances	153.8	100.0	149.6	100.0
Impairment provisions	(0.8)		(0.8)	
Fair value adjustments for micro hedged risk	1.2		0.6	
Total	154.2		149.4	

Residential

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet includes prime mortgages totalling £3.4 billion that were brought onto our balance sheet in prior years following our acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios and £1.2 billion in relation to the acquisition of the Bank of Ireland mortgage book in December 2011, in addition to a small element of prime residential lending originated through our specialist lending brand, The Mortgage Works (TMW).

Specialist residential mortgages are made up of £20.5 billion of advances made through our specialist lending brands, TMW and UCB Home Loans Corporation Limited (UCB), and £2.7 billion arising from the acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios in prior years. Loans were advanced primarily in the buy to let and self-certification markets. Buy to let mortgages make up 77% of total specialist lending, 16% relates to self-certification mortgages, 5% relates to near prime and just 2%, amounting to £0.4 billion, relates to sub prime. New specialist lending is restricted to buy to let with the Group having withdrawn from the self-certified lending market in 2009.

We have continued to focus on affordability and loan to value (LTV) ratios in underwriting loans during the year. The average LTV of residential mortgages completed has reduced to 63% (2011: 66%) as we have increased our proportion of lending to the remortgage market. The average indexed LTV of residential mortgages at 4 April 2012 has remained broadly stable at 50% (2011: 49%).

Nationwide Building Society – Preliminary Results Announcement

Loan to value analysis: (Analysis calculated on a volume basis)	4 April 2012	4 April 2011
	%	%
Total book		
<50%	50	52
50% - 60%	10	9
60% - 70%	11	11
70% - 80%	13	11
80% - 90%	10	10
90% - 100%	4	5
> 100%	2	2
	100	100
Average LTV of stock (indexed)	50	49
Average LTV of new business*	63	66

* The average LTV for new business excludes further advances.

The table below shows that arrears on the Group's prime lending remained stable at 0.54%, whilst there has been a reduction in specialist arrears as a result of reducing arrears volumes and strong book growth in TMW. Our arrears performance remains very favourable relative to the CML industry average, and our specialist lending arrears are now below the overall industry measure that is inclusive of prime lending.

Cases more than 3 months in arrears as % of total book	4 April 2012	4 April 2011
	%	%
Prime	0.54	0.54
Specialist	1.87	2.47
Group	0.73	0.77
CML Industry Average	1.96	2.09

Total residential balance sheet provisions are £202 million, compared with £201 million at 4 April 2011, giving a coverage ratio against total originated balances of 0.16% (2011: 0.17%) and against originated balances more than three months in arrears of 18.6% (2011: 17.6%).

Residential mortgage assets acquired with the Derbyshire, Cheshire and Dunfermline brands were fair valued on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £71 million of losses have been written off and, as reported at 4 April 2012, £33 million of surplus fair value credit risk adjustment on mortgage books has been released to margin. It is believed that the remaining £95 million is sufficient to cover all expected future losses on these acquired residential portfolios.

We maintain close relationships with customers experiencing financial difficulties and work with them to agree the most appropriate course of action. In the case of short term difficulty, we will seek to agree revised payment schedules with the customer, which may include a reduction to the contractual monthly payment due. If the customer can meet the interest portion of their repayment, we may grant a temporary interest only concession which would be non-arrears bearing so long as the customer continues to meet the terms of the new arrangement. Where this is not the case, arrears will continue to accrue and will be included in the arrears numbers reported above. Payment holidays are also non-arrears bearing, but a credit score assessment is included as part of the eligibility criteria to restrict the use of this concession.

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

Nationwide Building Society – Preliminary Results Announcement

The number of properties in possession at 4 April 2012 was 1,129 properties representing 0.08% of our book, which compares well with the industry measure of 0.12%. The table below shows possessions as a percentage of book.

Possessions as % of total book (number of borrowers)	4 April 2012		4 April 2011
	Number of borrowers	%	%
Prime	291	0.02	0.03
Specialist	806	0.41	0.38
Group	1,097	0.08	0.07

Possessions as % of total book (number of properties)	4 April 2012		4 April 2011
	Number of properties	%	%
Prime	291	0.02	0.03
Specialist	838	0.40	0.38
Group	1,129	0.08	0.07
Industry statistics		0.12	0.12

Our approach to dealing with customers in financial difficulties combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year the properties taken into possession has reduced to 1,885 representing 5.0% of properties taken in by the industry as a whole, against our par share of all cases of 12.4% (2011: 11.4%).

Commercial

Our commercial lending portfolio of £21.5 billion (2011: £22.0 billion) consists of £20.4 billion (2011: £20.8 billion) of self originated lending and £1.1 billion (2011: £1.2 billion) of assets acquired from the Derbyshire, Cheshire and Dunfermline building societies. Our originated portfolio comprises £11.2 billion secured on commercial property (Property Finance), £7.7 billion advanced to Registered Social Landlords and £1.5 billion advanced under Project Finance (principally via the Private Finance Initiative). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

On self originated lending we have only modest exposure to development finance, with total balances of £142 million (2011: £172 million). The non-UK element of our commercial property portfolio, at £1.0 billion (2011: £1.1 billion) does not contain any exposure to Greece, Italy, Portugal or Spain and only a single exposure to Ireland.

The number of Nationwide originated commercial property cases more than three months in arrears decreased from 235 cases at 4 April 2011 to 210 cases at 4 April 2012. This equates to 2.33% of commercial originated accounts (2011: 2.41%). Total arrears balances on these cases at 4 April 2012 were £59 million (2011: £48 million) reflecting the recessionary market conditions. Robust arrears management continues to focus on close and proactive management of arrears and loan maturities and there are currently no arrears of three months or more on the Registered Social Landlord or PFI portfolios.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for Commercial Real Estate (CRE) lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to

Nationwide Building Society – Preliminary Results Announcement

provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cashflow performance or capital value is unlikely. Our strategy remains one of prudent loss mitigation over the medium term in a market which is both cyclical and currently experiencing extremely low investor demand. We make refinance available for existing exposures where we are satisfied that we continue to have a constructive relationship with the borrower which recognises our interests, and can achieve a level of expected return which reflects current funding costs or where there is a realistic likelihood that recovery over the medium term in the hands of the borrower represents a better prospect than short term disposal. To the extent this strategy leads to forbearance on loans which are renewed at 'off-market' interest rates or where the most likely outcome remains an ultimate financial loss, then impairment provisions are recognised in accordance with relevant accounting requirements.

Commercial mortgage assets totalling £1 billion acquired through mergers with Cheshire and Derbyshire have been fair valued in the same way as described for residential assets above including a credit risk adjustment of £179 million for expected losses over the remaining life of the loans. To date £19 million of additional provisions have been raised on individually assessed cases that have an impairment provision requirement in excess of the original fair value adjustment. In most cases however the credit risk adjustment exceeds the current impairment provision requirement. The acquisition of the Dunfermline's social housing portfolio was similarly fair valued and has seen no credit losses to date.

Other lending

Other lending includes £262 million (2011: £241 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio, and unsecured lending of £231 million (2011: £251 million) relating to a student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the head office functions business segment.

Consumer banking

In consumer banking, the percentage of delinquent balances more than 30 days in arrears has shown an improvement across all products, and where available our performance compared with the industry remains favourable.

Percentage of delinquent balances more than 30 days in arrears	4 April 2012	4 April 2011
	%	%
FlexAccount	9.18	10.46
Personal loans	3.14	5.45
Credit cards	2.72	3.36

Funding and Liquidity

Overview

The Group has a strong and well diversified funding base, which continues to be predominantly funded by retail savings. Over the course of the financial year, we have continued to manage actively our balance sheet in response to conditions in both the retail and wholesale markets.

We have always maintained a high level of unencumbered liquid assets relative to our banking peers, and our core liquidity remains stable at 13.7% (2011: 13.8%). The size of our liquidity buffer, in combination with the improving profile of the wholesale funding portfolio, has continued to improve the Group's overall liquidity position.

Nationwide Building Society – Preliminary Results Announcement

Liquidity

Liquidity represents a key area of risk management for financial institutions. In recent years there has been an increased focus on liquidity from the regulatory authorities. Having successfully met the timeframes for compliance with new regulatory requirements, the Group continues to enhance and strengthen its liquidity management systems and approach.

In December 2010, the Basel Committee on Banking Supervision issued its proposals for liquidity risk management, standards and monitoring. These included a short term liquidity stress metric, the Liquidity Coverage Ratio (LCR), and a longer term stable funding metric, the Net Stable Funding Ratio (NSFR). These proposals are subject to ongoing refinement and have not yet been enacted into UK or European law. The Group monitors compliance against these internal metrics and as at 4 April 2012 the LCR was estimated at 124% and the NSFR at 118% against proposed regulatory requirements of 100%. Estimations are made using Nationwide's interpretation of the draft directive, which has yet to be incorporated into the European and UK regulatory framework and therefore remains subject to change.

Liquidity stress testing is carried out against a number of scenarios including those prescribed by the regulator, considering a range of liquidity and economic factors and the consequent impact on the Group over multiple time horizons. Liquidity risk is managed against limits using a number of these scenarios. Included within the liquidity stresses is the deemed impact of potential rating agency downgrades. Nationwide also has in place a Contingency Funding Plan which details a range of actions the Group would be able to take in the event of a funding stress, including the utilisation of our large stock of self issued RMBS and covered bonds via repurchase agreements, allowing us to maintain adequate liquidity resources.

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

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

Core Liquidity

The Group has continued to focus on the growth and diversification of its core liquidity portfolio through continued investment in highly liquid sovereign securities. The core portfolio is aligned to the 'Liquid Assets Buffer' defined by the FSA in BIPRU 12 and comprises:

- Deposits held at, and securities issued by, the Bank of England (BoE).
- Highly rated debt securities of varying maturities issued by governments or multi-lateral development banks.

As at 4 April 2012, the core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 13.7% (2011: 13.8%). This calculation is made net of any core liquidity holdings that are subject to repo arrangements and includes assets held under reverse repo arrangements.

Other Eligible Central Bank Assets

In addition to the core portfolio, as at 4 April 2012 the Group held a stock of unencumbered securities that are eligible for use in the funding operations of those central banks that we have access to. This figure does not include the value of self issue securities that could also be included in some central bank operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

Nationwide Building Society – Preliminary Results Announcement

Other Securities

Nationwide holds other third party liquid assets (such as floating rate notes) that are not eligible at either the BoE's or the European Central Bank's operations but may be capable of financing through third party repo agreements.

Self Issued RMBS and Covered Bonds

The Group holds undrawn a total of £16.3 billion (2011: £18.3 billion) of AAA notes issued under the Group's asset backed funding programmes. These self issued notes represent eligible collateral for use in repurchase agreements with third parties or in central bank operations.

The table below sets out the fair value of each of the above liquidity types as at 4 April 2012. The table is not a representation of the accounting balance sheet position as it includes off balance sheet liquidity (including self issued RMBS and covered bonds) but excludes any encumbered assets.

