



NATIONWIDE BUILDING SOCIETY

(Incorporated in England under the Building Societies Act 1986)

Tranche A: £200,000,000 7.971 per cent. Permanent Interest Bearing Share Receipts

Tranche B: £100,000,000 7.859 per cent. Permanent Interest Bearing Share Receipts

issued by The Law Debenture Intermediary Corporation p.l.c.

evidencing entitlements to all payments and other benefits (save for the limitations described below) under £200,000,000 7.971 per cent. Permanent Interest Bearing Shares and £100,000,000 7.859 per cent. Permanent Interest Bearing Shares, respectively, of

Nationwide Building Society

Tranche A Issue Price: 100.00 per cent.

Tranche B Issue Price: 100.00 per cent.

Nationwide Building Society (the "Society") will issue £200,000,000 7.971 per cent. Permanent Interest Bearing Shares (the "Tranche A PIBS") and £100,000,000 7.859 per cent. Permanent Interest Bearing Shares (the "Tranche B PIBS" and, together with the Tranche A PIBS, the "PIBS"), comprising 2,000 Tranche A PIBS of £100,000 each and 1,000 Tranche B PIBS of £100,000 each, to The Law Debenture Intermediary Corporation p.l.c. (the "Trustee"). Under the terms of a Trust Deed (the "Trust Deed") to be dated 13 March, 2000 and made between the Society and the Trustee, the Trustee will issue £200,000,000 7.971 per cent. Permanent Interest Bearing Share Receipts (the "Tranche A PIBS Receipts") and £100,000,000 7.859 per cent. Permanent Interest Bearing Share Receipts (the "Tranche B PIBS Receipts" and, together with the Tranche A PIBS Receipts, the "PIBS Receipts"), comprising 2,000 PIBS Receipts of £100,000 each in respect of the Tranche A PIBS and comprising 1,000 PIBS Receipts of £100,000 each in respect of the Tranche B PIBS, respectively. The Trustee will, save for the limitations described below, hold all benefits under the PIBS on trust for the holders of the PIBS Receipts (the "PIBS Receiptholders").

The PIBS Receipts will be freely transferable and will evidence entitlements of the PIBS Receiptholders to payments of all principal (if any) of, premium (if any) and interest on, and (save for the limitations described below) all other benefits under, the PIBS to which they relate. The PIBS, and accordingly the PIBS Receipts, will be repayable only at the option of the Society on 13 March, 2015 or each fifth anniversary thereof (in the case of Tranche A PIBS and Tranche A PIBS Receipts) and 13 March, 2030 or each fifth anniversary thereof (in the case of Tranche B PIBS and Tranche B PIBS Receipts) or (in either case) in certain limited circumstances as described in "Special conditions of issue of the PIBS—6. Repayment and Purchase" on page 11 of this document, in each case subject to prior regulatory consent. The PIBS, and accordingly the PIBS Receipts, will not be repayable at the option of the Trustee or the PIBS Receiptholders.

The PIBS Receiptholders will not be entitled to share in any benefits which may be payable to the Trustee in its capacity as the PIBS holder in the event that the Society transfers its business to a company pursuant to section 97 of the Act, other than rights to receive perpetual subordinated bonds issued by the Society's successor company of the same principal amount as their holdings of the PIBS Receipts. The PIBS Receiptholders will not be members of the Society and, accordingly, will not be entitled to exercise any membership rights. See "Special conditions of issue of the PIBS Receipts" on page 14 of this document.

The Trustee will hold all membership rights arising from its holding of the PIBS on trust in accordance with the Trust Deed. The Trustee, in its capacity as the PIBS holder, will irrevocably undertake not to exercise discretionary membership rights which it may have by virtue of being the PIBS holder, and (for the benefit of the PIBS Receiptholders) not to transfer the PIBS other than to a successor trustee. See "Certain features distinguishing the PIBS Receipts from the PIBS" on page 5 of this document.

The liability of the Trustee will be limited as specified under the "Special conditions of issue of the PIBS Receipts – 15. Enforcement; Indemnification and Liability of the Trustee" set out on page 18 of this document.

Application has been made to London Stock Exchange Limited (the "London Stock Exchange") for the PIBS Receipts to be admitted to the Official List of the London Stock Exchange ("Official List"). No application has been or will be made to the London Stock Exchange for the PIBS to be admitted to the Official List.

It is expected that the PIBS Receipts will be issued on 13 March, 2000 and that official dealings in the PIBS Receipts on the London Stock Exchange will commence on 13 March, 2000. The listing of the PIBS Receipts will be expressed as a percentage of their principal amount. The PIBS Receipts may be held in certificated or uncertificated form.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Act, and will not be protected investments for the purposes of payments out of the Building Societies Investor Protection Fund. Attention is drawn to the sections of this document entitled "Risk factors associated with the PIBS and the PIBS Receipts" on page 4 of this document and "Certain features distinguishing the PIBS Receipts from the PIBS" on page 5 of this document.

Barclays Capital

This document comprises listing particulars issued in compliance with the listing rules made by the London Stock Exchange for the purpose of giving information with regard to the Society and its subsidiary undertakings (together the “Group”), the Trustee, the PIBS and the PIBS Receipts.

The Directors of the Society, whose names appear on pages 24 to 26 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors of the Society (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Directors of the Trustee, whose names appear on page 83 of this document, accept responsibility for the section entitled “The Law Debenture Intermediary Corporation p.l.c.” in this document. To the best of the knowledge and belief of the Directors of the Trustee (who have taken all reasonable care to ensure that such is the case), the information contained in that section is in accordance with the facts and does not omit anything likely to affect the import of such information. The Trustee will have no obligations except as specifically referred to in this Offering Circular.

No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Society, the Trustee or Barclays Bank PLC (the “Manager”). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society, the Group or the Trustee since the date hereof.

Copies of this document have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the Financial Services Act 1986.

The PIBS Receipts have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered, sold or delivered, directly or indirectly, in the United States or to United States persons otherwise than in accordance with applicable United States securities laws and regulations.

This document does not constitute an offer of, or an invitation by or on behalf of any of the Society, the Trustee or the Manager to subscribe for or purchase, any of the PIBS Receipts. The distribution of this document and the offering of the PIBS Receipts in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society, the Trustee and the Manager to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the PIBS Receipts and on distribution of this document, see “Marketing Arrangements” on page 89 of this document.

The information contained in this document is intended for sophisticated investors capable of understanding the nature of the PIBS Receipts and the risks attaching to them.

The Manager may over-allot or effect transactions on the London Stock Exchange which will stabilise or maintain the market price of the PIBS Receipts at a level which might not otherwise prevail on that exchange and such stabilising, if commenced, may be discontinued at any time.

In this document, unless otherwise specified or the context otherwise requires, references to “pounds”, “pence”, “Sterling”, “£” and “p” are to the currency of the United Kingdom of Great Britain and Northern Ireland (the “United Kingdom”) and to the “Act” are to the Building Societies Act 1986, which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such statutory modification or re-enactment.

Terms used in this document shall, unless otherwise defined or the context otherwise requires, have the same meanings as are given to them in the Act or, as the case may be, the Rules of the Society (the “Rules”) or the Memorandum of the Society (the “Memorandum”).

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RISK FACTORS ASSOCIATED WITH THE PIBS AND THE PIBS RECEIPTS

The PIBS Receipts are limited recourse in terms that investors will only be entitled to receive payments, as provided in the PIBS Receipt Conditions and in the Trust Deed, to the extent that related payments under the PIBS have become due and payable by the Society to the Trustee.

Investors should be aware that the terms of the PIBS and the PIBS Receipts vary considerably from the terms of ordinary building society share accounts. They should particularly note that:

- (a) the principal amount of the PIBS, and accordingly the PIBS Receipts, will be repayable only at the option of the Society on 13 March, 2015 or each fifth anniversary thereof (in the case of Tranche A PIBS and Tranche A PIBS Receipts) and 13 March, 2030 or each fifth anniversary thereof (in the case of Tranche B PIBS and Tranche B PIBS Receipts) or (in either case) in certain limited circumstances as described in “Special conditions of issue of the PIBS – 6. Repayment and Purchase” on page 11 of this document, in each case subject to the permission of the Building Societies Commission or any other body for the time being performing the same or similar functions in relation to building societies (the “Commission”). The PIBS and the PIBS Receipts are not withdrawable and will not be repayable at the option of the Trustee or the PIBS Receiptholders. Accordingly, the only way that the PIBS Receipts may be realised (other than by the above) is by a sale at such price and on such terms as may from time to time be available in the market (which may mean that the investor does not recoup his investment) which may be subject to usual brokers’ commissions;
- (b) in a winding up or dissolution of the Society, the claim of the Trustee, in its capacity as the PIBS holder, and accordingly the claims of the PIBS Receiptholders, as to principal and interest will rank behind all other creditors of the Society and the claims of members holding shares (other than deferred shares);
- (c) the PIBS Receipts are not protected investments for the purposes of the Building Societies Investor Protection Fund;
- (d) interest in respect of the PIBS, and accordingly the PIBS Receipts, will not be payable (i) where the Directors of the Society consider that to make payment would result in the Society’s capital falling below prescribed levels or (ii) where the Society has not paid interest in respect of deposits or shares (other than deferred shares); and
- (e) if the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (d) above, and accordingly no interest falls to be paid in respect of the PIBS Receipts, such interest will be cancelled.

In relation to the above, investors may wish to consult the Prudential Note 1998/2 published by the Commission which will be available for inspection as set out on page 93.

Investors should be aware that PIBS Receipts do not entitle PIBS Receiptholders to all rights pertaining to the PIBS or to all rights the Trustee may have or receive in respect of them. They should particularly note the following characteristics of the PIBS Receipts:

(a) PIBS

The PIBS Receiptholders cannot require a transfer of the PIBS to them or any other person.

(b) Conversion benefits

The Trustee will, at or before the time of issue of the PIBS Receipts, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any benefits which the Trustee may have as a member of the Society on the transfer of the whole of the Society's business to a company in accordance with section 97 of the Act, other than rights to receive perpetual subordinated bonds issued by the Society's successor company of the same principal amount as the PIBS as specifically provided for under section 100(2)(a) of the Act and the PIBS Conditions. Consequently, the PIBS Receipts will not include any such benefits.

(c) Transfer of Society's business

Upon a transfer by the Society of the whole of its business to a successor company in accordance with section 97 of the Act, the Trustee will transfer, or procure that there are issued or transferred, to each PIBS Receiptholder, perpetual subordinated bonds comprising upper tier 2 capital of the Society's successor company, carrying the same rate of interest as the PIBS and in an aggregate principal amount equal to the aggregate principal amount of the PIBS Receipts held by that PIBS Receiptholder. Upon such transfer, the Trustee will cease to hold any benefits on trust for the PIBS Receiptholders.

(d) Voting and discretionary membership rights

Under the Rules of the Society, the Trustee will have one vote as a member of the Society by virtue of its holding of the PIBS. The Trustee will irrevocably undertake not to exercise its one vote at a general meeting or in a postal ballot of the Society because of (i) the difficulty of reflecting the views of all of the PIBS Receiptholders and (ii) the insignificance of its one vote in the context of the votes of all of the members of the Society. Similarly, the Trustee will irrevocably undertake not to exercise any other discretionary membership rights, such as the right to participate in requisitions for meetings or resolutions or in nominations of candidates for election to the Board of the Society.

The PIBS Receiptholders will not be members of the Society and, accordingly, will not be entitled to any vote at any general meeting or in a postal ballot of the Society or any other discretionary membership rights. In addition, the Trustee will be granted charity membership with The Nationwide Foundation as part of the irrevocable agreement to assign benefits arising on conversion (as described in (b) above) to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation). The Trustee will irrevocably undertake not to exercise any voting or other membership rights it may have as a charity member.

**SUMMARY OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT APPLICABLE TO THE PIBS
WHICH AFFECT THE RIGHTS OF THE PIBS RECEIPHOLDERS**

The rights and restrictions attaching to the PIBS will be governed by the Rules and the Act and the special conditions of issue of the PIBS (as set out in the Trust Deed and on pages 8 to 13 of this document).

Set out below is a summary of certain provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the Trustee (as the PIBS holder) and accordingly the PIBS Receiptholders. Terms defined in the Rules will, unless the context otherwise requires, have the same meanings when used in this summary.

1. General

A person who has a share investment with the Society (including a deferred share investment) is an investing member of the Society. The PIBS are a deferred share investment for the purposes of the Rules and the Trustee (as the PIBS holder) is an investing member of the Society.

The Trustee (as the PIBS holder) and all persons claiming on his behalf (including an appointed representative of the Trustee) shall be bound by the Rules, by the Memorandum and by the Act.

The Trustee (as the PIBS holder) will be a member of the Society. The PIBS Receiptholders (as the holders of the PIBS Receipts) will not be members of the Society. Except to the extent that a PIBS Receiptholder is a member of the Society in some other capacity, a PIBS Receiptholder shall not be directly bound by the Rules, by the Memorandum or by the Act.

2. Meetings

As an investing member of the Society, the Trustee will, subject to the provisions of the Rules, enjoy various membership rights. In particular, it will be entitled to receive notice of, to participate in a requisition for, to propose resolutions at, to attend, to be counted in a quorum at and to vote at any general meeting or in a postal ballot of the Society.

The Trustee (as the PIBS holder) will be entitled to exercise one vote (irrespective of the size of its holding) on a resolution at any general meeting or in a postal ballot (whether an ordinary resolution or special resolution or an investing members' resolution, but not a borrowing members' resolution) if the Trustee held the PIBS:

- (a) at the end of the financial year before the voting date; and
- (b) on the voting date.

However, the Trustee will irrevocably undertake in the Trust Deed not to exercise its one vote as a qualifying voting member of the Society because of (i) the difficulty of reflecting the views of all of the PIBS Receiptholders and (ii) the insignificance of the Trustee's one vote in the context of the votes of all of the members of the Society. Similarly, the Trustee will irrevocably undertake not to exercise other discretionary membership rights, such as participating in requisitions for meetings or resolutions or in nominations of candidates for election to the Board of the Society.

3. Dissolution or winding up

On the dissolution or winding up of the Society, any surplus remaining after the Society's creditors have been paid and all share investments have been repaid (according to any order of priority under the terms of issue):

- (a) shall be paid in accordance with the instrument of dissolution (if any); but otherwise
- (b) shall be divided among those investing members of the Society who hold deferred share investments at the relevant date and those who have held share investments of at least £100 continuously for two years at the relevant date, in either case in proportion to the amount of their

share investments at the relevant date. The relevant date is the earlier of either the date of notice of a winding up or dissolution resolution or the date of presentation of a winding up petition.

If there are insufficient assets to repay all members of the Society the amounts paid up on their shares (other than deferred shares) together with interest due thereon, no repayment shall be made to the Trustee (as the PIBS holder) and accordingly no repayment shall be made to the PIBS Receiptholders in respect of the PIBS Receipts.

4. Repayments Withheld

The Society may withhold or limit repayment of any share investment when obliged to do so by law or by order of a competent court or other authority, or for a maximum period of six months when this is prudent or in the interests of members generally.

The PIBS are a share investment in the Society. Any repayment in respect of the PIBS to the Trustee (as the PIBS holder) and, accordingly, repayment to the PIBS Receiptholders in respect of the PIBS Receipts, may be withheld or limited in these circumstances.

5. Disputes and legal proceedings

Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Pursuant to section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

SPECIAL CONDITIONS OF ISSUE OF THE PIBS

The following are the special conditions of issue of the Tranche A PIBS and the Tranche B PIBS as they apply to holders of the Tranche A PIBS and the Tranche B PIBS respectively and in the form in which they will appear (subject to completion and amendment to reflect the differences between the special conditions of issue of the Tranche A PIBS and the Tranche B PIBS) on the reverse of each share certificate issued in respect of each holding of PIBS (a "PIBS Certificate"). The special conditions of issue that will appear on the reverse of the PIBS Certificates issued in respect of each holding of Tranche A PIBS and the PIBS Certificates issued in respect of each holding of Tranche B PIBS will be identical except as indicated below in Conditions 1(1), 5(1) and 5(2). The Society will issue all the PIBS to the Trustee pursuant to an application by the Trustee dated the date hereof and in accordance with the Trust Deed. References to "PIBS holder" or "PIBS holders" should be construed accordingly for so long as the Trustee is the sole holder of the PIBS.

The PIBS (as defined below) are issued under the Rules (the "Rules") of Nationwide Building Society (the "Society"). The PIBS holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of the Rules. The PIBS are also issued subject to, and with the benefit of, these special conditions of issue ("these Conditions").

1. General

- (1) "PIBS" means the 7.971 per cent.⁽¹⁾ Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, shall include any further permanent interest bearing shares issued pursuant to Condition 11 and forming a single series with the PIBS.
- (2) Unless the context otherwise requires, the expression "PIBS holder" means a person whose name and address is entered in the PIBS Register (as defined below) as the holder of a PIBS.
- (3) Words and expressions defined in the Rules will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (4) **The PIBS:**
 - (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended (the "Act");
 - (b) are not protected investments for the purpose of payments out of the Building Societies Investor Protection Fund provided for under the Act;
 - (c) are not withdrawable; and
 - (d) are deferred share investments for the purposes of the Rules.

2. Form and denomination

The PIBS are in registered form and are transferable in accordance with the Rules in amounts and integral multiples of £100,000.

3. Register

- (1) The Society has appointed Lloyds TSB Registrars (the "Registrar") as the registrar for the PIBS under the terms of a Registrar's Agreement (the "Registrar's Agreement") dated 13 March, 2000 and made between the Society, The Law Debenture Intermediary Corporation p.l.c. (the "Trustee") and the Registrar.
- (2) The Society shall procure that the Registrar maintains a register for the purposes of the PIBS (the "PIBS Register"), in which shall be entered the name and address of each PIBS holder. Each PIBS

(1) *This interest rate is applicable to the Tranche A PIBS only. The interest rate applicable to the Tranche B PIBS will be 7.859 per cent. per annum.*

holder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.

- (3) Transfers and other documents or instructions relating to or affecting the title to any PIBS shall also be recorded in the PIBS Register. No charge shall be made in respect of any entry in the PIBS Register. The PIBS Register shall be maintained at the principal office of the Registrar or at such other place as the Society and the Trustee shall agree.
- (4) The Registrar shall, on behalf of the Society, issue a share certificate in respect of each holding of PIBS (a "PIBS Certificate") to each PIBS holder within 14 days after one is requested.

4. Transfers

No transfer of PIBS shall be valid unless made in the form endorsed on the PIBS Certificate or in such other a form as the Society may agree. Title to the PIBS will pass upon registration of such transfer in the PIBS Register.

5. Interest

- (1) The PIBS bear interest from and including 13 March, 2000 to but excluding 13 March, 2015⁽¹⁾ at the rate of 7.971 per cent.⁽²⁾ per annum and thereafter at a rate calculated in accordance with paragraph (2) below (each a "Rate of Interest"), in each case payable, subject as set out below, in arrear by equal half-yearly instalments on 13 September and 13 March in each year (each an "Interest Payment Date"), commencing on 13 September, 2000. Each half-yearly period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date (including the period from issue to 13 September, 2000) is called an "Interest Period". Interest on the PIBS is non-cumulative as described below and will be paid subject to deduction at source of United Kingdom income tax at the lower rate.

The interest payment in respect of any period of less than a half year will be calculated on the basis of the number of days elapsed and a year of 365 days, rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

- (2) (i) The Rate of Interest payable in respect of the PIBS from and including 13 March, 2015⁽¹⁾ in respect of each Reset Period (as defined below) shall be determined by the Agent Bank whose name is set out at the end of these Conditions or such other person as may be appointed from time to time pursuant to Condition 5(2)(iv) (the "Agent Bank") on the following basis. On the Determination Date (as defined below) relating to each Reset Period the Agent Bank shall determine the then prevailing Five Year Benchmark Gilt Rate (as defined below). The Rate of Interest for the relevant Reset Period shall be the aggregate of 4.05 per cent.⁽³⁾ per annum and the Five Year Benchmark Gilt Rate (rounded, if necessary, to four decimal places, with 0.00005 per cent. being rounded upwards), as determined by the Agent Bank.

In these Conditions:

"Determination Date" means, in relation to any Reset Period, the forty-fifth day prior to the first day of such Reset Period; provided that if such day is not a day on which banks are open for business in London, it shall be postponed to the next such day;

"Five Year Benchmark Gilt" means, in respect of a Reset Period, such United Kingdom government fixed income security denominated in sterling having a maturity date on or about the last day of such Reset Period as the Agent Bank, with the advice of the Reference Market Makers (as defined below), may determine to be appropriate. In the event that the

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- (1) *This initial Reset Date is applicable to the Tranche A PIBS only. The initial Reset Date applicable to the Tranche B PIBS will be 13 March, 2030.*
 - (2) *This interest rate is applicable to the Tranche A PIBS only. The interest rate applicable to the Tranche B PIBS will be 7.859 per cent. per annum.*
 - (3) *This margin is applicable to the Tranche A PIBS only. The margin applicable to the Tranche B PIBS will be 4.45 per cent. per annum.*

Agent Bank is unable to determine a Five Year Benchmark Gilt as provided above, the Five Year Benchmark Gilt shall be determined by the Trustee (after consultation with the Society) with the advice of the Reference Market Makers;

“Five Year Benchmark Gilt Rate” means, in respect of a Reset Period, the gross redemption yield, (as calculated by the Agent Bank on the basis set out by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries vol. 105, part 1, 1978, page 18) on a semi-annual compounding basis (and rounded, if necessary, to four decimal places, with 0.00005 per cent. being rounded upwards) of the Five Year Benchmark Gilt in respect of that Reset Period (converted to an annualised payment and expressed as a percentage rounded, if necessary, to four decimal places, with 0.00005 per cent. being rounded upwards) based upon the average of the bid and offered prices of such Five Year Benchmark Gilt quoted by the Reference Market Makers at 11.00 a.m. (London time) on the Determination Date for such Reset Period on a dealing basis for settlement on the next following dealing day in London;

“Reference Market Makers” means three gilt edged market makers selected by the Agent Bank and approved for this purpose by the Trustee, failing which such other three persons operating in the gilt edged market as are selected by the Agent Bank and approved for this purpose by the Trustee;

“Reset Date” means 13 March, 2015⁽¹⁾ and every fifth successive 13 March; and

“Reset Period” means the period beginning on a Reset Date and ending on the day immediately preceding the next succeeding Reset Date.

- (ii) As soon as practicable after 11.00 a.m. (London time) on each Determination Date, the Agent Bank shall determine the Rate of Interest for the relevant Reset Period and calculate the amount of interest payable on each £100,000 principal amount of PIBS (the “Interest Amount”) on each of the ten Interest Payment Dates that fall after the commencement of the Reset Period to which such Determination Date relates. The Society shall cause such Rate of Interest and each such Interest Amount to be notified to the Trustee and the Registrar as soon as practicable after their determination and calculation and shall procure that the Registrar gives notice thereof to the PIBS holders in accordance with Condition 12.
- (iii) If the Agent Bank does not at any material time for any reason determine the Rate of interest for any Reset Period or calculate any Interest Amount in accordance with this Condition 5(2), the Trustee shall determine (after consultation with the Society) such Rate of Interest or calculate such Interest Amount at such rate or in such amount as, in its absolute discretion (having such regard as it shall think fit to the procedure described in this Condition 5(2)), it shall deem fair and reasonable in all the circumstances, and such determination and calculation shall be deemed to be a determination and calculation thereof by the Agent Bank.
- (iv) The Society may, with the prior written approval of the Trustee, from time to time appoint another bank or investment banking firm in London as Agent Bank. In the event of the appointed office of the Agent Bank being unable or unwilling to continue to act as the Agent Bank, the Society shall forthwith appoint the London office of such other leading bank or investment banking firm in London as may be approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.
- (v) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5(2), whether by the Agent Bank or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Society, the Agent Bank, the Trustee, the Registrar and all PIBS holders and

(1) *This initial Reset Date is applicable to the Tranche A PIBS only. The initial Reset Date applicable to the Tranche B PIBS will be 13 March 2030.*

(in the absence as aforesaid) no liability shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise of their powers, duties and discretions.

(3) Interest in respect of the PIBS shall not be paid or credited in respect of any Interest Period if the Society has at any time before the date for payment of the interest cancelled the payment of any interest or dividend upon:

- (a) any other share investments of any class (other than deferred shares (as defined in the Act)) of the Society; or
- (b) any deposit (as defined in the Act) with the Society,

which falls, in accordance with the terms of the share investments or deposits, to be paid or credited at any time before the end of the relevant Interest Period.

For the purposes of this Condition 5 (3):

- (a) where the Society has deferred or suspended any payment upon the share investments or deposit referred to in (a) or (b) above it shall be taken to have cancelled the payment for so long as the payment remains outstanding; and
- (b) a payment upon the share investments or deposit referred to in (a) or (b) above is to be taken to fall to be paid or credited in circumstances where it would have so fallen but for any provisions relating thereto entitling the Society to cancel, defer or suspend payment.

If, and to the extent that, the payment or crediting of interest is prohibited under this Condition 5 (3), interest in respect of the PIBS will be cancelled and the PIBS holders will have no rights in respect of the cancelled interest.

(4) Interest in respect of the PIBS shall not be paid or credited for any Interest Period if the Board of Directors of the Society (the "Board") is of the opinion that:

- (a) there has been a failure by the Society to satisfy the second criterion of prudent management set out in section 45(3) of the Act and such failure is then continuing; or
- (b) the payment or crediting of the interest or, as the case may be, the payment or crediting in full of the interest would cause or contribute to such a failure by the Society,

and, in such case, the Board passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that there will be no failure to satisfy the second criterion of prudent management and, on the passing of the resolution, the PIBS holders shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.

(5) Any amount representing interest on the PIBS in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after twelve years from the due date for such payment.

6. Repayment and Purchase

(1) The PIBS constitute permanent non-withdrawable deferred shares in the Society and have no specified final maturity date. The PIBS will become repayable only as provided in this Condition.

(2) The PIBS will become repayable on the date that an instrument or order is made or an effective resolution is passed for the winding up or, otherwise than by virtue of section 93(5), section 94(10), section 97(9) or section 97(10) of the Act, dissolution of the Society but only if and subject to the condition that all sums due from the Society to Creditors claiming in the winding up or dissolution have been paid in full.

For the purposes of these Conditions, "Creditors" means all creditors (including all subordinated creditors) of the Society and investing members (other than holders of deferred shares (including the PIBS)) as regards the principal and interest due in respect of those share investments.

- (3) The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of the PIBS together, subject to Condition 5, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full.
- (4) The Society may, having obtained Relevant Supervisory Consent and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with Condition 12 (which notice shall be irrevocable), redeem on any Reset Date (as defined in Condition 5(2)) all of the PIBS then outstanding by the payment of:
 - (a) subject to Condition 5, a sum in respect of interest which has accrued (but has not been paid) up to but excluding the date of redemption; and
 - (b) the principal amount of the PIBS.
- (5) All PIBS redeemed in accordance with this Condition shall be cancelled forthwith and may not be reissued or resold.
- (6) For the purposes of these Conditions:

"Relevant Supervisory Consent" means consent by the Building Societies Commission (or any other body performing for the time being the same or similar functions in relation to building societies) to the relevant redemption or (as referred to in Condition 6(4)) purchase.

7. Payments

All payments in respect of the PIBS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted on the business day immediately preceding the relevant due date to the address of the relevant PIBS holder shown in the PIBS Register on the Record Date (as defined below) and made payable to or to the order of the relevant PIBS holder (which shall be the person appearing in the PIBS Register in respect of the PIBS of which he is the holder at the close of business on the fifteenth day before the relevant due date (the "Record Date"). Upon application of a PIBS holder or the person to whose order the payment is to be made to the Registrar in the form obtainable from the specified office of the Registrar, not less than ten days before the due date for any payment, the payment may be made by transfer on the due date or, if the due date is not a business day, on the immediately following business day to a sterling account maintained by the relevant PIBS holder or the person to whose order the payment is to be made with a bank or building society in the United Kingdom. In this Condition 7, "business day" means any day (except where such day is a Saturday or a Sunday) on which banks are open for business in England.

8. Succession

- (1) Upon an amalgamation of the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements (including the obligations under the PIBS) to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall be deferred shares in the amalgamated or transferee building society (as appropriate) without any alteration in their terms.
- (2) The Society will procure that any amalgamation or transfer of its engagements referred to in paragraph (1) will comply with the provisions of that paragraph.

9. Conversions and takeovers

- (1) Upon a transfer by the Society of the whole of its business to a successor company in accordance with section 97 of the Act, the successor company will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this Condition) to every qualifying member of the Society as in respect of a deposit made with the successor company corresponding in amount to the value of the qualifying shares held by the member in the Society.

- (2) The liability assumed by the successor company in respect of the PIBS shall be as in respect of a non-transferable subordinated deposit carrying the same Rate of Interest as the PIBS (a "Subordinated Deposit").
- (3) The Subordinated Deposit will be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of and to the order of the PIBS holders, in the subscription of a principal amount of perpetual subordinated bonds of the successor company (the "Bonds") equal to the principal amount of the Subordinated Deposit and carrying the same Rate of Interest as the PIBS.
- (4) The terms of each Subordinated Deposit and the terms and conditions of the Bonds will be such as to secure in the opinion of the Board that they will be treated as capital designated perpetual subordinated debt (as referred to in Chapter CA of the Financial Services Authority "Guide to Banking Supervisory Policy" dated 30 September, 1998 as replaced, amended or supplemented from time to time) or its equivalent (if any) as determined by the auditors of the Society for the purposes of capital adequacy regulations made from time to time by the Financial Services Authority or any other body performing for the time being the same or similar functions in relation to banks.
- (5) The terms of the Subordinated Deposits and the terms and conditions of the Bonds will, not later than the time at which notice is given to members of resolutions to be proposed to approve such transfer, be available for inspection by the PIBS holders at the principal office of the Society and the specified office of the Registrar at that time and, subject as provided above, will be determined by the Board in its absolute discretion.
- (6) The Society will procure that any transfer referred to in paragraphs (1) to (5) above will comply with the provisions of those paragraphs.

10. Variations of these Conditions and the Rules

- (1) These Conditions may only be varied by the Society with the consent in writing of the PIBS holders.
- (2) These Conditions do not limit the rights of members to change the Rules.
- (3) Any amendment to the Rules that is both (i) inconsistent with the provisions of these Conditions and (ii) materially prejudicial to the interests of the PIBS holders shall not limit any rights of the PIBS holders to bring an action for breach of contract against the Society in circumstances where the Society is in breach of these Conditions or afford the Society any defence to any claim made in any such action.

11. Further issues

The Society shall be at liberty from time to time without the consent of the PIBS holders to create and issue further permanent interest bearing shares either:

- (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the PIBS; or
- (b) upon such other special terms of issue as the Society may at the time of issue determine provided that the Society shall not issue any permanent interest bearing shares ranking ahead of the PIBS.

12. Notices

All notices regarding the PIBS shall be valid if sent by post to the PIBS holders at their respective addresses in the PIBS Register. Any such notice shall be deemed to have been given on the second day following the mailing of such notice.

13. Governing Law

The rights and obligations in respect of the PIBS are governed by, and shall be construed in accordance with, English law.

SPECIAL CONDITIONS OF ISSUE OF THE PIBS RECEIPTS

The following are the special conditions of issue of the PIBS Receipts in the form in which they will appear (subject to completion and amendment to reflect the differences between the special conditions of issue of the Tranche A PIBS Receipts and the Tranche B PIBS Receipts) in the Trust Deed and on the reverse of each receipt certificate issued in respect of a holding of PIBS Receipts (each a "PIBS Receipt Certificate"). The special conditions of issue that will appear on the reverse of the PIBS Receipt Certificates issued in respect of each holding of Tranche A PIBS Receipts and the PIBS Receipt Certificates issued in respect of each holding of Tranche B PIBS Receipts will be identical except as indicated below in the first paragraph of the special conditions of issue:

Nationwide Building Society (the "Society") has issued £200,000,000 7.971 per cent.⁽¹⁾ Permanent Interest Bearing Shares (the "PIBS"), comprising 2,000 PIBS⁽¹⁾ of £100,000 each, to The Law Debenture Intermediary Corporation p.l.c. (the "Trustee"). Under the terms of a Trust Deed (the "Trust Deed") dated 13 March, 2000 and made between the Society and the Trustee, the Trustee has issued the £200,000,000 7.971 per cent.⁽¹⁾ Permanent Interest Bearing Share Receipts (the "PIBS Receipts"), comprising 2,000 PIBS Receipts⁽¹⁾ of £100,000 each, in respect of the PIBS. The Trustee will (save as otherwise provided herein and in the Trust Deed) hold all benefits under the PIBS on trust for the holders of the PIBS Receipts (the "PIBS Receiptholders"). The PIBS Receipts evidence entitlements of the PIBS Receiptholders to payments of all principal (if any) of, premium (if any) and interest (as provided herein) on, and (save as provided herein and in the Trust Deed) all other benefits under, the PIBS.

The PIBS Receipts are issued with the benefit of, and subject to, the Trust Deed and these special conditions of issue ("these Conditions"). The issue of the PIBS Receipts was authorised by a resolution of a duly appointed Committee of the Board of Directors of the Trustee passed on 1 March, 2000.

Copies of the Trust Deed are available for inspection during normal business hours at the registered office of the Trustee (being, at 2 March, 2000, at Princes House, 95 Gresham Street, London EC2V 7LY) and at the specified office of the Registrar referred to below (being, at 2 March, 2000, at The Causeway, Worthing, West Sussex, BN99 6DA).

These Conditions contain summaries of, and are subject to, the detailed provisions of the Trust Deed. The PIBS Receiptholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed.

The PIBS Receiptholders are also deemed to have notice of the Rules of the Society (the "Rules") in so far as they affect the rights of the Trustee (as the PIBS holder) and consequently the rights of the PIBS Receiptholders.

1. General

- (1) Unless the context otherwise requires, the expression "PIBS Receipts" includes any further permanent interest bearing share receipts issued pursuant to Condition 14 and forming a single series with the PIBS Receipts.
- (2) Unless the context otherwise requires, the expression "PIBS Receiptholder" means a person whose name and address is entered in the PIBS Receipts Register (as defined below) as the holder of a PIBS Receipt or, in the case of a joint holding of a PIBS Receipt, the first person whose name is entered in the PIBS Receipts Register in respect of the joint holding of the PIBS Receipt.
- (3) Words and expressions defined in the Trust Deed or in the Rules will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (4) The PIBS Receipts may be held jointly by more than one person not exceeding four in number.

(1) *These details are applicable to the Tranche A PIBS and the Tranche A PIBS Receipts only. The equivalent details applicable to the Tranche B PIBS and the Tranche B PIBS Receipts are £100,000,000 7.859 per cent. Permanent Interest Bearing Shares comprising 1,000 PIBS of £100,000 each and £100,000,000 7.859 per cent. Permanent Interest Bearing Share Receipts comprising 1,000 PIBS Receipts of £100,000 each.*

2. Form and denomination

The PIBS Receipts are in registered form and are transferable in accordance with the Trust Deed in amounts and integral multiples of £100,000.

3. Entitlements under the PIBS Receipts

- (1) Each PIBS Receipt evidences an entitlement with respect to:
 - (a) payments of all principal (if any) of, premium (if any) and interest on, a corresponding PIBS held by the Trustee (in the same principal amount as the PIBS Receipt); and
 - (b) all other benefits received by the Trustee under such corresponding PIBS, except any benefits which the Trustee may receive as a member of the Society on the transfer of the whole of the Society's business to a company pursuant to section 97 of the Act, other than rights specifically provided for under section 100(2)(a) of the Act and the PIBS Conditions.
- (2) The Trustee as the PIBS holder will exercise all rights vested in it on trust for the PIBS Receiptholders except that the Trustee has irrevocably undertaken in the Trust Deed not to exercise:
 - (a) any rights to vote at a general meeting or in a postal ballot of the Society or any other discretionary membership rights, such as the right to participate in requisitions for meetings or resolutions or in nominations of candidates for elections to the Board of the Society, which it may have by virtue of being a holder of PIBS; or
 - (b) any voting or other membership rights which it may have as a charity member of The Nationwide Foundation by reason of the Trustee having agreed to assign to The Nationwide Foundation (or any other charities nominated by it) certain benefits receivable by the Trustee (as the PIBS holder) on a conversion of the Society.
- (3) The special conditions of issue of the PIBS (the "PIBS Conditions") are set out in the Second Schedule to the Trust Deed.
- (4) The PIBS Receiptholders may not require a transfer to them or any other person of the PIBS to which the PIBS Receipts relate.

4. Limited recourse

- (1) The PIBS Receiptholders will be entitled to receive payments of all principal (if any) of, premium (if any) and interest (as provided in the PIBS Conditions) on, the PIBS only to the extent that the related payments under the PIBS from the Society to the Trustee have become due and payable, subject as provided in these Conditions.
- (2) The PIBS Receiptholders will be entitled to receive any other benefits under the PIBS Receipts only to the extent that the Trustee has become entitled to receive such related benefits under the PIBS, subject as provided in these Conditions.
- (3) The obligations of the Trustee to account to the PIBS Receiptholders for payments of principal (if any) of, premium (if any) and interest (as provided in the PIBS Conditions) on, the PIBS or for any other benefits under the PIBS, in each case subject as provided in these Conditions and in the Trust Deed, will be satisfied if the Society makes such payments or performs such other obligations directly to, or in favour of, the relevant PIBS Receiptholder.
- (4) Under the terms of the Trust Deed, the Trustee (as the PIBS holder) has directed that (save as provided herein) all amounts payable under the PIBS be made by the Society to or to the order of the PIBS Receiptholders.