	4 April 2012 £bn	4 April 2011 £bn
Core liquidity	24.5	23.5
Other central bank eligible assets	2.5	5.6
Other securities	4.0	3.2
Self issued RMBS and covered bonds	16.3	18.3
Total	47.3	50.6

Wholesale funding

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

Wholesale funding mix	4 April 2012		4 April 2011	
	£bn	%	£bn	%
Repo and other secured arrangements	3.7	7.5	2.7	5.8
Deposits, including PEB balances	7.8	15.9	7.2	15.5
Certificates of deposit	4.3	8.7	4.7	10.2
Commercial paper	3.7	7.5	6.2	13.3
Covered bonds	13.0	26.5	12.3	26.5
Medium term notes	7.1	14.5	8.4	18.1
Securitisations	7.4	15.1	3.7	8.0
Other	2.1	4.3	1.2	2.6
Total	49.1	100.0	46.4	100.0

We have received new investment premiums of £0.8 billion into protected equity bonds (PEBS) during the year, increasing total PEB balances to £2.9 billion as at 4 April 2012 (2011: £2.1 billion).

During the 2011/12 financial year we remained active in the long term markets utilising all our platforms to issue a total of £7.9 billion sterling equivalent which was significantly in excess of our maturities of £3.5 billion.

The following public transactions issued during the year demonstrated the strength of institutional support as well as the breadth of funding available for Nationwide:

- €1.5 billion of 5 year covered bond issued in October 2011
- RMBS issuances raising £3.8 billion sterling equivalent in US dollars and sterling via tranches of 3, 5 and 9 years; both the 5 year and 9 year helped to develop this market that has historically concentrated around shorter maturities

Nationwide Building Society – Preliminary Results Announcement

- €1 billion 5 year senior unsecured issuance, our first euro senior unsecured issuance for over two years
- £650 million 3 year floating rate covered bond, further developing the sterling covered bond market which had previously been dominated by longer dated, fixed rate issuance.

In addition to the public transactions a combined total of £1.3 billion private placements were issued to institutional investors during the year in both secured and unsecured formats. These issuances had durations ranging from 12 months to 21 years and had a weighted average life of over 13 years.

During the year, SLS drawings were fully repaid well ahead of both our contractual commitments and our bilateral agreements with the BoE. In addition we have repaid £1.5 billion of Credit Guarantee Scheme (CGS) drawings during the year and have repaid a further US\$2 billion since the year end. Our remaining CGS drawings amount to a single issue of US\$2 billion which is due for repayment in August 2012.

The Group has reduced the amount of short term funding it holds to £12 billion (2011: £15 billion and 2010: £16 billion) and we have been able to maintain a consistent presence in short term markets during the year. The average term at the point of issuance of outstanding short term balances as at 4 April 2012 was 131 days (2011: 156 days).

The Group has extended the residual maturity profile of its wholesale funding portfolio from 33 months to 37 months and the proportion of funding that is categorised as long term (>1 year to maturity) has increased to 62.7% (2011: 56.3%).

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

Wholesale funding residual maturity	4 April 2012		4 April 2011	
	£bn	%	£bn	%
Less than one year	18.3	37.3	20.3	43.7
One to two years	3.9	7.9	4.9	10.6
Two to five years	17.6	35.8	13.6	29.3
More than 5 years	9.3	19.0	7.6	16.4
Total	49.1	100.0	46.4	100.0

Our short and long term credit ratings from the major rating agencies as at 22 May 2012 are as follows:

	Long Term	Short Term	Subordinated	Date of last rating action/confirmation*
Standard & Poor's	A+	A-1	BBB+	December 2011
Moody's	A2	P-1	Baa1	October 2011
Fitch	A+	F1	A	February 2012
DBRS	AA (low)	R-1 (middle)	A (high)	March 2012

* The outlook for Standard & Poor's, Moody's and DBRS is Stable, outlook for Fitch is Negative.

Treasury asset quality

Group treasury assets at 4 April 2012 were £34.3 billion (2011: £31.9 billion) and are held in two separate portfolios; the core liquidity portfolio and the non-core portfolio. At 4 April 2012, the core liquidity portfolio totalled £24.8 billion (2011: £18.7 billion) with the non-core portfolio totalling £9.5 billion (2011: £13.2 billion). The £6.1 billion increase in the core liquidity portfolio comprises high quality, predominantly sovereign or government backed assets. The reporting of asset quality within the treasury portfolio has been modified to reflect the management of the portfolios and to bring the analysis in line with FSA definitions as laid out in BIPRU 12.

Nationwide Building Society – Preliminary Results Announcement

We have continued to manage the treasury asset portfolio to increase the quality and liquidity of the assets with over 72% of the total portfolio held in core liquidity exposures (2011: 59%). 97% of the portfolio is rated A or better with 84% rated AA or above (2011: 97% rated A or better, 82% rated AA or better).

The portfolio has experienced some negative rating migration as a result of the ongoing implementation of rating agency methodology changes and continued asset quality deterioration, particularly for financial institution subordinated debt and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

We have no direct sovereign exposure to so called ‘peripheral’ Eurozone countries (Portugal, Ireland, Italy, Greece and Spain). Within the treasury assets we have £1.2 billion non-sovereign securities issued in these countries as detailed in the ‘Country exposures’ section. Of this 49% is rated AA or above and 70% is rated A or above. This exposure has reduced by 41% in the year and a further nominal £170 million, primarily senior debt, matures in the next year. Belgium is also being closely monitored as part of the Eurozone watch list although outstanding exposure is modest at £44 million.

An independent monthly review is undertaken 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 will result in a loss.

Nationwide has £75 million of exposure to monoline insured transactions. We are reliant on the monoline insurance provider for one holding (exposure £2 million) but in all other cases we anticipate full repayment without any assistance from the insurance provider.

Additional information on the treasury asset portfolio is disclosed on pages 60-61

Available for sale reserve

Out of a total of £34.3 billion of assets held in the core liquidity and non-core portfolios, £23.3 billion are held as available for sale (AFS) and under IFRS they are marked to market through other comprehensive income and fair value movements are accumulated in reserves. The non-AFS assets are loans to banks or deposits with the Bank of England. Of the £23.3 billion of AFS assets only £76 million are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7.

The assets have been reviewed based upon latest performance data and an impairment charge of £31 million has been booked against AFS assets. The fair value movement of AFS assets that are not impaired have no effect on the Group’s profit or its regulatory capital.

As at 4 April 2012, the balance on the AFS reserve had improved to £356 million negative, net of tax (2011: £487 million negative). The improvement in the AFS reserve reflects the repayment of some of the non-core assets and a gradual pull towards par as the maturity profile of the remaining portfolio shortens. There has also been a strengthening of prices in some asset classes as market sentiment has improved.

Nationwide Building Society – Preliminary Results Announcement

	4 April 2012		4 April 2011	
	Fair value on balance sheet £bn	Cumulative AFS reserve £bn	Fair value on balance sheet £bn	Cumulative AFS reserve £bn
Cash	8.1	-	6.1	-
Gilts	12.8	(1.0)	8.6	0.1
Non-domestic government bonds	2.4	-	2.2	(0.1)
Supranational bonds	1.5	(0.1)	1.8	(0.1)
Core liquidity portfolio total	24.8	(1.1)	18.7	(0.1)
Loans and advances to banks	2.9	-	4.2	-
Residential mortgage backed securities (RMBS)	2.1	0.4	2.8	0.2
Commercial mortgage backed securities (CMBS)	0.5	0.1	0.6	0.1
Covered bonds	0.9	-	0.7	-
Collateralised loan obligations (CLO)	0.6	-	0.6	0.1
Financial institutions bonds	1.4	-	3.0	0.3
US student loan	0.7	0.1	0.7	0.1
Other investments	0.4	-	0.6	-
Non-core portfolio total	9.5	0.6	13.2	0.8
(Positive)/Negative AFS reserve before hedge accounting and taxation		(0.5)		0.7
Hedge accounting adjustment for interest rate risk		1.0		-
Taxation		(0.1)		(0.2)
Total value of AFS assets/Negative AFS reserve (net)	34.3	0.4	31.9	0.5

Country exposures

The following section summarises the Group's direct exposure to institutions, corporates and other issued securities domiciled in the peripheral Eurozone countries. The exposures are shown at their balance sheet carrying values.

4 April 2012	Greece £m	Ireland £m	Italy £m	Portugal £m	Spain £m	Total £m
Mortgage backed securities	-	134	105	39	348	626
Covered bonds	-	71	-	17	334	422
Senior debt	-	31	36	-	96	163
Other assets	1	-	6	-	4	11
Other corporate	-	8	3	-	-	11
Total	1	244	150	56	782	1,233

Nationwide Building Society – Preliminary Results Announcement

4 April 2011	Greece £m	Ireland £m	Italy £m	Portugal £m	Spain £m	Total £m
Mortgage backed securities	-	155	149	64	442	810
Covered bonds	-	63	-	19	373	455
Senior debt	-	98	117	63	485	763
Subordinated bonds	-	-	11	17	-	28
Other assets	3	-	12	-	6	21
Other corporate	-	8	4	-	2	14
Total	3	324	293	163	1,308	2,091

Since 4 April 2012 the £163 million senior debt exposures above have further reduced by £31 million of Irish and £12 million of Italian senior debt which have been repaid. A further £82 million of Spanish senior debt is due for repayment before the end of August 2012.

Movements in our exposure to peripheral Eurozone countries since 4 April 2011 relate to disposals, maturities and fair value movements and there has been no new investment in the year.

Nationwide has further indirect exposure to peripheral Eurozone countries as a result of a €100 million loan to a Luxembourg SPV, which has first loss exposure to a €2.1 billion portfolio of senior ranking European ABS assets. The sterling equivalent is £82.7 million (2011: £88.7 million). The geographical breakdown of this portfolio is as follows: UK 51%, Germany 16%, Spain 14%, Italy 8%, Netherlands 6%, Greece 3% and Portugal 2% (2011: UK 50%, Germany 15%, Spain 15%, Italy 9%, Netherlands 6%, Greece 3% and Portugal 2%).

In addition, the Group's exposure in respect of other non-UK countries is shown below at their balance sheet carrying value.