5. Register

- (1) The Society and the Trustee have appointed Lloyds TSB Registrars (the “Registrar”) as the registrar for the PIBS Receipts under the terms of a Registrar’s Agreement (the “Registrar’s Agreement”) dated 13 March, 2000 and made between the Society, the Trustee and the Registrar.
- (2) The Society and the Trustee shall procure that the Registrar maintains a register for the purposes of the PIBS Receipts (the “PIBS Receipts Register”), in which shall be entered the name and address of each PIBS Receiptholder. Each PIBS Receiptholder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.
- (3) Transfers and other documents or instructions relating to or affecting the title to any PIBS Receipts shall also be recorded in the PIBS Receipts Register. No fee shall be charged in respect of any entry in the PIBS Receipts Register. The PIBS Receipts Register shall be maintained at the principal office of the Registrar in England and Wales or at such other place as the Society and the Trustee shall agree.
- (4) The Registrar shall, on behalf of the Trustee, issue a receipt certificate duly executed on behalf of the Trustee in respect of each holding of PIBS Receipts (a “PIBS Receipt Certificate”) to each transferee (and, in the case of a transfer of part only of a holding of PIBS Receipts, issue a PIBS Receipt Certificate for the untransferred balance to the transferor), regardless of whether or not one is requested, within 14 days after the lodgement of any instrument of transfer of the PIBS Receipts with the Registrar or in accordance with such other procedure as the Society and the Trustee may agree.

6. Transfers and Exchange

- (1) A PIBS Receiptholder may transfer the PIBS Receipts to any person and no fee shall be charged in respect of a transfer. No transfer of PIBS Receipts shall be valid unless made in the form endorsed on the PIBS Receipt or in such other form as the Trustee may agree. Title to the PIBS Receipts will pass upon registration of such transfers in the PIBS Receipts Register.
- (2) The registration of transfers of the PIBS Receipts may be suspended at such times and for such periods as the Trustee or the Registrar, on behalf of the Trustee, may determine, but not for more than 30 days in any twelve-month period, and notice of such suspension shall be given to the PIBS Receiptholders in accordance with Condition 17.
- (3) Exchange of certificated PIBS Receipts for uncertificated PIBS Receipts and vice versa shall be effected in accordance with The Uncertificated Securities Regulations 1995, as amended from time to time, and the rules, practices and procedures of a relevant system. No fee shall be charged in respect of an exchange.
- (4) Two, three or four persons may jointly hold the PIBS Receipts and no PIBS Receipts shall be issued to holders, or be held by them at any time, as tenants in common.
- (5) The Registrar shall not issue any PIBS Receipts on behalf of the Trustee to more than four persons jointly. Joint holders shall be entitled to choose the order in which they are named in the records maintained by the Registrar. PIBS Receipts may not be sub-divided and only transfers of whole PIBS Receipts will be registrable.

7. Interest

- (1) The PIBS Receipts entitle the PIBS Receiptholders to interest payable under the PIBS.
- (2) In connection with any Reset Period, where the Rate of Interest and Interest Amount fall to be determined in accordance with the PIBS Conditions, the Society and the Trustee shall cause each such Rate of Interest and Interest Amount to be notified to the Registrar and, so long as the PIBS Receipts are listed on London Stock Exchange Limited (the “London Stock Exchange”), the London

Stock Exchange as soon as practicable after their determination and calculation and shall procure that the Registrar gives notice thereof to the PIBS Receiptholders in accordance with Condition 17.

- (3) Interest in respect of the PIBS Receipts shall not be payable to the PIBS Receiptholders in respect of any Interest Period if the Trustee is not entitled to receive interest for that Interest Period under the PIBS.
- (4) Any amount representing interest on the PIBS and payable to a PIBS Receiptholder in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after twelve years from the due date.

8. Repayment, Purchase and Cancellation

- (1) The PIBS Receipts entitle the PIBS Receiptholders to payment of principal (if any) and premium (if any) that becomes repayable under the PIBS. The PIBS have no specified final maturity date. Upon any repayment in full of the PIBS in accordance with the PIBS Conditions, the holders of the related PIBS Receipts shall be entitled to receive an amount equal to such repayment, and on such repayment such PIBS Receipts shall be deemed to have been repaid in full.
- (2) The Society or any of its subsidiaries may, having obtained prior Relevant Supervisory Consent (if required) and, for so long as the PIBS Receipts are listed on the London Stock Exchange, subject to and in accordance with the requirements from time to time of the London Stock Exchange, purchase any of the PIBS Receipts. In the case of purchases of PIBS Receipts by tender, tenders shall be made available to all PIBS Receiptholders alike.
- (3) All PIBS Receipts repaid or purchased by the Society in accordance with this Condition shall be cancelled forthwith and may not be reissued or resold. In addition, the Society will procure the cancellation of all PIBS Receipts in respect of related PIBS which have been cancelled.

9. Payments

- (1) The obligation of the Trustee to account for payments of all principal (if any) of, premium (if any) and interest (as provided in the PIBS Conditions) on, the PIBS to the PIBS Receiptholders will be discharged by the Society making such payments directly to the PIBS Receiptholders as described below.
- (2) All payments in respect of the PIBS Receipts will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted on the business day immediately preceding the relevant due date to the address of the relevant PIBS Receiptholder shown in the PIBS Receipts Register on the Record Date (as defined below) and made payable to or to the order of the relevant PIBS Receiptholder at the close of business on the fifteenth day before the relevant due date (the "Record Date"). Upon application of a PIBS Receiptholder or the person to whose order the payment is to be made to the Registrar in the form obtainable from the specified office of the Registrar, not less than ten days before the due date for any payment, such payment may be made by transfer on the due date or, if the due date is not a business day, on the immediately following business day to a sterling account maintained by the PIBS Receiptholder or the person to whose order the payment is to be made with a bank or building society in the United Kingdom. In this Condition 9(2), "business day" means any day (except where such day is a Saturday or a Sunday) on which banks are open for business in England.

10. Replacement of PIBS Receipts Certificates

A PIBS Receiptholder who has lost a PIBS Receipt Certificate shall immediately give notice in writing of such loss to the Registrar at its principal office. If a PIBS Receipt Certificate is damaged or alleged to have been lost, stolen or destroyed, a duplicate PIBS Receipt Certificate shall be issued by the Registrar, on behalf of the Trustee, to the PIBS Receiptholder upon request, subject to delivery up of the old PIBS Receipt Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Trustee and the Registrar may think fit and to payment of any expenses of the Trustee and the Registrar in connection therewith.

11. Succession

Upon an amalgamation of the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements under section 94 of and Schedule 16 to the Act (as provided in the PIBS Conditions), the PIBS Receipts will thereupon evidence the entitlements of the PIBS Receiptholders to payments under the deferred shares in the amalgamated or transferee building society (as appropriate) without alteration in their terms as though references herein to the "PIBS" were to such deferred shares and to the "Society" were to such amalgamated or transferee building society.

12. Conversions and takeovers

- (1) In the event that resolutions are to be proposed to approve a transfer by the Society of the whole of its business to a successor company in accordance with section 97 of the Act (as provided in the PIBS Conditions), the Society will, not later than the time at which notice is given to shareholding members of such resolutions, make available for inspection by the PIBS Receiptholders at its principal office a copy of the terms of the Subordinated Deposits and the terms and conditions of the Bonds (each as defined in the PIBS Conditions).
- (2) Pursuant to the terms of the Trust Deed, any benefits which the Trustee may receive as a member of the Society on the transfer of the whole of the Society's business to a company pursuant to section 97 of the Act (other than rights specifically provided for under section 100(2)(a) of the Act and the PIBS Conditions) will be assigned to The Nationwide Foundation (or any other charity nominated by The Nationwide Foundation).

13. Transfer of the PIBS

The Trustee irrevocably undertakes, for the benefit of the PIBS Receiptholders, not to transfer any of the PIBS other than to a successor trustee.

14. Further issues

Upon the exercise by the Society of its powers under the PIBS Conditions to issue further permanent interest bearing shares ranking *pari passu* in all respects with the PIBS, the Trustee shall be at liberty from time to time without the consent of the PIBS Receiptholders to issue further permanent interest bearing share receipts ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the PIBS Receipts.

15. Enforcement; Indemnification and Liability of the Trustee

- (1) Only the Trustee may enforce the obligations of the Society arising under the PIBS and no PIBS Receiptholder shall be entitled to proceed against the Society unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.
- (2) The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from any obligation to take proceedings to enforce repayment of the PIBS or any other action under the Trust Deed unless indemnified to its satisfaction.
- (3) The Trustee will be entitled to enter into business transactions with the Society and/or any company controlled by it without accounting for any profit resulting therefrom.
- (4) The Trustee makes no representations and assumes no responsibility for the validity or enforceability of the PIBS, shall not under any circumstances have any liability or be obliged to account to the PIBS Receiptholders in respect of any payment which should have been made by the Society but is not so made and shall not in any circumstances have any liability arising from any PIBS Receipt other than as expressly provided in these Conditions and in the Trust Deed or under common law.

16. Meetings of Receiptholders and Modifications; Waiver etc.

- (1) The Trust Deed contains provisions for convening meetings of the PIBS Receiptholders to consider any matters affecting their interests including modification of these Conditions, the PIBS Conditions, the PIBS Receipts, the PIBS, the Trust Deed and the Registrar's Agreement. Save as provided in paragraph (2) of this Condition 16, the modification of certain terms concerning the rate of interest payable in respect of the PIBS Receipts and the PIBS, the currency of payment of interest on the PIBS Receipts and the PIBS and the repayment of the PIBS Receipts and the PIBS may only be effected at a meeting of PIBS Receiptholders to which special quorum provisions contained in the Trust Deed apply. Any resolution duly passed at a meeting of PIBS Receiptholders shall be binding on the PIBS Receiptholders, whether present or not.
- (2) The Trustee may, without the consent of the PIBS Receiptholders, agree to any modification of these Conditions, the PIBS Conditions, the PIBS Receipts, the PIBS, the Trust Deed or the Registrar's Agreement and may waive or authorise any breach or proposed breach by the Society of any of the provisions of these Conditions, the PIBS Conditions, the PIBS Receipts, the PIBS, the Trust Deed or the Registrar's Agreement which in any such case as aforesaid is not, in the sole opinion of the Trustee, materially prejudicial to the interests of the PIBS Receiptholders and may also agree to any modification as aforesaid which is of a formal, minor or technical nature or is made to correct a manifest error.
- (3) The Trustee may also, subject to such amendment to the Trust Deed and such other conditions as the Trustee may require but without the need to obtain the consent of the PIBS Receiptholders, agree to the replacement of the PIBS Receipts by other instruments evidencing the related PIBS.
- (4) The Trust Deed contains provisions which allow (a) the Society at any time to remove the Trustee or any new trustee and to appoint another trustee and (b) the Trustee or any new trustee at any time to retire and be replaced by another trustee whether or not resident in the United Kingdom for tax purposes. It further contains provisions which allow the PIBS Receiptholders by Extraordinary Resolution to remove the Trustee or any new trustee and to appoint a substitute in its place.
- (5) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or replacement as aforesaid), the Trustee shall have regard to the general interests of the PIBS Receiptholders as a class but shall not have regard to the consequences of any such exercise for individual PIBS Receiptholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any PIBS Receiptholder be entitled to claim, from the Society, the Trustee or any other person any indemnification or payment in respect of any tax consequence of such exercise upon individual PIBS Receiptholders.
- (6) Any such modification, waiver, authorisation or replacement shall be binding on the PIBS Receiptholders and, unless the Trustee agrees otherwise, any such modification or replacement shall be notified to the PIBS Receiptholders as soon as practicable thereafter in accordance with Condition 17 below.

17. Notices

All notices regarding the PIBS Receipts shall be valid if published in one leading daily national newspaper with general circulation in London. It is expected that publication of notices will normally be made in the *Financial Times*. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

18. Governing Law

The Trust Deed and the rights and obligations in respect of the PIBS Receipts are governed by, and shall be construed in accordance with, English law.

Introduction and Constitution

The Society is a building society incorporated under the Act. As such, it is a mutual organisation owned by its members, is regulated by the Building Societies Commission and is registered with the Registry of Friendly Societies in London, Registered Number 355B. The principal office of the Society is Nationwide House, Pipers Way, Swindon SN38 1NW. Its business is conducted in accordance with the Act and its Memorandum and its Rules. The Society is the result of an amalgamation of building societies over a long period, the most recent of which was the merger between Nationwide Building Society and Anglia Building Society which took place on 1 September, 1987. The oldest of the Society's constituent parts was founded in England in 1848.

The Society is the largest building society in the United Kingdom based upon total assets and, together with its subsidiaries, the "Group" had total assets of £58.2 billion⁽¹⁾ as at 4 October, 1999. The Group's network of customer offices as at 4 October, 1999 included 681 Society branches and 18 branches of Nationwide Trust Limited, with the additional support of 219 appointed agents.

Principal Establishments

The Group's principal establishments are Nationwide House, Pipers Way, Swindon SN38 1NW and Nationwide Building Society Administration Centre, Moulton Park, Northampton NN3 6NW. Both are freehold and wholly owned by the Society. The approximate gross internal floor space of each are 36,000 square metres and 32,000 square metres respectively.

Business Activity

The principal purpose of the Society, as stated in paragraph 3 of its Memorandum is that of making loans which are secured on residential property and are funded substantially by its members. The Society obtains funds by way of personal savings and deposit accounts through the retail market and raises funds in the wholesale money markets. In the course of its business the Society maintains liquid balances which are invested in readily realisable assets, pursuant to the Act (see "Liquid Assets" below).

In addition to traditional savings and loans, the Group offers a wide range of personal financial services including:

- A current account (FlexAccount) which includes an overdraft facility.
- Secured and unsecured personal loans offered through the subsidiary Nationwide Trust Limited.
- A range of general insurance products including buildings and contents insurance, payment protection insurance, accident, sickness and unemployment insurance, medical insurance and motor insurance. These products are underwritten by UK insurers.
- A range of life assurance and pension products including guaranteed equity bonds, serious illness cover, term assurances and a personal pension plan. These are offered through the subsidiary Nationwide Life Limited.
- Unit trusts and equity ISAs offered through the subsidiary Nationwide Unit Trust Managers Limited.
- VISA credit cards.
- Offshore savings offered through the Isle of Man based subsidiary Nationwide International Limited.
- Centralised mortgage lending offered through the subsidiary UCB Home Loans Corporation Limited.

Other services that the Group offers in the housing sector include:

- Private rented housing provided through the subsidiary at.home nationwide ltd.

(1) Unless otherwise stated, the financial information appearing in this section has been extracted from the unaudited half year accounts of the Society for the period to 4 October, 1999.

- Syndicated lending, provided through the subsidiary Nationwide Syndications Limited.
- Business investment accounts and commercial lending.

Subsidiaries

The Society's principal subsidiaries (all of which are wholly owned within the Group and are consolidated in the Group's Accounts) as at 31 December, 1999 are set out below:

<i>Subsidiary undertakings</i>	<i>Nature of business</i>
Nationwide BES Fund Managers Limited	BES fund management
Nationwide Home Loans Limited	Mortgage acquisition and management
Nationwide Housing Trust Limited	Housing development
Nationwide International Limited (formerly Nationwide Overseas Limited)	Offshore investment
Nationwide Life Limited	Life assurance
Nationwide Mortgage Corporation Limited	Mortgage acquisition and management
Nationwide Property Services (NBS) Limited	Property services
Nationwide Rented Housing Limited	Investment company
Nationwide Syndications Limited	Syndicated lending
Nationwide Trust Limited	Consumer finance
Nationwide Unit Trust Managers Limited	Unit trust management
Nationwide Anglia Property Services Limited	Property construction
NBS Fleet Services Limited	Car fleet management
Apollo Asquith Limited	Investment company
at.home nationwide limited (formerly Quality Street Limited)	Property rental
Ethos Independent Financial Services Limited	Independent financial advice
First Nationwide	Investment company
Foundation Insurance Limited	Mortgage indemnity insurance
Moulton Park Properties I-IV plc	Property rental
Pipers Way Properties Limited	Property disposal
Rugby Park Properties 1-16 plc	Property rental
UCB Home Loans Corporation Limited	Centralised mortgage lender

All the subsidiary undertakings listed above are limited by shares except First Nationwide which has unlimited liability.

The registered office of all of the above companies is Nationwide House, Pipers Way, Swindon, SN38 1NW, with the exception of:

Nationwide International Limited	Registered at PO Box 217 45-51 Athol Street, Douglas, Isle of Man, IM99 IRN
Nationwide Trust Limited	Registered at The Old Meeting House, Lower Dagnall Street, St Albans, Hertfordshire, AL3 4PG
Apollo Asquith Limited	Registered at P.O. Box 309, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands
Foundation Insurance Limited	Registered at 3rd Floor, Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2LR
UCB Home Loans Corporation Limited	Registered at 36 Sutton Court Road, Sutton, Surrey, SM1 4TE

Liquid Assets

All building societies are required to maintain adequate assets in liquid form. The types and maturity ranges of listed and unlisted securities in which building societies may invest are specified in guidance issued by the Building Societies Commission. As at 4 October, 1999, the Group's liquid assets, including accrued interest, totalled £10.8 billion or 20.3 per cent. of its total shares and borrowings.

Funding

Member savings are the Group's major source of funding, and totalled £40.0 billion at 4 October, 1999, which represented 68.8 per cent. of total liabilities and reserves. This funding consisted of approximately 10.9 million savings accounts and 1.3 million current accounts. The majority of the Society's retail funding bears interest on a variable rate basis. The Society is required to obtain at least 50 per cent. of its total funding in the form of share account balances provided by individuals.

Funding not in the form of shares held by individuals, comprising principally time deposits, certificates of deposit, fixed and floating rate notes and commercial paper, amounted to £13.0 billion including accrued interest or 24.4 per cent. of shares and borrowings as at 4 October, 1999. The Society maintained £1.1 billion of committed facilities at 4 October, 1999.

Sources of Income

The Group has operations throughout the United Kingdom and also on the Isle of Man. The Group's main source of income is interest on loans fully secured on residential property; in the year ended 4 April, 1999, this totalled £2.6 billion. Returns earned on the Group's liquid assets are also significant, amounting to £607.5 million in the year ended 4 April, 1999. A more detailed breakdown is shown on pages 39 and 40.

Capital Strength

The Group's key capital ratios remain strong, with a total solvency ratio of 11.0 per cent. and a Tier 1 solvency ratio of 9.9 per cent. at 4 October, 1999.

Year 2000

Please refer to pages 77 and 78 for a full explanation of Nationwide's approach to the year 2000 issue. Nationwide's Board of Directors is confident that the steps the Group has taken to address the year 2000 issue should avoid disruption to business as usual. As at the date hereof no material year 2000 compliance problem has occurred.

Recent Developments and Prospects of the Group

In February 1996 the Society announced a customer benefits initiative, designed to demonstrate the value of remaining a mutual building society focused on member needs. This has resulted in reduced profit margins, to the benefit of members.

The Society's standard variable mortgage rate has remained consistently below that of other major players in the market. The resulting strong performance saw the Society achieve a 15.4 per cent. share of net new UK residential lending in its half year to 4 October, 1999, significantly above its existing par market share⁽¹⁾ of 8.0 per cent.

The Society has also performed strongly in the savings market, achieving an estimated 16.8 per cent. share of the total increase in UK retail savings during its half year to 4 October, 1999, more than double its existing par market share⁽²⁾ of 7.2 per cent.

The Group continues to focus on improving efficiency. As market share has increased costs have remained under control, and the ratio of management expenses as a percentage of mean total assets (as shown in

(1) Calculated as Nationwide's share of the UK residential mortgage market as at 31 December, 1998.

(2) Calculated as Nationwide's share of the UK retail savings market as at 31 December, 1998.

the audited annual accounts), fell from 1.25% in 1997/98 to 1.16% in 1998/99, and to 1.09% (unaudited, annualised) for the 6 months to 4 October, 1999. The total balance sheet provision for loan losses remains prudent.

Nationwide Life Limited and Nationwide Unit Trust Managers Limited, the Group's life assurance and unit trust operations, were launched in January 1996, and as at 30 September, 1999 have issued over 260,000 policies and products.

The Society launched an internet banking service in 1997 with around 100,000 members now using its on-line services.

The Society is committed to remaining mutual and to using the advantages of mutuality to deliver continued benefits to its members. The Group has the financial strength to continue to operate on the consequent reduced profit margins whilst maintaining a strong capital base. The capital position of the Group is forecast to remain strong.

The Board of Directors

The business of the Society is under the control of the Board. The Directors are non-executive, apart from, the Chief Executive, the Deputy Chief Executive, the Group Finance Director, the Retail Operations Director and the Marketing & Commercial Director, who are executive directors. Each Director is elected by the members, retires by rotation and is eligible for re-election every three years. The business address of the Directors is at Nationwide House, Pipers Way, Swindon SN38 1NW.

The Rules contain, *inter alia*, the following provisions in relation to the Directors.

The Board must consist of not less than eight Directors of whom not less than five shall be present at a Board meeting to form a quorum.

Directors must declare any interest in accordance with the Act and any other material interest and (except in relation to remuneration decided in accordance with the Rules) must not vote on any matter to be decided by the Board in which they have such an interest and cannot be counted in the quorum present at the meeting at which such matter is considered.

The Board may determine the total remuneration of the Directors, but this shall not exceed 15 pence per ten thousand pounds of the Society's total assets at the start of the financial year in which remuneration is made. This is exclusive of any remuneration paid in respect of executive duties, and Directors are entitled to reimbursement for all expenses properly incurred in connection with the Society's business. The Board may make payments for the purpose of providing pensions for former Directors and their dependants, and any such pension payable shall be of such amount and on such terms as the Board may decide.

The Memorandum of the Society permits the Society to do all things, including raising capital and other funds, which, in the opinion of the Board, are necessary or may help the Society achieve any of its purposes. The Society's business and the conduct of its affairs are the responsibility and under the direction, control and management of the Board, which may exercise all powers which need not be exercised in general meeting, including the Society's powers to borrow money.

The composition of the Board is as follows:

<i>Name</i>	<i>Business Occupation</i>	<i>Other Directorships and Partnerships held within the last 5 years</i>
C K R Nunneley CA (Chairman)	Company Director	Clerical, Medical & General Life Assurance Society* Cophall Overseas Ltd* FICIT Securities Ltd Fleming Income & Capital Investment Trust plc Fleming Canada Partners Inc* Fleming Finance* Jardine Fleming Investment Management Ltd* Robert Fleming Asset Management Ltd* Robert Fleming Holdings Ltd* Robert Fleming Pension Trust Ltd* Grenville Place Tenant Management Company Ltd Grocers' Trust Co Ltd Grocers' Hall Ltd* Grocers' Investment Company Ltd* H.M. Publishers Holdings Ltd* Investment Management Regulatory Organisation Ltd* Monks Investment Trust plc Save & Prosper Group Ltd* The Nationwide Foundation
J G W Agnew MA (Deputy Chairman)	Company Director	J G W Agnew & Co Ltd* Thos Agnew & Sons Ltd Bankside Syndicates Ltd* Bankside Insurance Holdings Ltd* CUL Holdings Ltd* Gerrard Group plc Henderson Geared Income and Growth Investment Trust plc Henderson Greenfriar Investment Trust plc* Limit plc Limit Underwriting Ltd LIMIT (No. 1) Ltd* LIMIT (No. 10) Ltd* Operadio.com.Limited Savills Residential Property Trust plc* SRPT Trading Ltd*
Dr B E Davis CBE BSc, PhD, FRSA, CIMgt	Chief Executive (Nationwide Building Society)	Member of Council & Court – University of Sussex Nationwide Life Ltd* Nationwide Unit Trust Managers Ltd*

B K Simpson MIMIS	Deputy Chief Executive (Nationwide Building Society)	Nationwide Anglia Property Services Ltd Nationwide International Ltd Nationwide Trust Ltd NBS Fleet Services Ltd
A R H Dales FCA	Group Finance Director (Nationwide Building Society)	Apollo Asquith Ltd at.home nationwide Ltd First Nationwide Foundation Insurance Ltd Nationwide Anglia Property Services Ltd Nationwide Home Loans Ltd Nationwide Life Ltd* Nationwide Unit Trust Managers Ltd* NBS Fleet Services Ltd UCB Home Loans Corporation Ltd
P F Williamson BA(Econ), ACIB	Retail Operations Director (Nationwide Building Society)	at.home nationwide Ltd* Moulton Park Properties I-IV plc* Nationwide Home Loans Ltd Nationwide Life Ltd Nationwide Unit Trust Managers Ltd Nationwide BES Fund Managers Ltd* Nationwide Housing Trust Ltd* Nationwide Mortgage Corporation Ltd* Nationwide Rented Housing Ltd* Nationwide Syndications Ltd* Pipers Way Properties Ltd* Rugby Park Properties 1-16 plc* UCB Home Loans Corporation Ltd
S D M Bernau BSc(Econ), FCIB, MCT (Dip)	Marketing & Commercial Director (Nationwide Building Society)	Apollo Asquith Ltd at.home nationwide Ltd Ethos Independent Financial Services Ltd First Nationwide Member of Building Societies Investor Protection Board Moulton Park Properties I-IV plc Nationwide BES Fund Managers Ltd Nationwide Home Loans Ltd* Nationwide Housing Trust Ltd Nationwide Mortgage Corporation Ltd Nationwide Rented Housing Ltd Nationwide Syndications Ltd Northampton Rugby Football Club Ltd* Pipers Way Properties Ltd Rugby Park Properties 1-16 plc UCB Home Loans Corporation Ltd*

Mrs A J Carnwath BA, ACA	Company Director	DLJ Phoenix Media Ltd DLJ Phoenix Securities Ltd Manweb plc* National Power plc Nationwide Life Ltd* Nationwide Unit Trust Managers Ltd* Sears plc* Skillsgroup plc Tresises Printers Ltd Vitec plc
Mrs P A Doble BSc	Marketing Director	Aegis plc Member of Council of Royal Holloway, University of London The Nationwide Foundation
J Engestrom MBA	Company Director	ACE Bermuda Ltd ACE USA Inc ACE Global Markets Ltd ACE INA Holdings Inc ACE Prime Holdings Inc ACE US Holdings Inc INA Capital Corporation Cresco International* Geneva Association* Liberty Europe (Holdings) Ltd* Liberty Re (Bermuda) Ltd* Liberty Re Ltd* Mercantile & General Group Ltd* Mercantile & General Reinsurance Company plc* Nationwide Life Ltd Nationwide Unit Trust Managers Ltd Phoenix Travel (Moorfields) Ltd* Tempest Reinsurance Company Ltd
D J English	Company Secretary	
P H Twyman MSc (Econ), MCIT, FRSA, FIMgt	Management Consultant	Connex Rail Ltd Political Strategy Ltd
B A Walsh MSc (Econ), FCA, CIMgt	Company Director	Azlan Group plc

The directorships and partnerships marked * are not currently held.

At the date of this document, none of the Directors has any unspent convictions in respect of indictable offences, has had a bankruptcy or receivership order made against them, has been a party to an individual voluntary arrangement, has been subject to any public criticisms by statutory or regulatory authorities or has been disqualified by a court from acting as a director of or from acting in the management or conduct of the affairs of a company, a bank or building society. Other than in the case of a members' voluntary liquidation, none of the Directors has been a director of a company, bank or building society which has been placed in receivership, liquidation or administration or has been a party to a voluntary arrangement or a composition or arrangement with its creditors while they were a director of that company, bank or building society or within the twelve months after he ceased to be a director of that company, bank or building society.

CAPITALISATION AND INDEBTEDNESS OF NATIONWIDE BUILDING SOCIETY

The following is a summary of the unaudited consolidated indebtedness, subordinated indebtedness and shareholders' funds of the Group as at 31 December, 1999.

	<i>31 December, 1999 £m</i>
Consolidated Indebtedness⁽³⁾	
Comprising amounts owed to credit institutions and other customers and debt securities in issue	14,822.4
Subordinated debt⁽¹⁾⁽³⁾	245.3
Shareholders' Funds⁽²⁾⁽³⁾	
Comprising general reserve, revaluation reserve and investment share accounts	44,480.6
Total Capitalisation⁽⁴⁾⁽⁵⁾	<u>59,548.3</u>

The external, non-recourse funding of the securitisation vehicles associated with UCB Home Loans Corporation Limited is not included in the above statement as it is reported on a linked basis and therefore deducted from the value of commercial assets held by the vehicles. The amount of external, non-recourse funding of these vehicles at 31 December, 1999 was £300.4 million. With the exception of this securitisation funding, none of the Group's debt was secured. None of the Group's debt was guaranteed.

Nationwide Life Limited is included in the Group's consolidated accounts following the generally accepted accounting practice in the United Kingdom for the consolidation of life assurance subsidiaries. In accordance with this approach, the assets and liabilities attributable to the life assurance subsidiary's policyholders, each amounting to £1,253.5 million as at 31 December, 1999 were included in the Group's consolidated balance sheet but the liabilities are not included in the above table because they are not attributable to the Society's members.

Notes:

- (1) For consistency with other indebtedness, accrued interest of £10.5 million is included.
- (2) The Rules of the Society provide that, subject to the terms of an investment, a shareholder may withdraw all or any of his investment by giving appropriate notice specifying the amount to be withdrawn. The Board of Directors of the Society has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.
- (3) If the Society were to go into liquidation the claims of depositors and other creditors would rank before those of holders of investment share accounts and the claims of investment share accounts would rank before those of subordinated debt holders.
- (4) As at the date hereof, the Group has no material contingent liabilities.
- (5) There have been no significant changes in the amount of issued capital of any members of the Group during the past three years.
- (6) This table does not include the PIBS now being issued. Save for the issue of the PIBS, at the date of this document there have been no material changes in the Group's consolidated indebtedness, subordinated debt or consolidated shareholders' funds since 31 December, 1999.

FINANCIAL SUMMARY

Financial Results: 1997 – 1999

The following financial information has been extracted from the Summary Financial Statements issued by the Group for years ended 4 April 1997⁽¹⁾, 1998 and 1999, and from the unaudited half year results of the Group for the 6 months ended 4 October 1998 and 1999.

	<i>For the 12 months to 4 April 1999 (Audited) £m</i>	<i>For the 12 months to 4 April 1998 (Audited) £m</i>	<i>For the 12 months to 4 April 1997 (Audited) £m</i>	<i>For the 6 months to 4 October 1999 (Unaudited) £m</i>	<i>For the 6 months to 4 October 1998 (Unaudited) £m</i>
RESULTS FOR THE PERIOD					
Net interest receivable	852.8	789.1	716.0	477.6	419.5
Other income and charges	193.4	172.9	105.5	62.5	88.8
Management expenses	(578.6)	(548.3)	(513.4)	(295.6)	(269.4)
Operating profit before provisions	467.6	413.7	308.1	244.5	238.9
Provisions for bad and doubtful debts	(60.1)	(41.4)	(43.3)	(24.1)	(26.2)
Profit on ordinary activities before tax	407.5	372.3	264.8	220.4	212.7
Tax on profit on ordinary activities	(135.8)	(118.8)	(93.6)	(65.9)	(74.7)
Profit for the period	271.7	253.5	171.2	154.5	138.0
	<i>As at 4 April 1999 (Audited) £m</i>	<i>As at 4 April 1998 (Audited) £m</i>	<i>As at 4 April 1997 (Audited) £m</i>	<i>As at 4 October 1999 (Unaudited) £m</i>	<i>As at 4 October 1998 (Unaudited) £m</i>
BALANCE SHEETS					
Assets					
Liquid assets	9,469.9	8,826.3	6,264.4	10,765.0	9,344.9
Mortgages	40,163.4	36,009.4	32,546.2	44,343.6	38,201.7
Other loans	1,333.5	672.3	514.0	962.5	801.9
Fixed and other assets	1,085.2	1,014.6	967.6	1,112.9	983.8
Long term life assurance business assets	901.0	555.6	161.1	1,051.5	680.4
Total assets	52,953.0	47,078.2	40,453.3	58,235.5	50,012.7
Liabilities					
Shares	37,442.3	33,048.0	26,848.4	40,041.7	35,888.4
Borrowings	10,695.3	9,895.5	10,110.1	12,954.6	9,409.5
Other liabilities	739.6	680.3	517.0	859.8	999.1
Subordinated liabilities	236.9	239.8	434.0	235.5	238.3
General reserve	2,866.8	2,595.9	2,346.2	3,021.6	2,733.8
Revaluation reserve	71.1	63.1	36.5	70.8	63.2
Long term life assurance business liabilities	901.0	555.6	161.1	1,051.5	680.4
Total liabilities	52,953.0	47,078.2	40,453.3	58,235.5	50,012.7

(1) The 1997 figures have been restated to comply with the Building Societies (Accounts and Related Provisions) Regulations 1998 (see "Statement of Accounting Policies" on page 35 of this document).

FINANCIAL STATEMENTS

The financial information set out on pages 29 to 82 has been extracted from the audited accounts of the Group.

INCOME AND EXPENDITURE ACCOUNTS

	<i>Notes</i>	<i>Group</i>			<i>Society</i>		
		<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Interest receivable and similar income	1	3,612.7	3,211.0	2,508.0	3,487.8	3,095.8	2,399.4
Interest payable and similar charges	2	2,759.9	2,421.9	1,792.0	2,735.6	2,387.8	1,752.9
Net interest receivable		852.8	789.1	716.0	752.2	708.0	646.5
Income from investments	3	0.2	0.2	0.1	3.5	3.6	0.8
Fees and commissions receivable		181.6	164.5	131.3	140.5	139.0	113.5
Fees and commissions payable		(44.2)	(32.1)	(30.1)	(34.5)	(31.2)	(30.1)
Other operating income	4	60.7	52.8	53.1	27.1	19.9	28.5
Total income		1,051.1	974.5	870.4	888.8	839.3	759.2
Administrative expenses	5	505.5	468.8	429.2	476.1	434.7	392.3
Depreciation and amortisation	15/16	73.1	79.5	84.2	59.4	56.5	63.1
Other operating charges	4	4.9	12.5	48.9	4.7	10.7	45.5
Operating profit before provisions		467.6	413.7	308.1	348.6	337.4	258.3
Provisions for bad and doubtful debts	13	60.1	41.4	43.3	47.6	36.4	35.8
Profit on ordinary activities before tax		407.5	372.3	264.8	301.0	301.0	222.5
Tax on profit on ordinary activities	9	135.8	118.8	93.6	96.9	105.0	75.7
Profit for the financial year	29	271.7	253.5	171.2	204.1	196.0	146.8

All profits arise from continuing operations.

The accounting policies and notes on pages 30 to 61⁽¹⁾ form part of these Accounts.

(1) The reference to pages 30 to 61 refers to the information set out on pages 35 to 69 of this document

STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Notes</i>	<i>Group</i>			<i>Society</i>		
		<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Profit for the financial year		271.7	253.5	171.2	204.1	196.0	146.8
Unrealised surplus/ (deficit) on revaluation of properties	28	7.2	22.8	1.3	1.0	12.3	(3.1)
Total recognised gains and losses relating to the year		278.9	276.3	172.5	205.1	208.3	143.7
Prior year adjustments		–	–	35.2	–	–	(40.6)
Total gains and losses recognised since last annual report		278.9	276.3	207.7	205.1	208.3	103.1

NOTES OF HISTORICAL COST PROFITS AND LOSSES

	<i>Notes</i>	<i>Group</i>			<i>Society</i>		
		<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Reported profit on ordinary activities before tax		407.5	372.3	264.8	301.0	301.0	222.5
Unrealised increase in valuation of long term life assurance business in force		(32.9)	(18.6)	(12.7)	–	–	–
Realisation of net property revaluation losses of previous years		(0.8)	(1.8)	(0.7)	(0.7)	(0.5)	(0.7)
Prior year revaluation deficits now considered to represent permanent diminutions in value		–	(2.0)	(5.7)	–	(2.0)	(4.0)
Historical cost profit on ordinary activities before tax		373.8	349.9	245.7	300.3	298.5	217.8
Historical cost profit for the financial year		248.2	236.8	156.3	203.4	193.5	142.1

The accounting policies and notes on pages 30 to 61⁽¹⁾ form part of these Accounts.