4 April 2012	Belgium £m	France £m	Germany £m	Netherlands £m	USA £m	Other £m	Total £m
Government bonds	-	-	169	1,049	1,104	75	2,397
Mortgage backed securities	41	34	114	239	110	147	685
Covered bonds	-	-	84	45	26	82	237
Senior debt	3	118	100	125	205	332	883
Loans and advances to banks	-	127	41	-	490	766	1,424
Other assets	-	-	35	-	1,335	1,441	2,811
Other corporate	-	46	984	25	28	21	1,104
Total	44	325	1,527	1,483	3,298	2,864	9,541

Nationwide Building Society – Preliminary Results Announcement

4 April 2011	Belgium £m	France £m	Germany £m	Netherlands £m	USA £m	Other £m	Total £m
Government bonds	-	-	568	686	867	47	2,168
Mortgage backed securities	42	44	149	258	117	144	754
Covered bonds	-	-	128	60	27	92	307
Senior debt	74	202	179	246	393	615	1,709
Loans and advances to banks	-	547	93	-	893	866	2,399
Other assets	-	9	11	76	1,495	1,767	3,358
Other corporate	2	58	1,053	47	26	27	1,213
Total	118	860	2,181	1,373	3,818	3,558	11,908

The 'Other' column represents exposures to the following countries: Australia £290 million (2011: £423 million), Austria £nil (2011: £7 million), Canada £532 million (2011: £383 million), Denmark £24 million (2011: £44 million), Finland £126 million (2011: £123 million), Iceland £6 million (2011: £6 million), Luxembourg £7 million (2011: £8 million), Norway £36 million (2011: £70 million), Sweden £4 million (2011: £38 million), Switzerland £410 million (2011: £701 million) and Supranationals £1,429 million (2011: £1,755 million).

CAPITAL STRUCTURE

Capital is held by the Group to protect its depositors, to cover its inherent risks, to provide a cushion for unexpected losses and to support the development of the business. In assessing the adequacy of its capital resources, Nationwide considers its risk appetite, the material risks to which the Group is exposed and the appropriate strategies required to manage those risks.

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

As at 4 April 2012, regulatory capital stood at £9.0 billion (2011: £9.2 billion) with the Group's total solvency ratio remaining strong at 18.9% (2011: 19.5%). The Core Tier 1 solvency ratio remains at 12.5% (2011: 12.5%).

Nationwide called €300 million of Lower Tier 2 subordinated debt in December 2011 with no requirement from the FSA to refinance the redemption. In common with all European banks, we are constantly reviewing the appropriateness of our capital structure. Future decisions with respect to capital calls will be made in light of the then prevailing market, economic and regulatory conditions.

The pension fund net deficit add back increased to £383 million (2011: £33 million). More detail is provided in the Pension Fund section.

Nationwide Building Society – Preliminary Results Announcement

	4 April 2012 Basel II £m	4 April 2011 Basel II £m
General reserve	6,450	6,659
Regulatory adjustments:		
• Prudential valuation adjustment (Note 1)	(1)	-
• Defined benefit pension fund adjustment (Note 2)	383	33
Deductions (Note 3):		
• Intangible assets (Note 4)	(665)	(513)
• Goodwill (Note 4)	(16)	(16)
• Excess of expected losses over impairment (50%)	(57)	(52)
• Securitisation positions (50%)	(152)	(198)
• Other (50%)	(6)	(6)
	(896)	(785)
Core Tier 1 capital	5,936	5,907
Permanent interest bearing shares (Note 5)	1,625	1,510
Total Tier 1 capital	7,561	7,417
Tier 2		
Dated subordinated debt (Note 5)	1,475	1,884
Revaluation reserve	65	70
Collectively assessed impairment allowances	110	118
Deductions:		
• Excess of expected losses over impairment (50%)	(57)	(52)
• Securitisation positions (50%)	(152)	(198)
• Other (50%)	(6)	(6)
	(215)	(256)
Tier 2 capital	1,435	1,816
Total regulatory capital	8,996	9,233
Key capital ratios (Note 6):	%	%
Core Tier 1	12.5	12.5
Tier 1	15.9	15.7
Total capital	18.9	19.5
Risk weighted assets (Note 7):	£m	£m
Credit risk:		
• Retail mortgages	15,958	15,081
• Commercial loans	17,166	17,610
• Treasury	3,632	4,088
• Other	6,890	6,388
Total credit risk	43,646	43,167
Operational risk	3,760	4,137
Market risk	68	72
Total risk weighted assets	47,474	47,376

Nationwide Building Society – Preliminary Results Announcement

Notes

- (1) A prudential valuation adjustment has been applied in respect of fair valued instruments as required under regulatory capital rules.
- (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 five years, less associated deferred tax.
- (3) Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with FSA guidance.
- (4) Intangible assets and goodwill do not qualify as capital for regulatory purposes.
- (5) Permanent interest bearing shares and subordinated debt include fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of lower Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity.
- (6) Solvency ratios are calculated as relevant capital divided by risk weighted assets.
- (7) The Basel II Pillar 1 capital requirements (risk weights) are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline societies) and unsecured lending; Foundation IRB for treasury portfolios (other than sovereign and corporate exposures); and the Standardised approach for all other credit risk exposures.

In December 2010, the Basel Committee on Banking Supervision issued its final Basel III text. The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of 'spill-over' from the financial sector into the 'real economy'. In July 2011, the European Commission released its proposal for implementing Basel III into Europe. The key elements of the Basel III rules that CRD IV is expected to incorporate are as follows:

- Capital requirements – higher minimum capital ratios and the introduction of conservation and countercyclical buffers, which are expected to come into force over the period 2016-19.
- Definition of capital – permanent interest bearing shares (PIBS) and subordinated debt will be phased out over ten years from 2013. The effect on the capital recognition of subordinated debt is minimal, with PIBS only materially impacted in the final years of the grandfathering period. Over the period 2014-18, there will be changes and additions to capital deductions. The impact of these is expected to be manageable, as most of the drivers (e.g. unrealised losses on AFS assets and deferred tax assets) are anticipated to reduce by 2014.
- Counterparty credit risk – an additional capital charge for credit valuation adjustment risk is required. The majority of the charge is from the use of derivative instruments (with highly rated counterparts) to manage interest rate and foreign exchange risk associated with covered bond issuances. The capital charge for financial transactions with large counterparties will also be increased.
- Securitisation exposures – the proposal calls for certain securitisation exposures to be risk-weighted at 1250% from 2013 as opposed to being treated as capital deductions (50% Core Tier 1 and 50% Tier 2).

All the above regulatory changes are reflected in the firm's capital management plan. Nationwide has a strong track record of robust capital ratios and is confident that it is well positioned to maintain its overall capital strength. CRD IV is expected to be finalised in the coming months, after which a full capital impact assessment will be undertaken.

The release of the draft CRD IV text was followed by the final recommendations from the Independent Commission on Banking (ICB) in September 2011. Whilst we are broadly supportive of the ICB reforms, we feel that the imposition of a leverage ratio at a level well in excess of that proposed by Basel III/CRD IV is inappropriate for institutions with high value, low risk balance sheets including institutions like Nationwide with the majority of their loans in the form of prime residential mortgages. We will continue to lobby policymakers to ensure that leverage ratios are introduced into the regulatory framework in a balanced and proportionate way in order to avoid hampering our ability to supply credit to the wider economy and provide an effective challenge to the banks in the interests of consumers.

Nationwide Building Society – Preliminary Results Announcement

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

The Group operates final salary and career average revalued earnings (CARE) defined benefit arrangements, primarily through the Nationwide Pension Fund (the Fund), as well as defined contribution arrangements. The net retirement benefit liability for all defined benefit arrangements measured under *IAS 19: Employee Benefits* is £517 million (2011: £300 million). The movement in the net liability over the year comprises:

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Net retirement benefit liability at 5 April 2011	300	508
Service charge	50	76
Expected return on assets	(195)	(168)
Expected interest cost	166	166
Net actuarial loss/(gain)	494	(114)
Curtailement and past service	(2)	1
Employer contributions	(296)	(169)
Net retirement benefit liability at 4 April 2012	517	300

The Fund was closed to new entrants in 2007 and the final salary section closed to further accrual on 31 March 2011. From 1 April 2011 accrual in the CARE section continued for existing members, with a revised benefit structure in operation. The impact of these changes is a reduction in both the service charge and in the ongoing employer contributions to the Fund.

Following the results of the triennial valuation of the Fund at 31 March 2010, the Group paid additional contributions of £241 million (2011: £99 million) into the defined benefit funds during the year which are included in the employer contributions above.

The increase in the net liability of the Fund at 4 April 2012 primarily arises because of a reduction in the discount rate used which has placed a higher value on the liabilities. Under IAS 19, the discount rate used to value Fund liabilities is based on the yield of AA-rated corporate bonds, which have decreased significantly in the year. This impact was partly offset by a reduction in the inflation and salary increase assumptions.

PERFORMANCE BY BUSINESS STREAM

Nationwide classifies its business streams as follows:

Retail

- Prime residential mortgage lending
- Specialist residential mortgage lending
- Consumer banking
- Retail funding
- Protection and investments
- General insurance
- Distribution channels supporting these product divisions.

Commercial

- Commercial lending

Head Office Functions

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

Nationwide Building Society – Preliminary Results Announcement

During the year ending 4 April 2012, the Group revised the methodology for allocating the benefit of free capital between segments to align it more closely with regulatory capital requirements across business segments. Comparatives have been reclassified to be presented on a basis which is consistent with the current year's presentation.

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

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Retail	529	464
Commercial	(196)	(129)
Head office functions	(29)	(59)
Underlying profit before tax	304	276
FSCS levies	(59)	(50)
Restructuring costs	(61)	(29)
Bank levy	(16)	-
Movements on derivatives and hedge accounting	35	120
Statutory profit before tax	203	317

RETAIL BUSINESS

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Net interest	1,470	1,378
Other income	502	381
Total income	1,972	1,759
Expenses	(1,201)	(1,109)
Impairment and other provisions	(242)	(186)
Underlying profit before tax	529	464

Profitability

The Retail business made an underlying profit of £529 million, an increase of 14% compared with the previous year. Nationwide has a strong franchise, and our retail products have continued to perform well against a challenging backdrop.

Total income increased by 12% to £1,972 million, driven by £121 million growth in other income and £92 million from net interest income. Net interest income includes an additional £70 million from an update of our effective interest rate assumptions to reflect our latest mortgage profile expectations. Strong growth in other income from current accounts, investments and general insurance has been achieved during the year as a result of volume growth across the product range in line with our strategy of income diversification. Other income growth also includes a £96 million gain on acquisition of a high quality, prime residential mortgage portfolio.

The growth in net interest income for the year of £92 million is in part due to growth in new lending on prime residential mortgages, buy to let mortgages and personal loans and includes the positive impact of asset repricing as mortgage customers revert to BMR or our Standard Mortgage Rate, or opt to take a new mortgage product as historically low fixed and tracker rate deals written in 2006-2007 mature. Margins on new mortgage lending have increased in the second half of the year as additional funding and liquidity costs across the industry continue to impact the cost of credit. This has been partially offset by higher funding costs as savers look for higher returns in a low base rate environment and funds transfer pricing reflects

Nationwide Building Society – Preliminary Results Announcement

continued stress in wholesale markets which was particularly evident in the period up to the end of 2011 when action by the European Central Bank substantially eased conditions. Our strategy of income diversification has supported further growth in personal loan lending and has contributed an additional £38 million to net interest income in the year. Expenses increased by 8% reflecting higher volume related costs and refined overhead allocation.