(1) The reference to pages 30 to 61 refers to the information set out on pages 35 to 69 of this document

GROUP BALANCE SHEETS

	Notes	1999 £m	1999 £m	1998 £m	1998 £m	1997 £m	1997 £m
ASSETS							
Liquid assets							
Cash in hand and balances with the Bank of England			160.6		92.1		115.3
Loans and advances to credit institutions	10		789.5		1,496.7		879.1
Debt securities	11		8,519.8		7,237.5		5,270.0
Loans and advances to customers							
Loans fully secured on residential property			36,464.1		33,191.8		30,204.5
– subject to non-recourse finance		450.2		545.1		738.2	
– less non-recourse finance		366.5		460.8		634.8	
			83.7		84.3		103.4
	12		36,547.8		33,276.1		30,307.9
Other loans	12		4,949.1		3,405.6		2,752.3
Investments							
Equity shares	14		4.2		4.4		4.4
Intangible fixed assets	15		31.7		42.2		59.0
Tangible fixed assets	16		664.1		636.5		621.4
Other assets	17		116.7		79.5		81.8
Prepayments and accrued income	18		268.5		252.0		201.0
			52,052.0		46,522.6		40,292.2
Long term life assurance business assets	19		901.0		555.6		161.1
Total assets			52,953.0		47,078.2		40,453.3
LIABILITIES							
Shares	20		37,442.3		33,048.0		26,848.4
Amounts owed to credit institutions	21		805.8		571.4		590.7
Amounts owed to other customers	22		4,620.8		4,351.3		4,455.5
Debt securities in issue	23		5,268.7		4,972.8		5,063.9
Other liabilities	24		408.2		357.1		227.0
Accruals and deferred income	25		305.6		295.8		257.6
Provisions for liabilities and charges	26		25.8		27.4		32.4
Subordinated liabilities	27		236.9		239.8		434.0
			49,114.1		43,863.6		37,909.5
Revaluation reserve	28		71.1		63.1		36.5
General reserve	29		2,866.8		2,595.9		2,346.2
			52,052.0		46,522.6		40,292.2
Long term life assurance business liabilities	19		901.0		555.6		161.1
Total liabilities			52,953.0		47,078.2		40,453.3
MEMORANDUM ITEMS							
Commitments	30		843.1		525.1		534.6

Other loans include £1,315.3 million (1998 – £1,271.4 million, 1997 – £1,181.2 million) of loans which are fully secured on residential property but are classified as 'other loans' in accordance with the requirements of the Building Societies Act 1997 (Note 12).

The accounting policies and notes on pages 30 to 61⁽¹⁾ form part of these Accounts.

(1) The reference to pages 30 to 61 refers to the information set out on pages 35 to 69 of this document

SOCIETY BALANCE SHEETS

	<i>Notes</i>	<i>1999</i> <i>£m</i>	<i>1998</i> <i>£m</i>	<i>1997</i> <i>£m</i>
ASSETS				
Liquid assets				
Cash in hand and balances with the				
Bank of England		160.4	91.9	115.1
Loans and advances to credit institutions	10	731.6	1,433.8	813.9
Debt securities	11	8,187.8	6,963.3	5,036.8
Loans and advances to customers				
Loans fully secured on residential property	12	34,162.6	31,328.4	28,548.8
Other loans	12	3,788.3	2,317.2	1,883.1
Investments				
Equity shares	14	4.2	4.4	4.4
Investments in subsidiary undertakings	14	3,928.2	3,353.6	2,990.6
Tangible fixed assets	16	484.1	493.8	472.5
Other assets	17	11.4	4.4	25.0
Prepayments and accrued income	18	340.0	310.8	248.7
Total assets		<u>51,798.6</u>	<u>46,301.6</u>	<u>40,138.9</u>
LIABILITIES				
Shares	20	37,442.3	33,048.0	26,848.4
Amounts owed to credit institutions	21	805.8	569.0	590.7
Amounts owed to other customers	22	4,726.0	4,411.6	4,492.6
Debt securities in issue	23	5,242.4	4,943.6	5,024.4
Other liabilities	24	337.7	284.8	182.7
Accruals and deferred income	25	296.3	293.7	256.6
Provisions for liabilities and charges	26	9.8	14.8	21.5
Subordinated liabilities	27	236.9	239.8	434.0
		<u>49,097.2</u>	<u>43,805.3</u>	<u>37,850.9</u>
Revaluation reserve	28	49.2	47.5	32.7
General reserve	29	2,652.2	2,448.8	2,255.3
Total liabilities		<u>51,798.6</u>	<u>46,301.6</u>	<u>40,138.9</u>
MEMORANDUM ITEMS				
Commitments	30	<u>598.3</u>	<u>297.4</u>	<u>365.9</u>

Other loans include £642.9 million (1998 – £650.7 million, 1997 – £673.2 million) of loans which are fully secured on residential property but are classified as 'other loans' in accordance with the requirements of the Building Societies Act 1997 (Note 12).

The accounting policies and notes on pages 30 to 61⁽¹⁾ form part of these Accounts.

(1) The reference to pages 30 to 61 refers to the information set out on pages 35 to 69 of this document

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 4 APRIL, 1998 AND 1999

	<i>Notes</i>	<i>1999</i> <i>£m</i>	<i>1998</i> <i>£m</i>
Net cash inflow from operating activities	32	1,464.1	2,222.1
Returns on investments & servicing of finance			
Interest paid on subordinated liabilities		(24.5)	(40.0)
Taxation		(119.1)	(65.3)
Capital expenditure & financial investment			
Purchase of investment securities		(20,916.2)	(20,333.7)
Sale & maturity of investment securities		19,738.0	18,431.2
Purchase of tangible fixed assets		(110.4)	(79.8)
Sale of tangible fixed assets		35.9	25.2
		(1,252.7)	(1,957.1)
Acquisitions & disposals		(4.1)	–
		63.7	159.7
Financing	32		
Repurchase of subordinated liabilities		–	(192.9)
Increase/(decrease) in cash	32	63.7	(33.2)

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS FOR THE YEARS ENDED
4 APRIL 1997 AND 1998

	1998 £m	1997 £m
SOURCE OF FUNDS		
Increase in free capital (see below)	106.0	220.5
Loans and advances repaid by customers	4,041.8	3,878.5
Net receipts from shares	6,199.6	937.3
Net receipts from deposits and other borrowings	–	1,619.8
Decrease in liquid assets	–	18.4
Other items	170.6	42.5
Total source of funds	<u>10,518.0</u>	<u>6,717.0</u>
APPLICATION OF FUNDS		
Loans and advances made to customers	7,622.3	6,511.9
Increase in liquid assets	2,561.9	–
Other items	119.2	205.1
Net repayments of deposits and other borrowings	214.6	–
Total application of funds	<u>10,518.0</u>	<u>6,717.0</u>
ANALYSIS OF INCREASE IN FREE CAPITAL		
Source of funds		
Profit on ordinary activities after tax	253.5	171.2
Adjustment for items not involving the movement of funds:		
Depreciation and amortisation	79.5	84.2
Permanent diminution of properties held for rental	4.0	–
Profit on disposal of tangible fixed assets	(2.5)	(1.5)
Increase in general provision for bad and doubtful debts	22.2	–
Funds generated from operations	356.7	253.9
Funds from other sources:		
Disposal of tangible fixed assets	25.2	16.6
	<u>381.9</u>	<u>270.5</u>
Application of funds:		
Purchase of tangible fixed assets	(81.7)	(47.2)
Repayment of subordinated liabilities	(194.2)	(2.8)
Increase in free capital	<u>106.0</u>	<u>220.5</u>

Included within application of funds 'Other items' is the reduction in specific provisions for bad and doubtful debts of £63.2 million (1997- £128.5 million).

Free capital comprises the general reserve plus revaluation reserve, subordinated liabilities and general loss provisions less tangible and intangible fixed assets.

Comparative figures for 1997 have been restated to comply with the new Accounts Regulations as explained on page 27⁽¹⁾.

(1) The reference to page 27 refers to the information set out on page 35 of this document

STATEMENT OF ACCOUNTING POLICIES

Accounting convention

The Accounts have been prepared under the historical cost convention as modified by the revaluation of certain freehold and long leasehold premises and investment properties and the valuation of the long term life assurance business.

Basis of preparation and consolidation

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 (the 'Regulations') and applicable accounting standards.⁽¹⁾ In the year to 4 April, 1997 accounting policies in respect of goodwill and mortgage cashbacks and discounts were changed as detailed below.

The Group Accounts consolidate the state of affairs, cash flows and results of the Society, its subsidiary undertakings and other companies which are considered by the Directors to be quasi-subidiaries as defined in Financial Reporting Standard ('FRS') 5 (Reporting the Substance of Transactions). Investments in subsidiary undertakings are stated in the Society's Accounts at cost less provisions for any diminutions in value. The Directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Certain quasi-subidiaries have year ends other than 31 March and are consolidated using internal management accounts prepared to that date. Adjustment is made for any individually significant transactions arising between 31 March and the Society's year end.

Compliance with Statement of Standard Accounting Practice 19 (Accounting for Investment Properties) requires departure from the requirements of the Regulations relating to depreciation and an explanation of the departure is given in the investment properties policy note on page 33⁽²⁾.

Long term life assurance funds comprising the assets and liabilities relating to the policy holders of the long term life assurance business are of a different nature to the assets and liabilities of the rest of the Group. Accordingly the Directors have separately classified the long term life assurance business assets and liabilities on the face of the Group balance sheet. An analysis of these assets and liabilities is shown separately in Note 19 to the Accounts. The net change in the value of the long term life assurance business is included within other operating income. For the purposes of presentation, the change in value, which is determined on a post-tax basis, is grossed up at the underlying rate of taxation and a notional charge or credit included in the Group's tax charge. The Directors believe that adopting the above accounting treatment for the long term life assurance business is appropriate in order to present a true and fair view of the Group's results and financial position.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings represents the excess of cost over the fair value of net tangible assets acquired. Goodwill arising on each acquisition is capitalised within intangible fixed assets and amortised by the straight line method over its estimated useful economic life which ranges from 5 to 7 years. This represented a change in accounting policies in 1997 which, in the opinion of the Directors, resulted in a fairer presentation of the Group's performance and financial position.

Acquisition of mortgage portfolios

Premiums paid and discounts received on the acquisition of mortgage portfolios are amortised on a reducing balance basis over the anticipated life of the portfolio and the charge or credit is included within interest receivable.

(1) As a result of the implementation of the Building Societies (Accounts and Related Provisions) Regulations 1998 comparative figures for 1997 have been restated.

(2) The reference to page 33 refers to the information set out on page 37 of this document.

Deferred taxation

Deferred taxation is provided at anticipated tax rates on timing differences only to the extent that it is probable that a tax liability or asset will crystallise in the foreseeable future.

Tangible fixed assets and depreciation

The cost of additions and alterations to office premises, including borrowing costs incurred in the development of major premises, and additions to plant, machinery, equipment, fixtures, fittings and vehicles is capitalised.

Freehold and long leasehold premises are included at an open market valuation for existing use with vacant possession except certain administration buildings which, by virtue of their specialised nature, are carried at depreciated historical cost. Movements in freehold and long leasehold valuations are taken to revaluation reserve except where a deficit is deemed permanent when it is taken to the income and expenditure account.

Depreciation, where applicable, is provided against cost or valuation by the straight line method to write down the assets to their residual values over the following estimated useful lives:

Short leasehold premises	the period of the lease
Fixtures and fittings	10 years
Plant and machinery	10 years
Office and computer equipment	5 years
Motor vehicles	3 years

Depreciation is not charged on freehold and long leasehold premises where the assets are continually maintained to a high state of repair and improved or extended from time to time such that their useful economic lives are so long and residual values, based on latest valuations, so high that any depreciation is insignificant. The remaining premises, including specialised administration buildings, are depreciated over their useful economic lives ranging from 25 to 43 years.

Leases

Operating lease charges are recognised in the income and expenditure account in the year in which they are incurred.

Liquid assets

Securities held as financial fixed assets are shown at cost adjusted to exclude accrued interest at the date of purchase. Where the adjusted purchase price differs from par value, the premium or discount is amortised over the period to maturity.

Debt securities in issue and subordinated liabilities

Premiums and discounts, together with costs associated with the issue of debt securities and subordinated liabilities, are accounted for as an adjustment to the amount of the liability and amortised over the relevant period to maturity.

Hedging instruments

The criteria required for an instrument to be classified as a hedge are that the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged and which results from potential movements in interest rates, exchange rates and market indices; and adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets, liabilities, other positions or cash flows being hedged, must be established at the outset of the transaction.

All interest, exchange rate and market price related instruments which are designated as hedges are valued on an equivalent basis to the underlying assets, liabilities or positions. Cashflows arising in relation to such instruments are accounted for on an accruals basis. Where a hedge is terminated early, the realised gain

or loss is amortised over the residual life of the underlying instrument. If the underlying instrument is redeemed, the remaining unamortised amount is immediately recognised in the income and expenditure account. Amounts accrued on hedging instruments are included within prepayments and accrued income or accruals and deferred income.

Foreign currency transactions

All non-sterling assets and liabilities are translated at the closing rate of exchange. Interest income and expense denominated in foreign currencies are included at the average rates of exchange over the accounting period. Amounts due or receivable under foreign currency swap contracts are included within accruals and deferred income or prepayments and accrued income.

Instalment finance

Income from fixed rate instalment finance business is credited to income in proportion to the reducing balance outstanding. Loan balances are stated in the balance sheet after deduction of unearned interest.

Provisions for bad and doubtful debts

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider is likely to be recoverable.

Throughout the year and at the year end assessments are made of all loans and advances on properties which are in possession or in arrears. Specific provisions are made against those loans and advances when, in the opinion of the Directors, their circumstances make full recovery doubtful. The Directors recognise that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

A general provision is made to cover potential losses which, although not yet specifically identified, are known from experience to exist in the Group's loan portfolio.

The charge to the income and expenditure account represents new or additional provisions made less any reduction in provisions or recoveries of amounts previously provided. Interest which is considered irrecoverable, where the property has been taken into possession or the normal lending relationship has ceased, is suspended. Interest up to that time is credited to income and provision made as appropriate.

Development properties

Long term developments, including work in progress, are stated at cost less provision for foreseeable losses. Land held for development, other work in progress and interests in joint developments are stated at the lower of cost and net realisable value.

Investment properties

Investment properties, which comprise properties held for rental, are revalued annually and the aggregate surplus or deficit transferred to the revaluation reserve except where the deficit is deemed permanent when it is taken to the income and expenditure account. No provision is made for depreciation of investment properties. This departure from the requirements of the Regulations, which require all properties to be depreciated is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view in accordance with applicable accounting standards. The depreciation charge is only one of the factors reflected in the annual valuation and therefore the effect of the departure cannot be readily quantified.

Mortgage cashbacks and discounts

The cost of mortgage cashbacks and discounts is charged as incurred to other operating charges and interest receivable respectively. Prior to 1997 the cost of mortgage cashbacks and discounts which were subject to clawback on early redemption was recognised on a straight line basis over the period of the clawback. This represented a change to accounting policy in 1997 to reflect the cost of mortgage

incentives fully as they are incurred which, in the opinion of the Directors, resulted in a more prudent measurement of the Group's performance and financial position.

Mortgage guarantee and other fee income

Mortgage guarantee income is deferred and credited to interest receivable on a basis consistent with the expected incidence of related mortgage losses. Other fees and commissions are recognised on an accruals basis in the period during which they are earned.

Pension costs

The expected cost, including variations from the regular cost, of pensions in respect of the Group's pension schemes is charged to the income and expenditure account so as to spread the cost of pensions over the expected service lives of employees in the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries. On a triennial basis, a formal actuarial valuation of the Society's pension scheme is undertaken.

Long term life assurance business

The value of the Group's long term life assurance business represents a prudent valuation of future earnings of in-force business, together with the net worth of the business, being the net tangible assets and the surplus retained within the long term life assurance fund. This value is determined annually in consultation with independent actuaries and is included in the balance sheet within other assets.

NOTES TO THE ACCOUNTS

1. Interest receivable and similar income

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
On loans fully secured on residential property	2,642.6	2,363.9	1,935.0	2,426.5	2,173.5	1,758.7
On other loans						
Connected undertakings	–	–	–	249.1	210.8	171.0
Other	362.3	291.0	216.3	240.4	178.8	132.2
On debt securities						
Interest and other income	552.2	456.9	331.8	528.2	436.6	315.7
Net gains arising on realisation	4.5	7.7	4.7	2.8	7.6	4.4
On other liquid assets						
Interest and other income	34.8	81.1	39.7	32.1	78.1	36.9
Other interest receivable	0.3	1.5	1.3	0.2	1.5	1.3
Net income on financial instruments	16.0	8.9	(20.8)	8.5	8.9	(20.8)
	<u>3,612.7</u>	<u>3,211.0</u>	<u>2,508.0</u>	<u>3,487.8</u>	<u>3,095.8</u>	<u>2,399.4</u>

Interest receivable on loans fully secured on residential property includes:

Discounts provided to customers charged to interest receivable	<u>109.2</u>	<u>158.9</u>	<u>141.7</u>	<u>101.3</u>	<u>153.6</u>	<u>137.2</u>
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Interest receivable on 'other loans' includes Group £98.5 million (1998 – £98.4 million, 1997 – £83.6 million) and Society £45.8 million (1998 – £50.8 million, 1997 – £49.8 million), in respect of loans to corporate bodies, such as Housing Associations, which are fully secured on residential property where the commitment was made prior to 2 January, 1998. The classification adopted for such amounts is consistent with the balance sheet classification of the related loan in accordance with the Building Societies Act 1997 (Note 12).

Interest which is considered irrecoverable, where the property has been taken into possession or the normal lending relationship has ceased, has been suspended and deducted from the appropriate assets in the balance sheet. Movements in the suspended interest accounts are as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance brought forward	18.6	28.0	42.4	17.8	26.0	39.7
Interest written off during the year	(9.8)	(18.9)	(28.0)	(8.3)	(16.5)	(25.7)
Interest suspended in the year	8.0	9.5	13.6	5.7	8.3	12.0
Balance carried forward	<u>16.8</u>	<u>18.6</u>	<u>28.0</u>	<u>15.2</u>	<u>17.8</u>	<u>26.0</u>

2. Interest payable and similar charges

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
On shares held by individuals	2,096.9	1,739.3	1,196.6	2,096.9	1,739.3	1,196.6
On other shares	1.8	2.0	–	1.8	2.0	–
On deposits and other borrowings						
Subordinated liabilities	21.6	56.0	45.5	21.6	56.0	45.5
Connected undertakings	–	–	–	46.0	45.8	36.6
Other	680.2	667.9	588.7	609.9	587.9	512.6
Net income on financial instruments	(40.6)	(43.3)	(38.8)	(40.6)	(43.2)	(38.4)
	2,759.9	2,421.9	1,792.0	2,735.6	2,387.8	1,752.9

Interest payable on subordinated liabilities includes £Nil (1998 – £8.6 million, 1997 – £Nil) capital loss on the repurchase of subordinated liabilities at market rates during the year.

3. Income from investments

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Income from equity shares	0.2	0.2	0.1	0.2	0.2	0.1
Income from shares in subsidiary undertakings	–	–	–	3.3	3.4	0.7
	0.2	0.2	0.1	3.5	3.6	0.8

4. Other operating income and other operating charges

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Other operating income includes:						
Movement in value of long term life assurance business	15.4	11.1	6.9	–	–	–
Other operating charges include:						
Cashbacks provided to customers on residential mortgage loans	2.2	9.7	39.3	2.1	8.0	36.6

5. Administrative expenses

	Group			Society		
	1999 £m	1998 £m	1997 £m	1999 £m	1998 £m	1997 £m
Employee costs						
Wages and salaries	196.3	189.7	174.0	181.5	174.4	156.6
Social security costs	15.7	14.0	13.8	14.5	12.8	12.5
Other pension costs	14.0	22.7	16.6	12.9	21.7	15.3
	<u>226.0</u>	<u>226.4</u>	<u>204.4</u>	<u>208.9</u>	<u>208.9</u>	<u>184.4</u>
Other administrative expenses	279.5	242.4	224.8	267.2	225.8	207.9
	<u>505.5</u>	<u>468.8</u>	<u>429.2</u>	<u>476.1</u>	<u>434.7</u>	<u>392.3</u>

Other administrative expenses include:

Auditors' remuneration and expenses:

Audit fees	0.7	0.7	0.7	0.4	0.4	0.4
Non-audit fees	0.6	0.2	0.2	0.5	0.2	0.2

Non-audit fees of £0.6 million for PricewaterhouseCoopers in 1999 include £0.1 million paid to Coopers & Lybrand and £0.1 million paid to Price Waterhouse prior to the date of appointment of PricewaterhouseCoopers as auditors. Non-audit fees principally relate to tax and regulatory work. Non-audit fees in 1998 and 1997 comprise solely amounts paid to the previous auditors Price Waterhouse.

6. Directors' emoluments

A separate report to members outlining remuneration policy for Directors is set out in the full published Report and Accounts. Emoluments of the Society's Directors from the Society and its subsidiary undertakings are detailed below.

	1999				1998				1997			
	Increase in accrued				Increase in accrued				Increase in accrued			
	Fees £000	Benefits £000	pension £000	Total £000	Fees £000	Benefits £000	pension £000	Total £000	Fees £000	Benefits £000	pension £000	Total £000
Non-executive Directors												
C K R Nunneley	106	13	–	119	96	12	–	108	90	12	–	102
D A Beety	76	–	2	78	70	–	5	75	63	–	5	68
J G W Agnew (Appointed 1.3.97)	33	–	–	33	24	–	–	24	1	–	–	1
Mrs A J Carnwath	22	–	–	22	20	–	–	20	23	–	–	23
Mrs P A Doble	22	–	–	22	20	–	–	20	18	–	–	18
J Engestrom (Appointed 1.3.97)	37	–	–	37	27	–	–	27	1	–	–	1
D J English	22	–	–	22	20	–	–	20	18	–	–	18
S G Errington (Retired 24.7.97)	–	–	–	–	9	–	–	9	23	–	–	23
H E Farley (Retired 24.7.97)	–	–	–	–	9	–	–	9	23	–	–	23
P H Twyman	29	–	3	32	26	–	1	27	23	–	2	25
	<u>347</u>	<u>13</u>	<u>5</u>	<u>365</u>	<u>321</u>	<u>12</u>	<u>6</u>	<u>339</u>	<u>283</u>	<u>12</u>	<u>7</u>	<u>302</u>

Pension payments
to past Directors
in respect of
services as Directors

457

447

429

6. Directors' emoluments continued

<i>Executive Directors</i>	<i>Salary</i> <i>£000</i>	<i>Annual</i> <i>bonus</i> <i>£000</i>	<i>Benefits</i> <i>£000</i>	<i>3-year</i> <i>medium</i> <i>term</i>		<i>Increase</i> <i>in</i> <i>accrued</i> <i>pension</i> <i>£000</i>	<i>Total</i> <i>£000</i>
				<i>bonus</i> <i>£000</i>	<i>Sub-total</i> <i>£000</i>		
1999							
Dr B E Davis (Chief Executive)	360	101	15	107	583	38	621
A R H Dales	225	63	11	67	366	14	380
B K Simpson	210	59	12	62	343	15	358
P F Williamson	180	50	16	53	299	15	314
S D M Bernau	180	50	11	53	294	12	306
	1,155	323	65	342	1,885	94	1,979
1998							
Dr B E Davis (Chief Executive)	300	79	14	76	469	30	499
A R H Dales	200	53	12	50	315	16	331
B K Simpson	180	48	9	45	282	17	299
P F Williamson	150	40	16	38	244	10	254
S D M Bernau	150	40	10	38	238	15	253
	980	260	61	247	1,548	88	1,636
1997							
Dr B E Davis (Chief Executive)	250	54*	13	63*	380	17	397
A R H Dales	155	32	13	37	237	8	245
B K Simpson	140	31	13	34	218	8	226
P F Williamson	105	22	14	25	166	5	171
S D M Bernau (Appointed 1.11.96)	44	9	4	10	67	4	71
	694	148	57	169	1,068	42	1,110

* These amounts include £113,925 provided by way of pension contribution in relation to Dr B E Davis' performance.

7. Employees

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
The average number of persons employed during the year was:						
Full-time	9,313	9,320	9,510	8,461	8,452	8,562
Part-time	2,897	2,744	2,640	2,773	2,633	2,571
	12,210	12,064	12,150	11,234	11,085	11,133
Building society						
Central administration	4,110	3,843	3,966	4,110	3,843	3,966
Branches	7,124	7,242	7,167	7,124	7,242	7,167
Subsidiaries	976	979	1,017	-	-	-
	12,210	12,064	12,150	11,234	11,085	11,133

Employee numbers include 473 (1998 – 441, 1997 – 418) people relating to the Group's life assurance operation whose costs are included in other operating income (Note 4). Central administration employee numbers include employees engaged in direct customer-facing operations in administrative centres.

8. Pension arrangements

The Group's principal pension arrangement is the Nationwide Pension Fund (the 'Fund'). The Group also participates in other pension arrangements for a number of employees of subsidiary companies. The Fund is a defined benefit scheme and provides members with benefits related to salary and service at rates defined under the rules. The benefits are financed by payments to trustee administered funds held separately from the assets of the Group. These payments are in accordance with rates recommended by the Fund's actuaries. The Group's contribution rate to the Fund during the year was 13%. The employees' contribution rate is 5%.

The pension cost for the year to 4 April, 1999 has been based on the latest actuarial valuation as at 31 March, 1998. Pension costs for the years to 4 April, 1998 and 4 April 1997 were based on an actuarial valuation as at 31 December, 1994

The valuations were performed using the projected unit method in respect of pension benefits and the current unit method in respect of lump sum death in service benefits. The key financial assumptions adopted for determining pension costs were as follows:

	<i>31 March, 1998 valuation</i>	<i>31 December, 1994 valuation</i>
Rate of return on investments	9% per annum	10% per annum
Rate of increase in salaries	7% per annum	8.5% per annum
Rate of pension increases	4% per annum	5% per annum

Assets were valued having regard to the notional income, which they would produce, assuming that equity dividends increase at the rate of 4¹/₂% per annum (1998 and 1997 – 5% per annum) and that the equities are sold after 30 years. The market value of the Fund's assets, excluding money purchase additional voluntary contributions (AVCs), at 31 March, 1998 was £640.3 million. The market value of the Fund's assets at the valuation date of 31 December, 1994 amounted to £352.8 million.

The actuarial value of these assets represented 109% (1998 and 1997 – 102%) of the value of the benefits based on service to that date, allowing for assumed future salary and pension increases. After allowing for benefit improvements granted following the 31 March, 1998 valuation, this reduced to 105% and the long-term contribution rate to the Fund from 5 April, 1999 increased to 13.5%.

The Group pension charge for the year was £14.0 million (1998 – £22.7 million, 1997 – £16.6 million) after a credit of £5.0 million (1998 and 1997 – £1.8 million) relating to the pension fund surplus. An amount of £10.1 million (1998 – £15.1 million, 1997 – £15.2 million) has been included in provisions for liabilities and charges (Note 26) representing the cumulative excess of the income and expenditure account charge over the contributions made to the Fund.

The Group has two unfunded pension schemes, one for certain Directors who were members of the Board prior to 10 January, 1990 and the second for executive Directors and Officers who joined the Society after 1 June, 1989 and whose salary is in excess of the current statutory cap for approved pension funds.

The Group provides concessionary rate mortgages and limited post-retirement healthcare benefits to certain of its former employees. The cost of providing these benefits is not significant and is recognised in the income and expenditure account as it is incurred.

9. Tax on profit on ordinary activities

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
UK corporation tax at 31% (1998 – 31%, 1997 – 33%)	127.6	120.2	94.3	96.9	111.7	79.6
Taxation relating to change in value of long term life assurance business	4.8	3.5	2.3	–	–	–
Deferred tax (Note 26)	3.4	(4.9)	(3.0)	–	(6.7)	(3.9)
	135.8	118.8	93.6	96.9	105.0	75.7

The Society's tax charge includes payments in consideration for the surrender value of tax losses by other Group companies totalling £3.2 million (1998 – £3.9 million, 1997 – £9.5 million).

10. Loans and advances to credit institutions

Loans and advances to credit institutions have remaining maturities as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest	0.7	14.8	6.0	0.7	14.8	5.0
Repayable on demand	83.0	87.8	97.8	28.4	40.8	37.5
Other loans and advances by residual maturity repayable:						
In not more than three months	678.2	1,204.9	581.2	674.9	1,189.0	577.3
In more than three months but not more than one year	26.6	47.3	35.6	26.6	47.3	35.6
In more than one year but not more than five years	1.0	5.7	20.2	1.0	5.7	20.2
In more than five years	–	136.2	138.3	–	136.2	138.3
	789.5	1,496.7	879.1	731.6	1,433.8	813.9

11. Debt securities

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Issued by public bodies	1,241.1	382.4	680.5	1,133.1	313.8	627.0
Issued by other borrowers	7,278.7	6,855.1	4,589.5	7,054.7	6,649.5	4,409.8
	8,519.8	7,237.5	5,270.0	8,187.8	6,963.3	5,036.8

Debt securities have remaining maturities as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest	169.8	162.0	97.3	96.1	103.8	51.9
In not more than one year	3,338.7	3,857.7	2,522.3	3,311.5	3,840.4	2,496.4
In more than one year	5,011.3	3,217.8	2,650.4	4,780.2	3,019.1	2,488.5
	8,519.8	7,237.5	5,270.0	8,187.8	6,963.3	5,036.8
Transferable debt securities comprise:						
Listed	5,922.3	3,950.7	3,033.2	5,590.3	3,676.5	2,801.3
Unlisted	2,597.5	3,286.8	2,236.8	2,597.5	3,286.8	2,235.5
	8,519.8	7,237.5	5,270.0	8,187.8	6,963.3	5,036.8
Market value of listed transferable debt securities	5,973.1	4,026.7	2,895.0	5,638.7	3,702.8	2,806.2
Included in debt securities are:						
Unamortised premiums	66.8	32.7	32.1	49.6	30.2	32.1
Unamortised discounts	(238.9)	(244.7)	(252.2)	(29.5)	(20.8)	(13.9)

The Directors of the Society consider that the primary purpose of holding securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are therefore classified as financial fixed assets rather than current assets.

£273.9 million (1998 – £165.3 million, 1997 – £ Nil) of debt securities are subject to sale and repurchase agreements.

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

	<i>Group</i>	<i>Society</i>
	<i>£m</i>	<i>£m</i>
Adjusted cost and net book value (excluding accrued interest)		
At 5 April, 1997	5,172.7	4,984.9
Additions	20,333.7	20,148.1
Disposals	(18,430.9)	(18,273.5)
At 4 April, 1998	7,075.5	6,859.5
At 5 April, 1998	7,075.5	6,859.5
Additions	20,916.2	19,683.8
Disposals	(19,738.0)	(18,533.3)
Other movements	96.3	81.7
At 4 April, 1999	8,350.0	8,091.7

12. Loans and advances to customers

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Loans fully secured on residential property	36,547.8	33,276.1	30,307.9	34,162.6	31,328.4	28,548.8
Other loans						
Loans fully secured on land	3,615.6	2,733.3	2,238.3	2,984.6	2,137.6	1,727.9
Other loans	1,333.5	672.3	514.0	803.7	179.6	155.2
	<u>41,496.9</u>	<u>36,681.7</u>	<u>33,060.2</u>	<u>37,950.9</u>	<u>33,645.6</u>	<u>30,431.9</u>

Other loans fully secured on land include Group £1,315.3 million (1998 – £1,271.4 million, 1997 – £1,181.2 million) and Society £642.9 million (1998 – £650.7 million, 1997 – £673.2 million) of loans to corporate bodies, such as Housing Associations, which are fully secured on residential property where the commitment was made prior to 2 January, 1998, the date the Society adopted its new Memorandum pursuant to the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after 2 January, 1998 which are included in 'loans fully secured on residential property' but is necessary to comply with the requirements of the Building Societies Act 1997.

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Loans fully secured on land include:						
Amounts due from subsidiary undertakings	–	–	–	110.6	107.3	106.9

Maturity analysis

The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Repayable on demand	157.7	113.6	63.5	134.6	89.9	39.6
Other loans and advances by residual maturity repayable:						
In not more than three months	871.9	289.0	233.9	729.3	201.6	153.8
In more than three months but not more than one year	824.8	659.5	615.4	549.5	395.6	412.9
In more than one year but not more than five years	3,580.4	2,845.4	2,595.8	2,339.5	1,717.7	1,657.6
In more than five years	36,622.5	33,429.3	30,421.7	34,368.1	31,418.5	28,381.4
	<u>42,057.3</u>	<u>37,336.8</u>	<u>33,930.3</u>	<u>38,121.0</u>	<u>33,823.3</u>	<u>30,645.3</u>
Less						
Provisions for bad and doubtful debts	193.9	194.3	235.3	170.1	177.7	213.4
Non-recourse finance	366.5	460.8	634.8	–	–	–
	<u>41,496.9</u>	<u>36,681.7</u>	<u>33,060.2</u>	<u>37,950.9</u>	<u>33,645.6</u>	<u>30,431.9</u>

The maturity analysis is produced on the basis that where a loan is repayable by instalment, each such instalment is treated as a separate repayment. Arrears are spread across the remaining term of the loan.

Advances subject to non-recourse finance

The Society holds an interest in a number of securitisation companies whereby residential mortgage assets are financed by both external note holders and the Society (Note 14). The Directors confirm that the Group is not obliged to support losses of the securitisation companies beyond the amount of the finance it has provided, nor does it intend to do so. The providers of the external non-recourse finance have agreed in writing that they will seek repayment of the finance, as to both principal and interest, only from the proceeds of the underlying securitised assets and will not seek recourse in any other form. The ultimate parent undertaking of the securitisation companies is LDC Trustees Limited which holds the shares on trust for the benefit of various charities.

13. Provisions for bad and doubtful debts

	<i>Loans fully secured on residential property</i>		<i>Other loans fully secured on land</i>		<i>Other loans</i>		<i>Total</i>	
	<i>Specific £m</i>	<i>General £m</i>	<i>Specific £m</i>	<i>General £m</i>	<i>Specific £m</i>	<i>General £m</i>	<i>Specific £m</i>	<i>General £m</i>
Group								
At 5 April, 1997	181.1	18.0	22.5	–	10.8	2.9	214.4	20.9
Amounts written off	(67.3)	–	(6.6)	–	(8.5)	–	(82.4)	–
Charge for the year	8.2	19.7	1.8	2.3	9.2	0.2	19.2	22.2
At 4 April, 1998	122.0	37.7	17.7	2.3	11.5	3.1	151.2	43.1
Group								
At 5 April, 1998	122.0	37.7	17.7	2.3	11.5	3.1	151.2	43.1
Amounts written off	(48.6)	–	(4.5)	–	(7.4)	–	(60.5)	–
Charge/(credit) for the year	16.4	13.8	(0.5)	14.0	15.8	0.6	31.7	28.4
At 4 April, 1999	89.8	51.5	12.7	16.3	19.9	3.7	122.4	71.5
Society								
At 5 April, 1997	169.1	15.0	22.5	–	5.8	1.0	197.4	16.0
Amounts written off	(60.0)	–	(6.6)	–	(5.5)	–	(72.1)	–
Charge for the year	5.7	20.0	1.8	2.3	6.1	0.5	13.6	22.8
At 4 April, 1998	114.8	35.0	17.7	2.3	6.4	1.5	138.9	38.8
Society								
At 5 April, 1998	114.8	35.0	17.7	2.3	6.4	1.5	138.9	38.8
Amounts written off	(45.6)	–	(4.5)	–	(5.1)	–	(55.2)	–
Charge/(credit) for the year	12.6	13.0	(0.5)	14.0	8.1	0.4	20.2	27.4
At 4 April, 1999	81.8	48.0	12.7	16.3	9.4	1.9	103.9	66.2

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

14. Investments

Investments in equity shares and subsidiary undertakings are financial fixed assets. Movements during the year are analysed as follows:

Investments in equity shares

£m

Group and Society

Cost and net book value

At 5 April, 1997 4.4

Additions –

Disposals –

At 4 April, 1998 4.4

At 5 April, 1998 4.4

Additions

Disposals (0.2)

At 4 April, 1999 4.2

Investments in subsidiary undertakings

Shares *Loans* *Total*
£m *£m* *£m*

Society

At 5 April, 1997 323.0 2,667.6 2,990.6

Additions 8.3 482.8 491.1

Repayments – (128.1) (128.1)

At 4 April, 1998 331.3 3,022.3 3,353.6

At 5 April, 1998 331.3 3,022.3 3,353.6

Additions 149.1 570.1 719.2

Redemptions/repayments (52.0) (92.6) (144.6)

At 4 April, 1999 428.4 3,499.8 3,928.2

The interests of the Society in its principal subsidiary undertakings, all of which are consolidated, as at 4 April, 1999 are set out below:

<u>Directly held subsidiary undertakings</u>	<u>Nature of business</u>
Nationwide BES Fund Managers Limited	BES fund management
Nationwide Home Loans Limited	Mortgage acquisition and management
Nationwide Housing Trust Limited	Housing development
Nationwide International Limited (formerly Nationwide Overseas Limited)	Offshore investment
Nationwide Life Limited	Life assurance
Nationwide Mortgage Corporation Limited	Mortgage acquisition and management
Nationwide Property Services (NBS) Limited	Property services
Nationwide Rented Housing Limited	Investment company
Nationwide Syndications Limited	Syndicated lending
Nationwide Trust Limited	Consumer finance
Nationwide Unit Trust Managers Limited	Unit trust management
Nationwide Anglia Property Services Limited at.home nationwide limited (formerly Quality Street Limited)	Property construction Property rental
Ethos Independent Financial Services Limited	Independent financial advice
First Nationwide	Investment company
Foundation Insurance Limited	Mortgage indemnity insurance
Moulton Park Properties I-IV plc	Property rental
Pipers Way Properties Limited	Property disposal
Rugby Park Properties 1-16 plc	Property rental
UCB Home Loans Corporation Limited	Centralised mortgage lender

All the subsidiary undertakings are limited by shares except First Nationwide which has unlimited liability.

The Society holds 100% of the issued ordinary share capital of all of its subsidiary undertakings.