Impairment

The impairment and other provisions charge of £242 million represents a residential impairment charge of £70 million (2011: £101 million), a charge in relation to consumer banking of £69 million (2011: £83 million), and a provision of £103 million (2011: £16 million) in connection with payment protection insurance (PPI) as outlined on page 14. In addition, the prior year included a provision release of £14 million for customer bonus schemes which was no longer required. The high quality of our mortgage portfolio is a continuing strength in an environment of housing market uncertainty.

Prime residential mortgage lending

Prime residential gross lending was £14.0 billion (2011: £9.8 billion) representing an increase of 42.9% which was delivered through a significant increase in competitiveness across the entire mortgage product range. In addition we acquired a £1.2 billion portfolio of high quality, prime residential loans during the year.

The majority of the increased lending was at lower loan to values, maintaining our prudent approach to lending, whilst ensuring we continued to support those customers with smaller deposits (largely first time buyers). The average loan to value (LTV) on our prime residential lending was 61.1% during the year (2011: 65.4%).

Existing mortgage customers have benefited from the low interest rate environment, with £3.1 billion of balances switching to another mortgage product and £11.7 billion reverting onto our BMR rate at the end of their mortgage deal. We continue to offer the 'Switch and Fix' option, allowing members to move from a tracker product to a fixed rate product during the deal term, without incurring exit fees.

Our BMR balances increased to £51.6 billion by the end of the year. Despite the low rate, which is capped at 2% above Bank of England (BoE) base rate, £4.1 billion of redemptions in the year have come from the BMR book. We do not expect total BMR balances to grow significantly beyond their current level and forecasts indicate they will decline steadily from the middle of 2013 onwards.

Specialist mortgage lending

Gross lending on buy to let mortgages was £4.4 billion in the year (2011: £3.0 billion). As the demand for good quality rental property has risen, the buy to let sector has continued to perform strongly. Nationwide Group has played an active role in supporting this sector through its subsidiary, TMW, which continues to focus on originating high quality buy to let loans. The average LTV for new specialist business has been 68.0% in the year.

Strong retention within the specialist lending portfolio resulted in net lending of £2.8 billion (2011: £1.6 billion). Profitability of the specialist portfolio has improved during the year as a result of favourable margins on new business lending and higher maturities on to the subsequent variable rate. The overall specialist lending book has grown to £23.2 billion as at 4 April 2012 (2011: £20.3 billion), with arrears levels performing well in a low interest rate environment and a sector exhibiting strong demand.

Other products

Nationwide is primarily a retail funded organisation. The low rate environment continues to make this a challenging time for savers, but we have responded positively through the year by continuing to refresh our product range. As a result the Group has continued to attract significant inflows, with net receipts of £1.0 billion (2011: £0.6 billion). Over the year to 4 April 2012 our savings balances grew by £3.1 billion, a market share of 7.7%.

Nationwide Building Society – Preliminary Results Announcement

Growth in our consumer banking portfolio remains central to our strategic ambitions of diversifying our income and maintaining our challenger brand status. During the year, we opened 359,000 new current accounts, 357,000 new credit cards and advanced 112,000 new personal loans. Our current account base now stands at 4.9 million accounts, whilst our credit card account base is 1.7 million with 2.2 million cards in issue.

Our protection and investment business and general insurance business have also performed ahead of both last year and expectations. During the year we sold around 63,000 protection plans and 178,000 investment products, and as at March 2012 we had £6.7 billion assets under advice (2011: £5.1 billion). Despite the ongoing challenges in the housing market we sold 455,000 new household insurance covers and our general insurance book now stands at just over 2 million covers. Other income from investments grew by 19% in the year and general insurance by 16%, reflecting the success of our ongoing diversification strategy.

COMMERCIAL LENDING

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Net interest	71	58
Other income	18	20
Total income	89	78
Expenses	(38)	(32)
Impairment and other provisions	(247)	(175)
Underlying loss before tax	(196)	(129)

Commercial portfolio

The commercial lending portfolio of £21.5 billion (2011: £22.0 billion) comprises £11.6 billion (2011: £12.3 billion) secured on commercial property (Property Finance), £8.4 billion (2011: £8.2 billion) advanced to Registered Social Landlords and £1.5 billion (2011: £1.5 billion) provided to Project Finance.

The Registered Social Landlord and Project Finance portfolios have not experienced any losses and there are no arrears as at 4 April 2012. Both of these books are still deemed to be low credit risk due to the involvement of Government in regulating Registered Social Landlords and providing secure income streams to Government backed Project Finance (primarily PFI) projects.

Profitability

The Commercial business made a £196 million loss in the year to 4 April 2012 (2011: £129 million loss) as improved income levels were more than offset by a higher than anticipated impairment charge in the second half of the year. Commercial lending income of £89 million improved in the year due to a continuing widening of customer margins as a result of the upward repricing of maturing loans and restructures agreed with existing borrowers.

The cautious stance which we outlined at the half year proved to be well founded, as UK commercial property market conditions remained extremely challenging in the second half with refinancing prospects diminishing further as banks withdrew from lending. Capital values on secondary properties also continued to drift downwards and the investment market saw a slowing in transaction levels as a result of weak demand.

Nationwide Building Society – Preliminary Results Announcement

Impairment

Commercial loan impairments were £247 million (2011: £175 million) representing an increase of 41%, driven by a return to recessionary conditions in the UK and widespread Eurozone concerns, both undermining investor confidence and appetite for the sector. In consequence after some recovery during 2010/11 the market is now experiencing falls in commercial real estate valuations with an expectation that, whilst not severe, this trend will persist at least throughout 2012. The increased impairment in the year has therefore been largely attributable to new and additional provisions on existing watch list cases where valuations have been eroded further or the commitment of equity providers to further investment has been withdrawn. In addition we have reflected a more negative outlook for commercial property over the next 12 months with an increase of approximately £23 million in our collective provision which accounts for around 32% of the year on year increase in the impairment charge.

We continue to adopt a cautious and proactive approach to commercial property exposures until there is clear evidence of market stability returning. In line with our views at the half year, while prime commercial property capital values increased 0.9% over the year, during the second half the market began to slow with prime capital values showing small falls from November 2011 onwards (IPD, March 2012). Investment transactions for 2011 were below the levels seen in 2010, and showed year on year reductions in the early months of 2012 (Property Data, April 2012). These developments mean that the outlook outside London and for secondary property is more challenging than ever and when added to ongoing concerns about the UK and Eurozone economies, suggests that the outlook for the UK commercial property market remains uncertain. Forecasts for 2012 envisage modest falls in capital values across the sectors with the exclusion of the prime London market, and secondary office and retail space is acknowledged as a particular concern.

The number of Nationwide originated cases 3 or more months in arrears is 210 (2011: 235) with total arrears balances on these cases of £59 million (2011: £48 million). Robust arrears management is carried out by dedicated teams who, supported by daily arrears reporting, maintain a focus on early intervention to maximise economic value and mitigate losses. Tenant failure is a key driver of arrears, and we have seen a number of high profile failures in the retail sector in the second half of the financial year. The impact of these has been assessed and while they weaken the cashflow on the loans affected our current assessment is that our exposure to these names is not expected to result in any material provisioning requirement.

Non-core asset divestment

As a result of these challenges we continued to focus on helping existing customers and withdrew from new commercial property lending in September 2011. During 2011/12 gross commercial property lending was £719 million, with total gross lending on the whole book of £1.7 billion. Gross lending was more than offset by higher than expected capital repayments and redemptions resulting in the commercial property book decreasing in size by £737 million and the total book decreasing by £523 million. The Society's strategy for the commercial real estate portfolio is to continue to reduce our overall exposure over time.

The Commercial business has been pursuing a policy of non-core asset divestment for some time. The subordinated debt book has further reduced this year following a number of sales, leaving a Nationwide originated and Cheshire Building Society legacy subordinated portfolio of £127 million. Also, as a result of a successful sale in December 2011, one of the Society's three development loans was repaid in full with the remaining Nationwide originated development book now limited to 2 exposures totalling £142 million, both performing.

The non-UK book, at £1.0 billion, has seen a reduction of £0.1 billion since 4 April 2011 and consists predominantly of lending to Germany (95%) with no exposure to Greece, Spain, Portugal or Italy and only a single exposure to Ireland.

To support asset divestment our recoveries team have successfully sold 160 properties in the last twelve months with a value of £81 million and their focus on asset realisation continues.

Nationwide Building Society – Preliminary Results Announcement

As our Nationwide originated Property Finance book has 37% of its loans scheduled to mature by the end of 2013 our loan maturity process is focused on early dialogue and/or intervention to ensure effective loss mitigation and income generation. Our strategy to help existing borrowers includes restructuring and/or refinancing those cases which are capable of maintaining serviceability, and during the year £0.4 billion of loans have been restructured and/or refinanced in this way, underpinning the significant improvements seen in income.

Diversification

Having entered the business savings market during the second half of 2010/11, with a relatively limited product range available only to our existing customers, in March 2012 we launched a national marketing campaign to the wider business savings market. Our improved business savings product range now includes a number of new products aimed at different segments of the market all with market leading rates.

To further diversify our commercial business we also began developing plans to enter the SME business banking market. This market sector has been identified as an area which offers a good strategic fit given our strong Group franchise, broad distribution network and current exposure to both the retail personal financial services market and existing commercial lending activities. Launch will not take place for some time and will be subject to prevailing market conditions.

HEAD OFFICE FUNCTIONS

	Year to 4 April 2012 £m	Year to 4 April 2011 £m
Net interest	82	100
Other income	-	10
Total income	82	110
Expenses	(69)	(103)
Impairment and other provisions	(42)	(66)
Underlying loss before tax	(29)	(59)

Head office functions reported an underlying loss before tax of £29 million (2011: £59 million loss). Total income was 25% lower than the prior year, reflecting the higher cost of wholesale funding, partly offset by higher gains from the management of the liquidity portfolio. Administrative expenses have fallen reflecting lower corporate costs.

Impairment and other provisions of £42 million relates to impairment losses on treasury investments of £38 million (2011: £66 million) and a £4 million charge (2011: £nil) for other lending in connection with investments acquired by the Treasury Division.