The Society formerly held 77.5% of the issued ordinary share capital of Quality Street Limited but purchased the remaining 22.5% from the minority shareholders on 9 April, 1998. The Society also formerly held £50 million zero coupon non-voting preference shares and £2 million 9 1/3% non-voting cumulative preference shares representing 100% of both classes of preference share in issue. These preference shares were redeemed and £52 million of ordinary shares issued to the Society on 30 March, 1999. Quality Street Limited changed its name to at.home nationwide limited on 12 October, 1998.

All the companies are registered in England and operate in the United Kingdom except for Nationwide International Limited and Foundation Insurance Limited which are registered and operate in the Isle of Man.

Quasi-subsidiaries

The companies considered by the Directors to be quasi-subsidiaries as defined in FRS 5 (Reporting the Substance of Transactions) at 4 April, 1999 and hence consolidated in the Group are set out below:

<i>Company</i>	<i>Nature of business</i>
Leo 1 plc	Securitisation vehicle
Leo 2 plc	Securitisation vehicle
First Leo Limited	Securitisation related company
Leo Trustees Limited	Securitisation related company

All the above companies are limited by shares. The Society has no shareholding in Leo 1 plc, Leo 2 plc, First Leo Limited or Leo Trustees Limited. All the companies are registered in England and operate in the United Kingdom.

The former BES companies, Moulton Park Properties I-IV plc and Rugby Park Properties 1-16 plc were previously consolidated in the Group as quasi-subsidiaries. The Society now holds 100% of the issued

ordinary share capital of these companies, having refinanced the companies between August and December 1998, and they continue to be consolidated in the Group. Certain other special purpose companies (Wolverton Estates and Lettings Limited and Security Company Limited) associated with the BES companies are being wound up.

The aggregated summary financial statements of these companies as at 31 March, 1999 (and of the BES companies to the dates of refinancing) are as follows:

Profit and loss accounts for the year ended 31 March, 1999:

	<i>Securitisation Companies</i>	<i>BES Companies</i>	<i>Total</i>	<i>Total</i>	<i>Total</i>
	<i>1999</i>	<i>1999</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Interest receivable	43.1	5.1	48.2	60.2	67.2
Interest payable	(40.6)	(4.6)	(45.2)	(57.1)	(60.3)
Net interest receivable	2.5	0.5	3.0	3.1	6.9
Other income	1.1	3.2	4.3	5.6	6.5
Administrative expenses	(0.9)	(3.0)	(3.9)	(7.1)	(8.0)
Operating profit	2.7	0.7	3.4	1.6	5.4
Provisions for bad and doubtful debts	(0.5)	-	(0.5)	(4.9)	(0.7)
Profit/(loss) on ordinary activities before tax	2.2	0.7	2.9	(3.3)	4.7

Interest payable by the securitisation companies comprises £32.5 million (1998 – £40.5 million, 1997 – £44.3 million) relating to external non-recourse funding which is the subject of linked presentation in the Group balance sheet and £8.1 million (1998 – £9.3 million, 1997 – £8.7 million) relating to interest payable in respect of funding provided by the Society.

Balance sheets as at 31 March, 1999:

	<i>Securitisation Companies</i>	<i>BES Companies</i>	<i>Total</i>	<i>Total</i>	<i>Total</i>
	<i>1999</i>	<i>1999</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Assets					
Liquid assets					
Due from the Society	1.7	-	1.7	101.1	92.0
Other	30.6	-	30.6	35.0	48.0
	32.3	-	32.3	136.1	140.0
Loans and advances to customers	449.6	-	449.6	543.9	737.5
Tangible fixed assets	-	-	-	110.2	100.9
Other assets	1.8	-	1.8	2.4	2.2
Total assets	483.7	-	483.7	792.6	980.6
Liabilities					
Borrowings					
Due to the Society	86.0	-	86.0	184.6	196.7
Other	392.8	-	392.8	490.2	674.3
	478.8	-	478.8	674.8	871.0
Other liabilities	4.7	-	4.7	9.0	9.3
Capital and reserves	0.2	-	0.2	108.8	100.3
Total liabilities	483.7	-	483.7	792.6	980.6

Cash flow statements for the year ended 31 March, 1999:

	<i>Securitisation Companies 1999 £m</i>	<i>BES Companies 1999 £m</i>	<i>Total 1999 £m</i>	<i>Total 1998 £m</i>
Net cash inflow from operating activities	42.7	1.1	43.8	54.0
Returns on investment and servicing of finance	(45.0)	0.5	(44.5)	(55.6)
Taxation	(0.4)	-	(0.4)	(1.7)
Capital expenditure and financial investment	93.5	13.0	106.5	193.6
Financing	(94.1)	-	(94.1)	(201.4)
Increase/(decrease) in cash	<u>(3.3)</u>	<u>14.6</u>	<u>11.3</u>	<u>(11.1)</u>

15. Intangible fixed assets

	<i>Goodwill £m</i>
Group	
Cost	
At 5 April, 1997	108.9
At 5 April, 1998	108.9
At 4 April, 1999	<u>108.9</u>
Amortisation	
At 5 April, 1997	49.9
Charge for the year	16.8
At 4 April, 1998	66.7
At 5 April, 1998	66.7
Charge for the year	10.5
At 4 April, 1999	<u>77.2</u>
Net book value	
At 4 April, 1999	31.7
At 4 April, 1998	42.2
At 4 April, 1997	<u>59.0</u>

16. Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Total £m
<i>Cost or valuation</i>				
At 5 April, 1997	463.5	68.0	511.1	1,042.6
Additions	10.2	2.4	69.1	81.7
Adjustment on revaluation	18.8	–	–	18.8
Disposals	(21.5)	–	(5.9)	(27.4)
At 4 April, 1998	<u>471.0</u>	<u>70.4</u>	<u>574.3</u>	<u>1,115.7</u>
At 5 April, 1998	471.0	70.4	574.3	1,115.7
Additions	8.5	2.8	104.1	115.4
Adjustment on revaluation	7.2	–	–	7.2
Transfers	(0.4)	–	0.4	–
Disposals	(31.5)	–	(6.7)	(38.2)
At 4 April, 1999	<u>454.8</u>	<u>73.2</u>	<u>672.1</u>	<u>1,200.1</u>
<i>Depreciation</i>				
At 5 April, 1997	35.3	29.1	356.8	421.2
Charge for the year	4.5	5.5	52.7	62.7
Disposals	(0.8)	–	(3.9)	(4.7)
At 4 April, 1998	<u>39.0</u>	<u>34.6</u>	<u>405.6</u>	<u>479.2</u>
At 5 April, 1998	39.0	34.6	405.6	479.2
Charge for the year	4.4	6.1	52.1	62.6
Transfers	(0.1)	–	0.1	–
Disposals	(0.3)	–	(5.5)	(5.8)
At 4 April, 1999	<u>43.0</u>	<u>40.7</u>	<u>452.3</u>	<u>536.0</u>
<i>Net book value</i>				
At 4 April, 1999	<u>411.8</u>	<u>32.5</u>	<u>219.8</u>	<u>664.1</u>
At 4 April, 1998	<u>432.0</u>	<u>35.8</u>	<u>168.7</u>	<u>636.5</u>
At 4 April, 1997	<u>428.2</u>	<u>38.9</u>	<u>154.3</u>	<u>621.4</u>
Cost or valuation at 4 April, 1999 is represented by:				
Valuation in 1999	295.1	–	–	295.1
Cost	159.7	73.2	672.1	905.0
	<u>454.8</u>	<u>73.2</u>	<u>672.1</u>	<u>1,200.1</u>
Cost or valuation at 4 April, 1998 is represented by:				
Valuation in 1998	288.9	–	–	288.9
Cost	182.1	70.4	574.3	826.8
	<u>471.0</u>	<u>70.4</u>	<u>574.3</u>	<u>1,115.7</u>

Cost or valuation of land and buildings includes £327.8 million (1998 – £344.1 million, 1997 – £336.1 million) in respect of freehold and long leasehold land and buildings which are not depreciated.

Cost or valuation of land and buildings includes £172.9 million (1998 – £188.5 million, 1997 – £195.4 million) in respect of freehold and leasehold residential properties held as investment properties. Residential properties held for rental are included at market value.

Society	<i>Land and buildings £m</i>	<i>Plant and machinery £m</i>	<i>Equipment, fixtures, fittings and vehicles £m</i>	<i>Total £m</i>
<i>Cost or valuation</i>				
At 5 April, 1997	324.3	67.2	482.5	874.0
Additions	8.1	2.4	66.7	77.2
Adjustment on revaluation	8.2	–	–	8.2
Disposals	(6.6)	–	(4.3)	(10.9)
At 4 April, 1998	<u>334.0</u>	<u>69.6</u>	<u>544.9</u>	<u>948.5</u>
At 5 April, 1998	334.0	69.6	544.9	948.5
Additions	4.0	2.8	101.9	108.7
Adjustment on revaluation	1.0	–	–	1.0
Disposals	(59.4)	–	(2.9)	(62.3)
At 4 April, 1999	<u>279.6</u>	<u>72.4</u>	<u>643.9</u>	<u>995.9</u>
<i>Depreciation</i>				
At 5 April, 1997	34.4	28.7	338.4	401.5
Charge for the year	4.3	5.5	46.7	56.5
Disposals	(0.7)	–	(2.6)	(3.3)
At 4 April, 1998	<u>38.0</u>	<u>34.2</u>	<u>382.5</u>	<u>454.7</u>
At 5 April, 1998	38.0	34.2	382.5	454.7
Charge for the year	4.3	6.0	49.1	59.4
Disposals	(0.3)	–	(2.0)	(2.3)
At 4 April, 1999	<u>42.0</u>	<u>40.2</u>	<u>429.6</u>	<u>511.8</u>
<i>Net book value</i>				
At 4 April, 1999	<u>237.6</u>	<u>32.2</u>	<u>214.3</u>	<u>484.1</u>
At 4 April, 1998	<u>296.0</u>	<u>35.4</u>	<u>162.4</u>	<u>493.8</u>
At 4 April, 1997	<u>289.9</u>	<u>38.5</u>	<u>144.1</u>	<u>472.5</u>
Cost or valuation at 4 April, 1999 is represented by:				
Valuation in 1999	154.2	–	–	154.2
Cost	125.4	72.4	643.9	841.7
	<u>279.6</u>	<u>72.4</u>	<u>643.9</u>	<u>995.9</u>
Cost or valuation at 4 April, 1998 is represented by:				
Valuation in 1998	155.1	–	–	155.1
Cost	178.9	69.6	544.9	793.4
	<u>334.0</u>	<u>69.6</u>	<u>544.9</u>	<u>948.5</u>

Cost or valuation of land and buildings includes £154.1 million (1998 – £209.9 million, 1997 – £202.8 million) in respect of freehold and long leasehold land and buildings which are not depreciated.

Cost or valuation of land and buildings includes £Nil (1998 – £54.8 million, 1997 – £62.6 million) relating to an economic interest in residential properties held for rental by quasi-subsiidiaries of the Society (Note 14).

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net book value of land and buildings is represented by:						
• Freehold	379.8	367.2	355.5	211.5	233.8	222.6
• Long leasehold	23.1	55.9	64.3	17.3	53.8	59.6
• Short leasehold	8.9	8.9	8.4	8.8	8.4	7.7
	411.8	432.0	428.2	237.6	296.0	289.9
Net book value of land and buildings occupied by the Group/Society for its own activities	195.8	200.9	189.3	194.6	198.3	186.9
Net book value of land and buildings based on historical cost is:						
Cost	409.3	435.1	451.2	239.9	297.7	303.0
Aggregate depreciation	52.5	50.1	46.6	51.5	49.1	45.7
Net book value	356.8	385.0	404.6	188.4	248.6	257.3

All freehold and long leasehold land and buildings except specialised administration buildings and investment properties were valued at 4 April, 1999 on the basis of an open market valuation for existing use. A representative sample of 25% of the properties has been valued by members of the Royal Institution of Chartered Surveyors employed by the Society. The remaining properties valued have been included at Directors' valuation based on the percentage movement in values shown by the sample.

17. Other assets

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Value of long term life assurance business	88.5	57.9	50.3	–	–	–
Other	28.2	21.6	31.5	11.4	4.4	25.0
	116.7	79.5	81.8	11.4	4.4	25.0

The increase in the value of the long term life assurance business in the year to 4 April, 1999 includes £20 million of share capital issued. The long term life assurance business has been valued using the following key assumptions:

- Expected future profits after tax from business currently in force have been discounted at a rate of 9.0% (1998 and 1997– 11.0%) per annum.
- Future investment returns of 5.0% (1998 and 1997 – 8.0%) gross per annum for fixed interest investments and 7.5% (1998 and 1997– 10.0%) for equity investments. The investment return for guaranteed return products is linked to the matching assets.
- Expense inflation rate of 4.0% (1998 and 1997– 5.0%) gross.
- Expenses, mortality and withdrawals for the future based on general industry experience of the type of business concerned.

18. Prepayments and accrued income

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accruals relating to off balance sheet instruments	181.9	186.7	145.3	181.9	186.7	145.3
Due from subsidiary undertakings	–	–	–	95.5	80.0	58.0
Other	86.6	65.3	55.7	62.6	44.1	45.4
	268.5	252.0	201.0	340.0	310.8	248.7

19. Assets and liabilities relating to long term life assurance business

The assets and liabilities of the long term life assurance business of the Group are:

	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Investments	886.3	541.1	78.0
Current assets	14.7	14.5	83.1
Long term life assurance business assets	901.0	555.6	161.1
Creditors	409.2	258.1	77.0
Long term life assurance fund	491.8	297.5	84.1
Long term life assurance business liabilities	901.0	555.6	161.1

The above investments are stated at market value.

20. Shares

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Held by individuals	37,409.3	33,009.3	26,848.3	37,409.3	33,009.3	26,848.3
Other shares	33.0	38.7	0.1	33.0	38.7	0.1
	37,442.3	33,048.0	26,848.4	37,442.3	33,048.0	26,848.4

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest	860.6	699.0	411.8	860.6	699.0	411.8
Repayable on demand	36,032.2	31,915.3	26,041.4	36,032.2	31,915.3	26,041.4
Other shares by residual maturity repayable:						
In not more than three months	347.7	77.9	52.3	347.7	77.9	52.3
In more than three months but not more than one year	201.8	341.6	75.2	201.8	341.6	75.2
In more than one year but not more than five years	–	14.2	267.7	–	14.2	267.7
	37,442.3	33,048.0	26,848.4	37,442.3	33,048.0	26,848.4

21. Amounts owed to credit institutions

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest	6.7	7.8	9.3	6.7	7.8	9.3
Repayable on demand	66.7	2.4	–	66.7	–	–
Other amounts owed to credit institutions by residual maturity repayable:						
In not more than three months	601.4	503.6	288.0	601.4	503.6	288.0
In more than three months but not more than one year	131.0	57.6	293.4	131.0	57.6	293.4
	805.8	571.4	590.7	805.8	569.0	590.7

Amounts owed to credit institutions includes £273.8 million (1998 – £166.0 million, 1997 – £Nil) in respect of sale and repurchase agreements.

22. Amounts owed to other customers

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts owed to subsidiary undertakings	–	–	–	690.2	628.0	637.1
Other	4,620.8	4,351.3	4,455.5	4,035.8	3,783.6	3,855.5
	4,620.8	4,351.3	4,455.5	4,726.0	4,411.6	4,492.6

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest	24.8	55.5	50.2	27.2	59.3	45.4
Repayable on demand	1,557.8	1,498.3	1,578.5	2,076.9	2,000.1	1,936.7
Other amounts owed to other customers with residual maturity repayable:						
In not more than three months	2,452.3	1,998.9	2,071.7	2,170.8	1,708.0	1,731.1
In not more than three months but not more than one year	442.7	506.6	453.2	304.5	393.7	461.4
In more than one year but not more than five years	122.4	270.6	260.7	122.3	229.1	276.8
In more than five years	20.8	21.4	41.2	24.3	21.4	41.2
	4,620.8	4,351.3	4,455.5	4,726.0	4,411.6	4,492.6

23. Debt securities in issue

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Certificates of deposit	3,417.7	2,935.6	2,966.5	3,417.7	2,935.6	2,966.5
Fixed and floating rate notes	1,650.5	1,698.0	1,777.8	1,624.2	1,668.8	1,738.3
Other debt securities	200.5	339.2	319.6	200.5	339.2	319.6
	5,268.7	4,972.8	5,063.9	5,242.4	4,943.6	5,024.4

Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest	77.8	65.7	79.2	71.8	56.7	68.1
Other debt securities in issue with residual maturity repayable:						
In not more than one year	3,560.1	3,144.3	3,018.0	3,560.1	3,144.3	3,018.0
In more than one year	1,630.8	1,762.8	1,966.7	1,610.5	1,742.6	1,938.3
	5,268.7	4,972.8	5,063.9	5,242.4	4,943.6	5,024.4

24. Other liabilities

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts falling due within one year:						
Income tax	160.4	138.1	78.7	160.4	138.1	78.7
Corporation tax	128.5	120.0	65.1	99.8	99.4	47.5
Other creditors	119.3	99.0	83.2	77.5	47.3	56.5
	408.2	357.1	227.0	337.7	284.8	182.7
Other creditors include:						
Amounts due to subsidiary undertakings	–	–	–	3.2	3.9	5.9

25. Accruals and deferred income

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accruals relating to off balance sheet instruments	107.5	114.1	89.7	107.5	114.1	89.7
Interest accrued on subordinated liabilities	6.1	6.1	17.4	6.1	6.1	17.4
Deferred mortgage guarantee income	78.2	65.2	53.1	78.2	65.2	53.1
Other	113.8	110.4	97.4	104.5	108.3	96.4
	305.6	295.8	257.6	296.3	293.7	256.6

26. Provisions for liabilities and charges

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Provision for pensions (Note 8)	10.1	15.1	15.2	9.8	14.8	14.8
Provision for deferred taxation	15.7	12.3	17.2	–	–	6.7
	<u>25.8</u>	<u>27.4</u>	<u>32.4</u>	<u>9.8</u>	<u>14.8</u>	<u>21.5</u>

The potential liability to deferred taxation, which is fully provided, except as noted below is as follows:

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Excess of tax allowances over depreciation	18.9	17.1	18.4	18.9	17.1	18.4
Interest adjustments	9.1	9.1	9.5	–	–	(0.5)
Other	(12.3)	(13.9)	(10.7)	(18.9)	(17.1)	(11.2)
	<u>15.7</u>	<u>12.3</u>	<u>17.2</u>	<u>–</u>	<u>–</u>	<u>6.7</u>

Tax relief has been obtained on interest capitalised within the Group when paid and, where relevant, is reflected in the deferred taxation provision.