RESPONSIBILITY STATEMENT

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

A full list of the Board of Directors will be disclosed in the Annual Report and Accounts 2012. Nationwide's principal inherent risks are described in the Risk Management and Control section of the Business Review in the Annual Report and Accounts.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director

22 May 2012

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED INCOME STATEMENT

For the year ended 4 April 2012

	Notes	2012 £m	2011 £m
Interest receivable and similar income	3	5,353	4,643
Interest expense and similar charges	4	(3,730)	(3,107)
Net interest income		1,623	1,536
Fee and commission income		515	492
Fee and commission expense		(96)	(92)
Income from investments		10	4
Other operating income	5	91	7
Gains from derivatives and hedge accounting	6	35	120
Total income		2,178	2,067
Administrative expenses	7	(1,205)	(1,123)
Depreciation and amortisation		(180)	(150)
Impairment losses on loans and advances to customers	8	(390)	(359)
Impairment losses on investment securities		(38)	(66)
Provisions for liabilities and charges	9	(162)	(52)
Profit before tax		203	317
Taxation		(24)	(69)
Profit after tax		179	248

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 4 April 2012

	2012 £m	2011 £m
Profit after tax	179	248
Other comprehensive income:		
Available for sale investments:		
– Fair value movements taken to equity	272	308
– Amount transferred to income statement	(78)	12
– Taxation	(63)	(100)
	131	220
Revaluation of property:		
– Revaluation before tax	(8)	3
– Taxation	4	1
	(4)	4
Effect of tax rate change on other items through the general reserve	(4)	(6)
Adjustment to deferred tax transferred from acquisitions	-	5
Actuarial (loss)/gain on retirement benefit obligations:		
– Actuarial (loss)/gain before tax	(494)	114
– Taxation credit/(charge)	109	(47)
	(385)	67
Total comprehensive (expense)/income	(83)	538

Nationwide Building Society – Preliminary Results Announcement

CONSOLIDATED BALANCE SHEET As at 4 April 2012

	Notes	2012 £m	2011 £m
ASSETS			
Cash		8,126	6,130
Loans and advances to banks		2,914	4,181
Investment securities - available for sale		23,325	21,540
Derivative financial instruments		4,176	3,961
Fair value adjustment for portfolio hedged risk		1,330	1,634
Loans and advances to customers	10	154,169	149,417
Investments in equity shares		29	103
Intangible assets		681	529
Property, plant and equipment		945	948
Investment properties		9	9
Accrued income and expenses prepaid		129	215
Deferred tax assets		229	218
Other assets		67	68
Total assets		196,129	188,953
LIABILITIES			
Shares		125,617	122,552
Deposits from banks		3,370	2,746
Other deposits		6,899	5,809
Due to customers		5,833	5,762
Fair value adjustment for portfolio hedged risk		278	19
Debt securities in issue		38,854	37,808
Derivative financial instruments		4,287	3,234
Other liabilities		349	376
Provisions for liabilities and charges	9	295	165
Accruals and deferred income		369	376
Subordinated liabilities	11	1,644	1,973
Subscribed capital	11	1,625	1,510
Deferred tax liabilities		28	36
Current tax liabilities		5	45
Retirement benefit obligations	12	517	300
Total liabilities		189,970	182,711
General reserve		6,450	6,659
Revaluation reserve		65	70
Available for sale reserve		(356)	(487)
Total reserves & liabilities		196,129	188,953

CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS
For the year ended 4 April 2012

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Total £m
At 5 April 2011	6,659	70	(487)	6,242
Profit for the year	179	-	-	179
Net movement in available for sale reserve	-	-	131	131
Revaluation of property	-	(4)	-	(4)
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(4)	-	-	(4)
Net actuarial loss on retirement benefit obligations	(385)	-	-	(385)
Total comprehensive (expense)/income	(209)	(5)	131	(83)
At 4 April 2012	6,450	65	(356)	6,159

For the year ended 4 April 2011

	General reserve (adjusted) £m	Revaluation reserve £m	AFS reserve (adjusted) £m	Total £m
At 5 April 2010	6,343	68	(707)	5,704
Profit for the year	248	-	-	248
Net movement in available for sale reserve	-	-	220	220
Revaluation of property	-	4	-	4
Reserve transfer	2	(2)	-	-
Effect of tax rate change on other items through the general reserve	(6)	-	-	(6)
Adjustment to deferred tax transferred from acquisitions	5	-	-	5
Net actuarial gain on retirement benefit obligations	67	-	-	67
Total comprehensive income	316	2	220	538
At 4 April 2011	6,659	70	(487)	6,242

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 4 April 2012

	Notes	2012 £m	2011 £m
Cash flows generated from operating activities			
Profit before tax		203	317
Adjustments for:			
- Non-cash items included in profit before tax	13	378	317
- Changes in operating assets	13	(4,648)	5,770
- Changes in operating liabilities	13	7,392	(2,820)
- Interest paid on subordinated liabilities		(114)	(90)
- Interest paid on subscribed capital		(91)	(91)
- Dividend income		(5)	(4)
Purchase of retail mortgages portfolio		(1,104)	-
Taxation		(37)	(33)
Net cash flows generated from operating activities		1,974	3,366
Cash flows generated from investing activities			
Purchase of investment securities		(13,140)	(13,525)
Sale and maturity of investment securities		12,570	14,898
Purchase of property, plant and equipment		(192)	(138)
Sale of property, plant and equipment		8	13
Purchase of intangible assets		(213)	(219)
Sale of investment properties		-	1
Sale of investments		72	2
Dividends received		5	4
Net cash flow generated from investing activities		(890)	1,036
Cash flows used in financing activities			
Maturity of subordinated liabilities		(360)	(719)
Issue of subordinated liabilities		-	630
Net cash flows used in financing activities		(360)	(89)
Net increase in cash		724	4,313
Cash and cash equivalents at start of year		10,124	5,811
Cash and cash equivalents at end of year	13	10,848	10,124

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

1 Reporting period

These results have been prepared as at 4 April 2012 and show the financial performance for the year from, and including, 5 April 2011 to this date.

2 Basis of preparation

The 2012 preliminary results have been prepared in line with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union and in effect for the year ended 4 April 2012. The accounting policies adopted for use in the preparation of this Preliminary Results Announcement and which will be used in preparing the Annual Report and Accounts for the year ended 4 April 2012 were included in the 'Annual Report & Accounts 2011' document except as detailed below. Copies of this document are available at nationwide.co.uk/about_nationwide/results_and_accounts/.

Adjustments to comparative information

Certain comparatives have been reclassified to be presented on a basis which is consistent with the current year. The reclassifications, which have not impacted net assets or profit before tax, have been detailed below.

Balance sheet at 4 April 2011	Previously published £m	Reclassified £m	
Deferred tax liabilities	-	36	Tax balances have been reclassified to reflect appropriate offsetting.
Current tax liabilities	81	45	
Other deposits	5,511	5,809	Corporate deposits received through the Group's offshore deposit taker have been reclassified from due to customers to other deposits.
Due to customers	6,060	5,762	
Provisions for liabilities and charges	113	165	Severance costs and a number of property related provisions have been reclassified from accruals to provisions for liabilities and charges
Accruals and deferred income	428	376	

Income statement for the year ended 4 April 2011	Previously published £m	Reclassified £m	
Net interest income	1,537	1,536	Reclassification of certain product related income and costs to allow a more meaningful presentation.
Fee and commission income	440	492	
Fee and commission expense	(4)	(92)	
Other operating income	5	7	
Administrative expenses	(1,158)	(1,123)	

In addition, the opening reserves at 5 April 2010 have been adjusted to reflect a correction of an error in relation to hedge accounting. The impact of the correction as at 5 April 2010 was to decrease the general reserve by £20 million and increase the available for sale reserve by £8 million. The adjusted lines of the balance sheet at 4 April 2011 have been detailed below. The adjustment did not impact the income statement for the year ended 4 April 2011.

Balance sheet at 4 April 2011	Previously published £m	Adjusted £m
Fair value adjustment for portfolio hedged risk (asset)	1,563	1,634
Deferred tax assets	214	218
Fair value adjustment for portfolio hedged risk (liability)	(68)	19
General reserve	6,679	6,659
Available for sale reserve	(495)	(487)

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

2 Basis of preparation (continued)

Changes in accounting policy

The following IFRS and IFRIC pronouncements, relevant to the Group, were adopted with effect from 5 April 2011:

- IFRIC 14 Prepayments of a minimum funding requirement: The amendment applies when an entity makes an early payment of minimum funding requirements. The amendment permits such an entity to treat the benefit of an early payment as an asset. The IFRIC has had no impact on the accounts for the year ended 4 April 2012.
- Improvements to IFRSs (May 2010): Several small amendments, the most significant of which requires disclosure of the financial effect of collateral held.

Future accounting developments

An overview of pronouncements that will be relevant to the Group in future periods is provided on page 92 of the 2011 Annual Report and Accounts. The IASB has issued further pronouncements. However, with the exception of IAS 19 Employee Benefits, the Group does not expect adoption of any of these further pronouncements to have a significant impact on its results.

IAS 19 Employee Benefits was revised in June 2011 and will be effective for the Group for accounting periods commencing from 5 April 2013. The revised standard updates the recognition, presentation and disclosures of retirement benefit plans. The most significant impact for the Group is the replacement of the expected return on plan assets and interest cost with a single measure of net interest income (or expense) based on the net retirement benefit asset (or obligation). The change is expected to reduce the Group's net interest income with an equivalent increase in other comprehensive income.

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are discussed in the Business Review.

The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that therefore, it is appropriate to adopt the going concern basis in preparing this preliminary financial information.

3 Interest receivable and similar income

	2012 £m	2011 £m
On residential mortgages	4,924	5,004
On other loans	1,158	1,148
On investment securities	1,071	1,029
On other liquid assets	56	32
Net expense on financial instruments hedging assets	(2,051)	(2,738)
Expected return on pension assets	195	168
	5,353	4,643

Interest receivable includes £70 million in the year ended 4 April 2012 which has resulted from an update of the Group's effective interest rate assumptions with respect to the recognition of mortgage fee income.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

4 Interest expense and similar charges

	2012 £m	2011 £m
On shares held by individuals	2,826	2,511
On subscribed capital	96	96
On deposits and other borrowings;		
– Subordinated liabilities	108	110
– Other	252	258
On debt securities in issue	1,093	915
Foreign exchange differences	12	3
Net income on financial instruments hedging liabilities	(823)	(952)
Pension interest cost	166	166
	3,730	3,107

Comparatives have been reclassified as described in note 2.

5 Other operating income

	2012 £m	2011 £m
Gain on acquisition of retail mortgages portfolio	96	-
Rental income	5	6
Loss on revaluation and sale of property, plant and equipment	(9)	-
Other	(1)	1
	91	7

Comparatives have been reclassified as described in note 2.

The gain on portfolio acquisition relates to the acquisition of a portfolio of UK based prime residential mortgages from the Bank of Ireland in December 2011 for consideration of £1,104 million. The gain on acquisition reflects the extent to which the price paid for the portfolio was lower than a comparative market valuation, derived from interest rates prevailing for similar quality mortgages at the transaction date.

6 Gains from derivatives and hedge accounting

	2012 £m	2011 £m
(Losses)/gains from fair value hedges	(61)	113
Fair value movement attributable to mortgage commitments	-	10
Fair value gains/(losses) from other derivatives	96	(3)
	35	120

Although the Group uses derivatives exclusively to hedge risk exposures, income statement volatility can still arise due to hedge accounting ineffectiveness, effectiveness test failures or because hedge accounting has not been adopted or is not achievable.

A loss of £61 million (2011: gain of £113 million) has been recognised on assets and liabilities held in hedge accounting relationships. Included within this result were the impacts of the following:

- To align with evolving market convention, the Group implemented the use of overnight indexed swap (OIS) rates for the discounting of collateralised derivatives, decreasing the fair value of derivative assets at 4 April 2012 by £11 million.

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

6 Gains from derivatives and hedge accounting (continued)

- To reflect the increasing basis spreads between interest rate curves, the Group has refined its estimation technique for fair valuing derivatives and associated assets and liabilities being hedged. At 4 April 2012 the refinement resulted in a net gain of £25 million.

A gain of £96 million (2011: loss of £3 million) has been recognised in respect of derivatives entered into by the Group for hedging purposes where hedge accounting has not been adopted or is not achievable. Included within this result was a £63 million gain arising from increasing volatility seen in currency markets, which has led to a change in the estimation technique used to value cross-currency interest rate swaps hedging non-sterling wholesale funding. This gain incorporates the impact of implementing OIS rates for the discounting of these swaps which resulted in a £16 million decrease in fair value at 4 April 2012.

In the previous year the net gain from derivatives and hedge accounting was primarily driven by £86 million of hedge ineffectiveness on large gilt asset and covered bond liability positions and £28 million on derivatives hedging savings before these savings were brought into a hedge accounting relationship.

The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other risks are continually managed. Management are comfortable that this volatility arises from the application of the accounting rules which do not reflect the economic reality.

7 Administrative expenses

	2012 £m	2011 £m
Employee costs:		
– Wages and salaries	477	461
– Social security costs	45	40
– Pension costs	62	82
	584	583
Other administrative expenses	605	540
Bank levy	16	-
	1,205	1,123

Comparatives have been reclassified as described in note 2.

Administrative expenses include £61 million (2011: £29 million) of restructuring costs.

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

8 Impairment losses on loans and advances to customers

The following provisions have been deducted from the appropriate asset values in the balance sheet:

	2012 £m	2011 £m
Impairment charge for the year		
Prime residential	13	32
Specialist residential	57	69
Consumer banking	69	83
Commercial lending	247	175
Other lending	4	-
	390	359
Impairment provision at the end of the year		
Prime residential	40	40
Specialist residential	162	161
Consumer banking	80	90
Commercial lending	547	463
Other lending	14	11
	843	765

9 Provisions for liabilities and charges

	Bank levy £m	FSCS £m	PPI provision £m	Other provisions £m	Total £m
At 5 April 2011	-	94	19	52	165
Provisions utilised	(11)	(42)	(17)	(15)	(85)
Charge for the year	16	59	103	59	237
Release for the year	-	-	-	(22)	(22)
Net income statement charge	16	59	103	37	215
At 4 April 2012	5	111	105	74	295
At 5 April 2010	-	93	9	88	190
Provisions utilised	-	(49)	(6)	(31)	(86)
Charge for the year	-	50	16	26	92
Release for the year	-	-	-	(31)	(31)
Net income statement charge	-	50	16	(5)	61
At 4 April 2011	-	94	19	52	165

The prior year comparatives have been amended as described in note 2.

Bank levy

The bank levy came into force on 1 January 2011 for certain UK banks, building societies and the UK operations of foreign banks. No charge was applied in the accounts to 4 April 2011 as the 2011 Finance Bill had not been enacted. The £16 million charge in the accounts, which is included within administrative expenses, represents £3 million for the three month period 1 January 2011 to 4 April 2011 and £13 million for the year ending 4 April 2012.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

9 Provisions for liabilities and charges (continued)

Financial Services Compensation Scheme (FSCS)

The FSCS, the UK's independent statutory compensation fund for customers of authorised financial services firms, pays compensation if a firm is unable to pay claims against it. The FSCS is funded by levies on the industry.

Following the default of a number of deposit takers, the FSCS borrowed funds from HM Treasury, which total approximately £18 billion, to meet the compensation costs for customers of those firms. The FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms. While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, the FSCS has advised of an expected shortfall. At current rates and based on latest information which is subject to change, the Group's share of the expected shortfall would total approximately £100 million which, in line with the intentions of the FSCS on timing of resultant levies, the Group would expect to be recognised over three years beginning in the year ending 4 April 2013.

The Group also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses have yet to be determined and hence, although the Group's share could be significant, no provision has been recognised.

The amount provided by the Group of £111 million is in respect of the 2011/12 and 2012/13 scheme years (2011: £94 million in respect of the 2010/11 and 2011/12 scheme years).

PPI provision

The increase in PPI provision follows significant developments since the initial PPI provision was estimated. The FSA released their policy statement PS10/12: *The assessment and redress of Payment Protection Insurance complaints* on 10 August 2010 and the Group has been monitoring the subsequent level of complaints. In line with the wider industry, Nationwide has experienced a significant increase in complaints during the second half of the year ended 4 April 2012, driven by media focus and claims management company activity. This has resulted in a re-assessment of the volume of complaints that the Group ultimately expects to receive, including significant levels of complaints where a customer has not been sold a product by Nationwide.

The overall PPI provision is calculated based upon management's estimate of complaint volumes, the proportion of cases relating to no product sold, referral rates to the Financial Ombudsman Service (FOS), uphold rates internally and with the FOS, response rates from customer contact activity relating to our previous sales of PPI, average redress payments and complaint handling costs. In addition to higher expected volumes, the expected cost of processing the complaints has increased as a result of the decision by the FOS to increase its cost of reviewing escalated cases from £500 to £850. This cost is incurred by Nationwide on every referred complaint, regardless of the outcome. Management's estimate of the level of redress that Nationwide expects to pay has also increased, reflecting the FSA and FOS stances on PPI.

Of the Group's charge for the year ended 4 April 2012 of £103 million (2011: £16 million) 40% relates to the cost of processing claims, rather than the cost of customer redress.

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

9 Provisions for liabilities and charges (continued)

Other provisions

Other provisions include provisions for severance costs and a number of property related provisions. Provisions are made for the expected severance costs in relation to the Group's restructuring activities where there is present obligation and it is probable that the expenditure will be made. Within the net charge for the year ended 4 April 2011 there is a release of £14 million which is included in provisions for liabilities and charges in the income statement, all other components of the net charge for other provisions in the years ended 4 April 2011 and 4 April 2012 are included within administrative expenses.

10 Loans and advances to customers

	2012 £m	2011 £m
Prime residential mortgages	105,549	104,229
Specialist residential mortgages	23,096	20,224
Consumer banking	2,888	2,376
Commercial lending	20,961	21,560
Other lending	479	481
	152,973	148,870
Fair value adjustment for micro hedged risk	1,196	547
	154,169	149,417

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes. The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding. Mortgages pledged and the value of the notes in issue are as follows:

	Mortgages pledged	2012 Notes in issue				Total	Mortgages pledged	2011 Notes in issue				Total
		Held by third parties	Held by the Group		Held by third parties			Held by the Group				
			Drawn	Undrawn				Drawn	Undrawn			
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
Covered bond programme	32,109	13,024	-	6,764	19,788	33,051	12,264	4,611	5,602	22,477		
Securitisation programme	26,172	7,404	1,250	12,291	20,945	32,679	3,746	2,500	14,686	20,932		
Other secured lending programmes	2,225	1,500	-	-	1,500	2,212	1,500	-	-	1,500		
	60,506	21,928	1,250	19,055	42,233	67,942	17,510	7,111	20,288	44,909		

Mortgages pledged include £4.5 billion (4 April 2011: £6.8 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue and provide capacity for further potential issuances.

Mortgages pledged are not derecognised from the balance sheet as the Group has retained substantially all the risks and rewards of ownership. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes in issue, held by the Group and drawn are debt securities issued by the programmes to the Society which have been used as collateral in sale and repurchase agreements with third parties.

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

10 Loans and advances to customers (continued)

Notes in issue, held by the Group and undrawn are debt securities issued by the programmes to the Society, the majority of which are held to provide collateral for potential future use in repurchase agreements or central bank operations.

In accordance with accounting standards, notes in issue and held by the Group are not recognised in the Group balance sheet.

The Society established the Nationwide Covered Bond programme in November 2005. Mortgages pledged provide security for issues of covered bonds made by the Society. During the year, the programme issued notes in euro and sterling to third parties raising £3.2 billion sterling equivalent with maturities ranging between three and five years. In addition, €2.0 billion (£1.6 billion sterling equivalent) of notes matured.

The Society established the Silverstone Master Trust securitisation programme in July 2008. Mortgages pledged are held by Silverstone Finance Trustee Limited. The proceeds of notes issued by this programme of £20.9 billion (2011: £20.9 billion) have been used to purchase a share of the beneficial interest in the mortgages pledged for the beneficial interest of the note holders. The remaining beneficial interest in the pledged mortgages of £5.2 billion (2011: £11.7 billion) stays with the Society and incorporates its required minimum seller share in accordance with the rule of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2012, the programme issued notes in US dollars and sterling to third parties raising £3.7 billion sterling equivalent with maturities ranging between three and nine years.

The Society holds cash deposited by the covered bond programme of £1.4 billion (2011: £2.2 billion) and by the Silverstone programme of £1.2 billion (2011: £2.1 billion).

11 Subordinated liabilities and subscribed capital

	2012 £m	2011 £m
Subordinated liabilities		
Subordinated notes	1,534	1,943
Fair value adjustment for micro hedged risk	119	40
Unamortised premiums and issue costs	(9)	(10)
	1,644	1,973
Subscribed capital		
Permanent interest bearing shares	1,415	1,415
Fair value adjustment for micro hedged risk	248	137
Unamortised premiums and issue costs	(38)	(42)
	1,625	1,510

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. Repaying the PIBS requires 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.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

11 Subordinated liabilities and subscribed capital (continued)

In October 2011 the Group, with the consent of the FSA, redeemed early all of the £75 million 7.125% subordinated notes due 2016 at par. In December 2011 the Group, with the consent of the FSA, redeemed early all of the £35 million 5 ¾% subordinated notes due 2016 at par and all of the €300 million subordinated floating rate notes due 2016 at par at a sterling equivalent cost of £250 million.

12 Retirement benefit obligations

The Group's net retirement benefit obligation at 4 April 2012 totalled £517 million (4 April 2011: £300 million). The movement in the obligation is explained in the Business Review.

13 Notes to the cash flow statement

	2012 £m	2011 £m
Non-cash items included in profit before tax		
Net increase in impairment provisions	78	15
Impairment losses on investment securities	38	66
Depreciation and amortisation	180	150
Loss on sale of property, plant and equipment	3	-
Interest on subordinated liabilities	108	110
Interest on subscribed capital	96	96
Loss on the revaluation of land and buildings	6	1
Gain on revaluation of investment properties	-	(1)
Gain on acquisition of retail mortgages portfolio	(96)	-
Gains from derivatives and hedge accounting	(35)	(120)
	378	317
Changes in operating assets		
Loans and advances to banks	(5)	13
Investment securities	(1,215)	472
Derivative financial instruments and fair value adjustment for portfolio hedged risk	124	2,246
Deferred tax assets	(11)	143
Loans and advances to customers	(3,630)	2,997
Other operating assets	89	(101)
	(4,648)	5,770
Changes in operating liabilities		
Shares	3,065	1,609
Deposits from banks, customers and others	1,785	(3,308)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	1,312	(1,882)
Debt securities in issue	1,046	1,006
Deferred tax liabilities	(8)	36
Retirement benefit obligations	217	(208)
Other operating liabilities	(25)	(73)
	7,392	(2,820)
Cash and cash equivalents		
Cash	8,126	6,130
Loans and advances to banks repayable in 3 months or less	2,722	3,994
	10,848	10,124

Comparatives have been reclassified as described in note 2.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

13 Notes to the cash flow statement (continued)

Changes in other operating liabilities include movements in the Group's wholesale funding balances of deposits from banks, other deposits and debt securities in issue. These are considered operating activities as they relate to the Group's lending activity and liquidity management and so form part of the normal course of business. Movements in subordinated liabilities and subscribed capital are considered financing activities because these form part of our capital management for solvency purposes.

The Group is required to maintain balances with the Bank of England which, at 4 April 2012, amounted to £192 million (2011: £187 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.

14 Contingent liabilities

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.

15 Operating segments

For management reporting purposes, the Group is organised into the following business groupings, determined according to similar economic characteristics and customer base:

- Retail
- Commercial
- Head office functions.

The Group uses a funds transfer pricing mechanism to recognise the internal cost of funds and allocate this cost between different product groups and business segments. The retail and commercial business segments are charged for the benefit of free capital as part of the funds transfer pricing mechanism. Previously this was based upon economic capital models. However, in April 2011 these were replaced with regulatory capital metrics. The comparative segment results have been amended to a basis that is consistent with the current year's methodology.

Nationwide Building Society – Preliminary Results Announcement

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

15 Operating segments (continued)

2012		Retail	Commercial	Head office functions	Total
	Notes	£m	£m	£m	£m
Net income/(expense) from external customers		2,198	866	(1,441)	1,623
(Charge)/revenue from other segments		(728)	(795)	1,523	-
Net interest income		1,470	71	82	1,623
Gain on acquisition of mortgage portfolio		96	-	-	96
Other income	(i)	406	18	-	424
Total revenue		1,972	89	82	2,143
Expenses	(ii)	(1,201)	(38)	(69)	(1,308)
Impairment and other provisions	(iii)	(242)	(247)	(42)	(531)
Underlying profit/(loss) before tax		529	(196)	(29)	304
FSCS levies		(59)	-	-	(59)
Restructuring costs		(1)	-	(60)	(61)
Bank levy		-	-	(16)	(16)
Gains from derivatives and hedge accounting		-	-	35	35
Profit/(loss) before tax		469	(196)	(70)	203
Taxation					(24)
Profit after tax					179
Total assets	(iv)	131,533	22,157	42,439	196,129
Total liabilities		131,436	-	58,534	189,970
2011		Retail	Commercial	Head office functions	Total
	Notes	£m	£m	£m	£m
Net income/(expense) from external customers		2,649	995	(2,108)	1,536
(Charge)/revenue from other segments		(1,271)	(937)	2,208	-
Net interest income		1,378	58	100	1,536
Other income	(i)	381	20	10	411
Total revenue		1,759	78	110	1,947
Expenses	(ii)	(1,109)	(32)	(103)	(1,244)
Impairment and other provisions	(iii)	(186)	(175)	(66)	(427)
Underlying profit/(loss) before tax		464	(129)	(59)	276
FSCS levies		(50)	-	-	(50)
Restructuring costs		(4)	-	(25)	(29)
Gains from derivatives and hedge accounting		-	-	120	120
Profit/(loss) before tax		410	(129)	36	317
Taxation					(69)
Profit after tax					248
Total assets	(iv)	126,829	22,107	40,017	188,953
Total liabilities		128,647	-	54,064	182,711

Notes

- (i) Other income excludes gains from derivatives and hedge accounting which are shown separately.
- (ii) Expenses exclude restructuring costs and bank levy which are shown separately.
- (iii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.
- (iv) Retail assets include goodwill arising on the acquisitions of The Mortgage Works (UK) plc and the Derbyshire Building Society.

The prior year comparatives of total assets and total liabilities have been amended as described in note 2.

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

a) Retail loan portfolio

The retail portfolio is predominantly comprised of £128,847 million of residential mortgages (2011: £124,654 million) with £2,968 million of consumer banking lending (2011: £2,466 million). By their nature, the retail lending books comprise a large number of smaller loans and have low volatility of credit risk outcomes and are intrinsically highly diversified.

The residential mortgages portfolio consists of prime mortgages and specialist lending mortgages. The make up of specialist lending is as follows:

	2012		2011	
	£m	%	£m	%
Self-certified	3,609	16	4,058	20
Buy to let	18,041	77	14,633	72
Near prime	1,201	5	1,250	6
Sub prime	407	2	444	2
Specialist lending	23,258	100	20,385	100

All new specialist lending is originated through The Mortgage Works (UK) plc (TMW), primarily in the buy to let market. The Group has not written any new self-certification, near prime or sub prime business during the year ended 4 April 2012. The majority of near prime and sub prime balances were acquired from the Derbyshire and Cheshire building societies and were subject to a fair value adjustment at the point of acquisition.

In December 2011 TMW acquired £1.2 billion of prime mortgage assets from the Bank of Ireland. These mortgages are all secured on property in England, Scotland and Wales, with an average loan to value (LTV) of approximately 50% and at the time of purchase none of the accounts were in arrears.

The quality of all new residential mortgage lending remains strong as focus remains on affordability and LTV ratios. The value of residential property is updated on a monthly basis to reflect changes in the Nationwide house price index (HPI). The percentage of cases per LTV band and an analysis of gross residential mortgage lending during the year by borrower type are set out below on a value and volume basis:

Analysis calculated on a volume basis	2012	2011
	%	%
Loan to value analysis:		
<50%	50	52
50% - 60%	10	9
60% - 70%	11	11
70% - 80%	13	11
80% - 90%	10	10
90% - 100%	4	5
>100%	2	2
	100	100
Average loan to value of stock (indexed)	50	49
Average loan to value of new business	63	66
New business profile:		
First time buyers	17	23
Home movers	25	34
Remortgagers	27	12
Buy to let	31	31
	100	100

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

Analysis calculated on a value basis:	2012 %	2011 %
Loan to value analysis:		
<50%	30	31
50% - 60%	12	12
60% - 70%	16	15
70% - 80%	19	17
80% - 90%	15	15
90% - 100%	6	8
>100%	2	2
	100	100
Average loan to value of stock (indexed)	62	62
Average loan to value of new business	67	70
New business profile:		
First time buyers	17	22
Home movers	32	43
Remortgagers	26	10
Buy to let	25	25
	100	100

The new business profile and average loan to value of new business above excludes further advances.

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

	2012					2011				
	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%
Not impaired:										
Neither past due nor impaired	103,149	21,285	2,860	127,294	97	101,763	18,204	2,335	122,302	96
Past due up to 3 months but not impaired	1,873	1,189	48	3,110	2	1,934	1,348	37	3,319	3
Impaired	567	784	60	1,411	1	572	833	94	1,499	1
	105,589	23,258	2,968	131,815	100	104,269	20,385	2,466	127,120	100

The status past due up to three months but not impaired includes any asset where a payment due is received late or missed. The amount represents the entire financial asset rather than just the payment overdue. Loans on interest only or payment holiday concessions are initially categorised according to their payment status as at the date of the concession, with subsequent revisions to this category assessed against the terms of the concession.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses. Loans acquired through the acquisition of the Derbyshire, Cheshire and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for anticipated losses over the remaining life of the loans. These loans are categorised in the same way as originated loans in the analysis above.

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

Impaired retail assets are further analysed as follows:

	2012					2011				
	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%
Impaired status:										
Past due 3 to 6 months	268	279	37	584	41	271	290	50	611	41
Past due 6 to 12 months	184	200	23	407	29	187	228	44	459	30
Past due over 12 months	85	138	-	223	16	81	185	-	266	18
Possessions	30	167	-	197	14	33	130	-	163	11
	567	784	60	1,411	100	572	833	94	1,499	100

Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Possession is only enforced once all other recovery options have been exhausted and this is reflected in the Group's possession rate which is approximately 50% of the market average.

The Group offers a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended 4 April 2012 to ensure alignment to FSA defined good practice. The options offered may be classified into three categories:

- Change in terms
- Forbearance
- Repair.

Change in terms

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The options available include payment holidays, interest only conversions and term extensions.

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at 4 April 2012 1,848 accounts (2011: 2,313 accounts) were subject to a payment holiday. The performance of customers who have taken a payment holiday is reflected within the Group's provisioning methodology.

Interest only conversions allow performing customers meeting required criteria to apply for an interest only conversion, normally reducing their monthly commitment. The Group's policy has progressively tightened during the year ended 4 April 2012, with LTV initially capped at 75% in April 2011 and then repayment vehicle options were restricted to sale of residence only (minimum £150,000 equity and maximum LTV 66%) in July 2011. This facility was completely withdrawn in March 2012. During the year ended 4 April 2012 7,083 accounts (2011: 8,442 accounts) converted to interest only. The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

The Group allows performing customers to apply to extend the term of their mortgage. During the year ended 4 April 2012 15,032 accounts (2011: 13,964 accounts) extended their term. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

Forbearance

The only forbearance option which the Group offers customers in financial distress is an interest only concession. Interest only concessions are offered to customers on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase, and will remain as at the beginning of the concession. As at 4 April 2012, 2,474 accounts (2011: 2,802 accounts) representing 0.2% (2011: 0.3%) of total prime mortgage balances were on this concession. The Group's provisioning methodology was adjusted during the year ended 4 April 2012 to reflect latest performance on these accounts.

Repair

When a customer emerges from financial difficulty, the Group offers the ability to capitalise arrears, resulting in the account being repaired. Customers are only permitted to capitalise arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. During the year ended 4 April 2012, 546 accounts (2011: 785 accounts) had an arrears capitalisation. Once capitalised the loans are categorised as not impaired as long as contractual repayments are maintained. Capitalised accounts have a higher than average propensity to roll into arrears and this is recognised within the Group's provisioning methodology.

For those customers who are unable to repay their capital at term expiry, they may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible whilst ensuring the monthly payment remains manageable to the customer. During the year ended 4 April 2012, 2,417 accounts (2011: 1,739 accounts) had an extension at term expiry. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. Over the course of the year ended 4 April 2012, the following prime mortgages were subject to such options:

	2012		2011	
	% of total prime loans and advances		% of total prime loans and advances	
	£m		£m	
Change in terms	1,967	2.0	2,334	2.3
Forbearance	815	0.8	913	0.9
Repair	118	0.1	127	0.1

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

Collateral held against past due or impaired retail residential mortgages is shown below:

	2012				2011			
	Prime lending £m	%	Specialist lending £m	%	Prime lending £m	%	Specialist lending £m	%
Past due but not impaired	1,867	100	1,172	99	1,928	100	1,334	99
Impaired	532	99	595	96	535	99	676	96
Possessions	29	96	138	83	31	94	116	89
	2,428	100	1,905	97	2,494	100	2,126	97

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The percentage, in the table above, is the cover over the asset.

Negative equity on retail residential mortgages is as follows:

	2012		2011	
	Prime lending £m	Specialist lending £m	Prime lending £m	Specialist lending £m
Past due but not impaired	6	17	6	14
Impaired	5	22	4	27
Possessions	1	29	2	14
	12	68	12	55

b) Commercial lending and other lending operations

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans relating to Project Finance. Other lending operations includes £262 million (2011: £241 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio, and unsecured lending of £231 million (2011: £251 million) relating to a student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the head office functions business segment.

The tables below provide further information on commercial lending and other lending operations by payments due status:

	2012				2011			
	Commercial		Other operations		Commercial		Other operations	
	£m	%	£m	%	£m	%	£m	%
Not impaired:								
Neither past due nor impaired	19,081	89	448	91	20,212	92	436	89
Past due up to 3 months but not impaired	669	3	4	1	391	2	4	1
Impaired	1,758	8	41	8	1,420	6	52	10
	21,508	100	493	100	22,023	100	492	100

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

b) Commercial lending and other lending operations (continued)

The status past due up to three months but not impaired includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses. The analysis includes commercial mortgage assets totalling £1.1 billion (2011: £1.2 billion) acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies. These loans were fair valued on a basis that made allowances for anticipated losses over the life of the loans. Impaired loans totalling £138 million (2011: £141 million) in the above analysis have been fair valued in this way and are therefore unlikely to contribute any significant further losses to the Group.

The £41 million (2011: £52 million) of impaired balances in other operations includes £30 million (2011: £41 million) relating to a European commercial loan portfolio and £11 million (2011: £11 million) relating to the unsecured student loan portfolio.

Impaired commercial and other operations assets are further analysed as follows:

	2012				2011			
	Commercial		Other operations		Commercial		Other operations	
	£m	%	£m	%	£m	%	£m	%
Impaired status:								
Past due 0 to 3 months	836	47	-	-	695	49	-	-
Past due 3 to 6 months	139	8	1	2	111	8	4	8
Past due 6 to 12 months	295	17	2	5	235	16	8	15
Past due over 12 months	487	28	38	93	378	27	40	77
Possessions	1	-	-	-	1	-	-	-
	1,758	100	41	100	1,420	100	52	100

Commercial assets totalling £1,450 million (2011: £1,152 million) not subject to fair value adjustments have individual provisions against them.

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Assets over which possession has been taken are realised in an orderly manner via open market or auction sales to derive the maximum benefit for all interested parties, and distributing any surplus proceeds in accordance with the relevant insolvency regulations. The Group does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

Commercial forbearance

All commercial credit facilities are reviewed annually as a minimum and the Group has detailed processes to identify customers exhibiting, or who may be vulnerable to, financial distress and which prompt more frequent review where appropriate. Where such customers are identified, they are typically transferred at an early stage to the Specialist Commercial Support Unit to ensure that early warning signs are acted upon, appropriate action is taken and, where possible, the Group works with the customer to try to resolve the issues and to restore the loan to a financially viable position.

The forbearance requests the Group receives are principally attributable to:

- Customers suffering temporary cash flow problems that impact the ability to service payments under existing terms. Such problems may be due to loss of tenants, void costs or the costs of securing new tenants such as refurbishments or the provision of rent free incentives.

ADDITIONAL INFORMATION

b) Commercial lending and other lending operations (continued)

- Breaches of documented loan to value, interest cover ratio or debt service cover ratio covenants caused by a fall in property values, the loss of income or increased repayments due to interest rate rises or scheduled increases in capital repayments.
- Inability to fulfil the obligation to fully repay at contractual maturity.

The Group's standard policy and approach to consider such requests is contained in the Arrears Management Policy and the Commercial Lending Credit Policy. Implementation is controlled through the governance and control framework, which includes early warning and watch list procedures for managing and monitoring the performance of these customers.

All forbearance requests are dealt with in the same way as new lending applications and the Group's appetite for consenting to forbearance reflects the expectations for future property and rental values and the likelihood of further voids and likely void periods, based upon prevailing and expected economic conditions. The Group's assessment of future serviceability and full repayment includes a cash flow analysis taking these factors into account. Due allowance is made in each assessment for any hedging arrangements in place but for all floating rate exposures the assessment is based on the assumption of a standard stressed interest rate affording significant margin above prevailing floating and long term swap rates, which is itself reviewed on a regular basis.

Forbearance to address short term cash flow difficulties will typically be through the provision of a temporary amendment to the payment profile to align repayments with the secure income stream. In such cases there would be no element of debt or interest forgiveness and the Group would have to be satisfied with the ability to maintain payments and fully repay over time.

Forbearance to address covenant breaches would normally entail either a temporary or permanent waiver or amendment of the affected covenant. Each case would be considered on its own merits and the Group's response will depend upon both the risk profile of the transaction and the degree of protection provided by other covenants.

The provision of extended facilities on maturity does not always represent forbearance. However, despite the exit position faced often looking far less attractive than that originally envisaged, the Group will still seek to support customers by providing refinancing over extended terms where the customer's ability to continue to service the debt and improve the risk profile over time can be evidenced.

The permanent waiver of either interest or capital or debt for equity swaps will only be considered in the most exceptional circumstances.

A number of commercial Property Finance loans, characterised by either a covenant breach, payment default or loan maturity were restructured during the year ended 4 April 2012. Of these loans, £354 million (2011: £745 million) had debt restructure terms which fell outside the Group's current lending policy or credit appetite, or the loan exposure post restructure generates a sub-optimal return on risk weighted capital. Once renegotiated the restructured loans include a contractual capital amortisation profile or a full cash sweep of surplus rental income to pay down debt after permitted deductions for asset management fees and irrecoverable property costs, and are categorised as not impaired as long as contractual repayments are maintained.

In the year to 4 April 2012 there were £587 million (2011: £806 million) of loans that were restructured due to covenant breaches or distress. Total loan exposures of £62 million (2011: £167 million) restructured during the year carry observed credit impairment provisions of £18 million (2011: £36 million). In addition loans of £264 million (2011: £62 million) reported as up to date have been renegotiated through repayment plans offering a concessionary payment to genuinely distressed borrowers or by consolidating arrears on to the balance of the loan.

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

b) Commercial lending and other lending operations (continued)

Collateral held against past due or impaired commercial lending:

	2012		2011	
	£m	%	£m	%
Past due but not impaired	631	94	363	93
Impaired	1,157	66	1,050	74
	1,788	74	1,413	78

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The percentage, in the table above, is the cover over the asset.

Negative equity on commercial lending:

	2012	2011
	£m	£m
Past due but not impaired	38	28
Impaired	600	369
Possessions	-	1
	638	398

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

c) Treasury financial instruments

Treasury liquid assets include cash, loans and advances to banks and investment securities available for sale. These are held in two portfolios. The classification of liquid assets has been modified to better reflect the management of the portfolios and bring the analysis in line with FSA definitions in BIPRU 12. The portfolio is now categorised between core liquidity and non-core. Previously, the same portfolio of assets had been classified between liquidity and investment assets, which reflected the legacy investment strategies.

Core liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks. The non-core portfolio comprises available for sale assets held for investment purposes, plus clearing amounts. Analysis of each of these portfolios by credit rating and by location of issuer is given below.

	2012 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Cash	8.1	100	-	-	-	100	-	-	-
Gilts	12.8	100	-	-	-	100	-	-	-
Non-domestic government bonds	2.4	54	46	-	-	-	46	54	-
Supranational bonds	1.5	100	-	-	-	9	4	86	1
Core liquidity portfolio total	24.8	96	4	-	-	85	5	10	-
Loans and advances to banks	2.9	-	23	77	-	31	17	17	35
Residential mortgaged backed securities (RMBS)	2.1	41	27	23	9	45	4	41	10
Commercial mortgage backed securities (CMBS)	0.5	-	24	58	18	67	-	33	-
Covered bonds	0.9	54	23	12	11	28	3	63	6
Collateralised loan obligations	0.6	6	89	5	-	31	69	-	-
Financial institution bonds	1.4	-	9	64	27	20	14	50	16
US student loans	0.7	40	28	22	10	-	100	-	-
Other	0.4	32	20	18	30	25	61	14	-
Non-core portfolio total	9.5	19	27	45	9	32	22	30	16
Total	34.3	74	10	13	3	70	10	16	4

	2011 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Cash	6.1	100	-	-	-	100	-	-	-
Gilts	8.6	100	-	-	-	100	-	-	-
Non-domestic government bonds	2.2	100	-	-	-	-	40	60	-
Supranational bonds	1.8	100	-	-	-	-	-	100	-
Core liquidity portfolio total	18.7	100	-	-	-	79	5	16	-
Loans and advances to banks	4.2	-	38	62	-	73	-	15	12
Residential mortgaged backed securities (RMBS)	2.8	75	15	5	5	49	4	43	4
Commercial mortgage backed securities (CMBS)	0.6	39	23	16	22	66	14	20	-
Covered bonds	0.7	67	18	8	7	-	4	88	8
Collateralised loan obligations	0.6	6	82	12	-	26	74	-	-
Financial institution bonds	3.0	11	18	51	20	20	11	56	13
US student loans	0.7	68	6	17	9	-	100	-	-
Other	0.6	43	14	13	30	68	28	3	1
Non-core portfolio total	13.2	31	25	35	9	46	14	32	8
Total	31.9	71	11	15	3	65	9	23	3

Nationwide Building Society – Preliminary Results Announcement

ADDITIONAL INFORMATION

c) Treasury financial instruments

All assets shown above, other than cash and loans and advances to banks, are classified as investment securities available for sale.

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

Nationwide has £75 million of exposure to monoline insured transactions. Further details are included in the treasury asset quality section of the Business Review.

In assessing impairment, the Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. An impairment loss of £31 million (2011: £66 million) has been recognised in the income statement in respect of the treasury core liquidity and non-core portfolios. In addition, an impairment of £7 million (2011: £nil) was recognised on investments in equity shares.

Collateral held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets.

Nationwide Building Society – Preliminary Results Announcement

OTHER INFORMATION

The financial information set out in this announcement which was approved by the Board on 22 May 2012 does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The Annual Accounts for the year ended 4 April 2011 have been filed with the Financial Services Authority and Registry of Friendly Societies in England and Wales. The Auditors' Report on these Annual Accounts was unqualified. The Annual Accounts for the year ended 4 April 2012 will be lodged with the Financial Services Authority and the Registry of Friendly Societies following publication.

A copy of this Preliminary report is placed on the website of Nationwide Building Society, nationwide.co.uk, from 23 May 2012. 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 655287
07850 810745
alanm.oliver@nationwide.co.uk

Tina Coates
01793 657683
07711 113459
tina.coates@nationwide.co.uk

Stuart Williamson
01793 654756
07545 740195
Stuart.williamson@nationwide.co.uk