Provision is not made for any taxation liability which might arise on the disposal of premises at their balance sheet value as it is anticipated that either substantially all the properties will be retained by the Group or that any gains which arise on disposal will be eligible for roll over relief or set off against available capital losses. The Directors are, therefore, of the opinion that the likelihood of any material liability arising in this respect is remote.

The movements on the provision for deferred taxation are as follows:

	<i>Group</i>	<i>Society</i>
	<i>£m</i>	<i>£m</i>
At 5 April, 1997	17.2	6.7
Decrease in provision (Note 9)	(4.9)	(6.7)
At 4 April, 1998	<u>12.3</u>	<u>–</u>
At 5 April, 1998	12.3	–
Increase relating to current year tax charge (Note 9)	3.4	–
At 4 April, 1999	<u>15.7</u>	<u>–</u>

27. Subordinated liabilities

	<i>Group</i>			<i>Society</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
13½% Subordinated Notes 2000	80.0	80.0	200.0	80.0	80.0	200.0
10½% Subordinated Notes 2007	27.1	27.1	100.0	27.1	27.1	100.0
8 ⁵ / ₈ % Subordinated Notes 2018	125.0	125.0	125.0	125.0	125.0	125.0
	<u>232.1</u>	<u>232.1</u>	<u>425.0</u>	<u>232.1</u>	<u>232.1</u>	<u>425.0</u>
Unamortised premiums and issue costs	4.8	7.7	9.0	4.8	7.7	9.0
	<u>236.9</u>	<u>239.8</u>	<u>434.0</u>	<u>236.9</u>	<u>239.8</u>	<u>434.0</u>

All Notes are denominated in Sterling. The Society may, with the prior consent of the Building Societies Commission, repay all of the 10½% Notes in July 2002 and all or some of the 8⁵/₈% Notes after giving 30 days notice to the holders. The 13½% Notes are only repayable at maturity in November 2000.

The rights of repayment of the holders of subordinated debt are subordinated to the claims of all depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

28. Revaluation reserve

	<i>Group</i>	<i>Society</i>
	<i>£m</i>	<i>£m</i>
At 5 April, 1997	36.5	32.7
Surplus on revaluation:		
Fixed assets	12.3	12.3
Properties held for rental	10.5	-
Transfer between reserves	3.8	2.5
At 4 April, 1998	<u>63.1</u>	<u>47.5</u>
At 5 April, 1998	63.1	47.5
Surplus on revaluation:		
Fixed assets	1.2	1.0
Properties held for rental	6.0	-
Transfer between reserves	0.8	0.7
At 4 April, 1999	<u>71.1</u>	<u>49.2</u>

29. General reserve

	<i>Group</i> <i>£m</i>	<i>Society</i> <i>£m</i>
At 5 April, 1997	2,346.2	2,255.3
Profit for the year	253.5	196.0
Transfer between reserves	(3.8)	(2.5)
At 4 April, 1998	<u>2,595.9</u>	<u>2,448.8</u>
At 5 April, 1998	2,595.9	2,448.8
Profit for the year	271.7	204.1
Transfer between reserves	(0.8)	(0.7)
At 4 April, 1999	<u>2,866.8</u>	<u>2,652.2</u>

The transfer between reserves in both the Group and Society to 4 April, 1999 consists of the realisations of net property revaluation deficits of previous years. Those in the Group and Society to 4 April 1998 consist of temporary diminutions in value which were considered by the Directors to be permanent (£2.0m) and the realisation of net property revaluation deficit of previous years.

The general reserve includes £47.5 million (1998 – £24.8 million, 1997 – £12.0 million) of unrealised profit in respect of the increase in the value of the Group's long term life assurance business in force.

30. Memorandum items

	<i>Group</i>			<i>Society</i>		
	<i>1999</i> <i>£m</i>	<i>1998</i> <i>£m</i>	<i>1997</i> <i>£m</i>	<i>1999</i> <i>£m</i>	<i>1998</i> <i>£m</i>	<i>1997</i> <i>£m</i>
Commitments						
Irrevocable undrawn loan facilities	688.2	430.4	492.7	407.9	170.5	291.8
Unpaid share capital of subsidiary company	–	–	–	28.3	25.0	25.0
Forward asset purchases and forward deposits placed	154.9	94.7	41.9	154.9	94.7	41.9
Undrawn formal standby facilities, credit lines and other commitments to lend greater than one year	–	–	–	7.2	7.2	7.2
	<u>843.1</u>	<u>525.1</u>	<u>534.6</u>	<u>598.3</u>	<u>297.4</u>	<u>365.9</u>
Credit risk weighted amount	<u>203.1</u>	<u>126.5</u>	<u>131.6</u>	<u>164.9</u>	<u>90.2</u>	<u>109.9</u>

31. Financial commitments

	<i>Group</i>			<i>Society</i>		
	<i>1999</i> <i>£m</i>	<i>1998</i> <i>£m</i>	<i>1997</i> <i>£m</i>	<i>1999</i> <i>£m</i>	<i>1998</i> <i>£m</i>	<i>1997</i> <i>£m</i>
<i>Capital commitments</i>						
Capital expenditure contracted for but not provided for in the accounts	<u>22.6</u>	<u>7.0</u>	<u>3.8</u>	<u>20.9</u>	<u>6.9</u>	<u>3.0</u>

Leasing commitments

At the balance sheet date, annual commitments under operating leases relating to land, buildings and equipment were as follows:

	<i>Land and buildings</i>			<i>Equipment</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Group						
Leases which expire:						
Within one year	0.9	0.8	0.3	–	0.7	–
Between two and five years	3.0	3.1	1.7	0.1	–	–
After five years	11.8	13.6	14.0	–	–	–
	<u>15.7</u>	<u>17.5</u>	<u>16.0</u>	<u>0.1</u>	<u>0.7</u>	<u>–</u>
Society						
Leases which expire:						
Within one year	0.9	0.7	0.2	–	0.7	–
Between two and five years	2.2	2.0	1.4	–	–	–
After five years	11.8	13.2	13.0	–	–	–
	<u>14.9</u>	<u>15.9</u>	<u>14.6</u>	<u>–</u>	<u>0.7</u>	<u>–</u>

32. Consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>
Operating profit	407.5	372.3
(Increase) in prepayments and accrued income	(24.3)	(115.7)
Increase in accruals and deferred income	4.9	47.6
Provisions for bad & doubtful debts	60.1	41.4
Loans and advances written off, net of recoveries	(60.5)	(82.4)
Depreciation and amortisation	73.1	79.5
Interest on subordinated liabilities	21.6	56.0
Profit on sale of tangible fixed assets	(2.5)	(2.5)
(Decrease) in provisions for liabilities and charges	(5.0)	(0.1)
(Increase) in value of long term life assurance business	(15.4)	(11.1)
Other non-cash movements	(114.6)	(24.9)
Net cash inflow from trading activities	<u>344.9</u>	<u>360.1</u>
Net (increase) in loans and advances to customers	(4,814.8)	(3,580.5)
Net increase in shares	4,394.3	6,199.6
Net increase/(decrease) in amounts owed to credit institutions and other customers	503.9	(123.5)
Net increase/(decrease) in debt securities in issue	295.9	(91.1)
Net (increase)/decrease in loans and advances to credit institutions	702.4	(627.6)
Net (increase)/decrease in other assets	(6.6)	9.9
Net increase in other liabilities	44.1	75.2
Net cash inflow from operating activities	<u>1,464.1</u>	<u>2,222.1</u>

Analysis of changes in financing during the year

	<i>Subordinated Liabilities £m</i>
At 5 April, 1998	239.8
Amortisation of premiums and issue costs	(2.9)
At 4 April, 1999	<u>236.9</u>

Analysis of the balances of cash as shown in the balance sheet

	<i>1998 £m</i>	<i>Flows £m</i>	<i>1999 £m</i>
Cash in hand and balances with the Bank of England	92.1	68.5	160.6
Loans and advances to credit institutions repayable on demand	87.8	(4.8)	83.0
	<u>179.9</u>	<u>63.7</u>	<u>243.6</u>

In addition, the Group is required to maintain balances with the Bank of England which, at 4 April 1999, amounted to £55.1 million (1998 – £Nil).

33. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. Nationwide is a retailer of financial instruments, mainly in the form of mortgages, savings and insurance products. The Group uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets and Liabilities Committee ('ALCO'), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Group. The minutes of ALCO are presented to the Board.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

The objective of the Group in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Group will be affected by changes in interest rates, exchange rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes and all derivatives are therefore designated as hedging instruments.

Types of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, interest rate options, cross-currency interest rate swaps and foreign exchange contracts which are used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. Such risks may alternatively be managed using on balance sheet instruments as part of the Group's integrated approach to risk management.

Activity	Risk	Type of hedge
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and fixed rate funding	Sensitivity to changes in interest rates	Interest rate swaps and options
Fixed rate mortgage lending and fixed rate investments	Sensitivity to changes in interest rates	Interest rate swaps and options
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency interest rate swaps. Foreign exchange contracts
Equity linked investment products	Sensitivity to changes in equity indices	Equity linked futures and interest rate swaps

Derivative products which are combinations of more basic derivatives are used only in circumstances where the underlying position being hedged contains the same risk features. For example, guaranteed equity bonds issued by the Group may be hedged with a single contract incorporating both the interest rate and equity index risk incurred. In such cases the derivatives used will be designed to match exactly the risks of the underlying asset or liability. Exposure to market risk on such contracts is therefore fully hedged.

Control of derivatives

The Board has authorised the use of derivatives in accordance with the Building Societies Act 1986. All limits over the use of derivative products are the responsibility of ALCO with the exception of the Group Credit Committee which regularly monitors and reviews credit exposures arising in all aspects of the Group's operations and approves all Group credit policies.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Other derivatives contracts are not subject to the cash requirements. The accounting policies for derivatives are described in the accounting policies on pages 30 to 33⁽¹⁾.

(1) The reference to pages 30 to 33 refers to the information set out on pages 35 to 38 of this document.

The table below analyses the derivatives by type of contract and maturity and shows the nominal principal amount, credit risk weighted amount and replacement cost of contracts. Nominal principal amount indicates the volume of business outstanding at the balance sheet date and does not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date and reflects the Group's exposure should the counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Building Societies Commission, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

	<i>Nominal principal amount</i>	<i>Credit risk weighted amount</i>	<i>Replacement cost</i>	<i>Nominal principal amount</i>	<i>Credit risk weighted amount</i>	<i>Replacement cost</i>
GROUP	1999	1999	1999	1998	1998	1998
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Exchange rate contracts:						
Cross currency	870.5	15.3	26.2	397.9	12.5	41.5
Interest rate swaps						
Forward foreign exchange	1,641.3	9.2	21.4	1,567.2	8.1	20.0
	2,511.8	24.5	47.6	1,965.1	20.6	61.5
Under one year	1,770.4	10.1	31.2	1,599.4	10.8	36.2
Between one and five years	584.5	11.5	13.2	280.9	8.0	20.6
Over five years	156.9	2.9	3.2	84.8	1.8	4.7
	2,511.8	24.5	47.6	1,965.1	20.6	61.5
Interest rate contracts:						
Interest rate swaps	13,553.4	71.4	285.9	6,405.7	60.1	257.7
Swaptions	332.9	2.1	9.4	606.0	2.5	10.1
Forward rate agreements	275.5	0.1	0.6	100.0	–	–
Caps, collars and floors	1,505.6	5.1	17.6	139.9	1.3	1.8
	15,667.4	78.7	313.5	7,251.6	63.9	269.6
Under one year	4,482.7	20.4	100.8	1,062.4	15.7	76.9
Between one and five years	9,860.7	44.4	152.6	4,995.0	34.6	131.0
Over five years	1,324.0	13.9	60.1	1,194.2	13.6	61.7
	15,667.4	78.7	313.5	7,251.6	63.9	269.6
Equity contracts:						
	349.6	91.4	439.7	283.6	67.5	323.5
Between one and five years	216.1	62.4	301.3	198.6	51.1	245.6
Over five years	133.5	29.0	138.4	85.0	16.4	77.9
	349.6	91.4	439.7	283.6	67.5	323.5

GROUP	<i>Nominal principal amount</i>	<i>Credit risk weighted amount</i>	<i>Replacement cost</i>
	<i>1997 £m</i>	<i>1997 £m</i>	<i>1997 £m</i>
Exchange rate contracts:			
Cross currency	405.9	8.5	27.2
Interest rate swaps			
Forward foreign exchange	1,647.0	8.5	22.7
	2,052.9	17.0	49.9
	1,756.6	8.2	23.3
Under one year	189.1	6.9	22.5
Between one and five years	107.2	1.9	4.1
Over five years			
	2,052.9	17.0	49.9
Interest rate contracts:			
Interest rate swaps	4,948.0	35.4	157.4
Swaptions	735.8	1.3	3.7
Forward rate agreements	—	—	—
Futures (exchange traded)	40.0	—	—
Caps, collars and floors	65.3	0.1	0.2
	5,789.1	36.8	161.3
Under one year	1,274.8	2.9	14.6
Between one and five years	3,300.9	26.8	117.1
Over five years	1,213.4	7.1	29.6
	5,789.1	36.8	161.3
Equity contracts:	73.9	15.4	73.4
Between one and five years	73.9	15.4	73.4
Over five years	—	—	—
	73.9	15.4	73.4

All of the Group's derivatives activity is contracted with OECD financial institutions.

The financial risks faced by the Group include liquidity risk, interest rate risk, currency rate risk and market risk.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

Interest rate risk

The net interest income and market value of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of on and off balance sheet instruments. After taking into account the various derivatives entered into by the Group, the interest rate sensitivity exposure of the Group was:

At 4 April, 1999

	<i>Not more than three months £m</i>	<i>More than three months but not more than six months £m</i>	<i>More than six months but not more than one year £m</i>	<i>More than one year but not more than five years £m</i>	<i>More than five years £m</i>	<i>Non- interest bearing £m</i>	<i>Total £m</i>
Assets							
Liquid assets	6,524.0	634.9	429.0	1,109.6	473.1	299.3	9,469.9
Loans and advances to customers	31,193.8	488.0	1,313.6	7,592.3	1,106.6	(197.4)	41,496.9
Tangible and intangible fixed assets	–	–	–	–	–	695.8	695.8
Other assets	–	–	–	–	–	1,290.4	1,290.4
Total assets	37,717.8	1,122.9	1,742.6	8,701.9	1,579.7	2,088.1	52,953.0
Liabilities							
Shares	35,139.2	253.0	1,024.0	967.3	58.8	–	37,442.3
Amounts owed to credit institutions and other customers and debt securities in issue	8,425.2	699.0	619.9	605.3	241.3	104.6	10,695.3
Other liabilities	–	–	–	–	–	1,640.6	1,640.6
Subordinated liabilities	–	–	–	113.3	123.6	–	236.9
Reserves	–	–	–	–	–	2,937.9	2,937.9
Total liabilities	43,564.4	952.0	1,643.9	1,685.9	423.7	4,683.1	52,953.0
Off balance sheet items	4,284.0	97.8	1,614.4	(4,896.1)	(1,100.1)	–	–
Interest rate sensitivity gap	(1,562.6)	268.7	1,713.1	2,119.9	55.9	(2,595.0)	–

At 4 April, 1998

	<i>Not more than three months</i>	<i>More than three months but not more than six months</i>	<i>More than six months but not more than one year</i>	<i>More than one year but not more than five years</i>	<i>More than five years</i>	<i>Non-interest bearing</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Assets							
Liquid assets	6,015.4	490.4	985.6	776.2	392.8	165.9	8,826.3
Loans and advances to customers	29,687.9	319.8	321.2	5,132.2	1,428.2	(207.6)	36,681.7
Tangible and intangible fixed assets	–	–	–	–	–	678.7	678.7
Other assets	356.3	–	–	–	–	535.2	891.5
Total assets	36,059.6	810.2	1,306.8	5,908.4	1,821.0	1,172.2	47,078.2
Liabilities							
Shares	30,830.6	15.8	202.0	1,818.7	180.9	–	33,048.0
Amounts owed to credit institutions and other customers and debt securities in issue	6,819.6	1,006.4	946.6	752.5	369.3	1.1	9,895.5
Other liabilities	–	–	–	–	–	1,235.9	1,235.9
Subordinated liabilities	–	–	–	116.2	123.6	–	239.8
Reserves	–	–	–	–	–	2,659.0	2,659.0
Total liabilities	37,650.2	1,022.2	1,148.6	2,687.4	673.8	3,896.0	47,078.2
Off balance sheet items	2,054.4	(30.8)	410.6	(1,437.0)	(1,035.1)	37.9	–
Interest rate sensitivity gap	463.8	(242.8)	568.8	1,784.0	112.1	(2,685.9)	–

These tables do not take into account the effect of interest rate options used by the Group. All options have been executed to hedge underlying risk positions.

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Other assets include other loans, equity shares, other assets, prepayments and accrued income and long term life assurance business assets.

Other liabilities include other liabilities, accruals and deferred income, provisions for liabilities and charges and long term life assurance business liabilities.

The Group monitors market price risk daily by determining the effect on the Group's current net worth of a shift in interest rates broadly equivalent to 3% for short maturities tapering to 2% for maturities of five years or more. This is termed 'Immediate risk'. The maximum limit for Immediate risk has been set by the Board at 8% of the Group's consolidated reserves at the beginning of each quarter in the Society's financial year.

The size of Immediate risk at any time reflects the Group's degree of concurrence with the future levels of interest rates implied by current interest rate levels. During the year ended 4 April, 1999, Immediate risk as a percentage of consolidated reserves at the beginning of each quarter was maintained in the range 4.5% to 6.2% (1998 – 3.5% to 5.2%), with an average of 5.5% (1998 – 4.6%). At 4 April, 1999 its value was 5.3% (4 April, 1998 – 5.2%).

Currency rate risk

After hedging, the Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

Gains and losses on hedges

Gains and losses on hedges of financial instruments are recognised in the income and expenditure account over the residual life of the underlying instruments. The hedge accounting gains and losses that so arose in previous years and were recognised during the year ended 4 April, 1999 were £9.6 million and £2.3 million respectively. The hedge accounting gains and losses carried forward in the balance sheet at 4 April, 1999 were £6.9 million and £20.1 million respectively, and £3.8 million of gains and £8.1 million of losses are expected to be recognised in the income and expenditure account during the next financial year. There were no material aggregate gains or losses unrecognised at 4 April, 1999.

Fair values of financial instruments

The table below compares the book and fair values of some of the Group's financial instruments by category as at 4 April, 1999 and 4 April, 1998. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for options by using option-pricing models and for other financial instruments by discounting cash flows at prevailing interest and exchange rates.

<i>Assets/(liabilities)</i>	<i>1999</i>		<i>1998</i>	
	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
On balance sheet instruments:				
Liquid assets	9,461.2	9,573.0	8,909.1	9,038.6
Long term life assurance business assets	901.0	901.0	555.6	555.6
Amounts owed to credit institutions and other customers and debt securities in issue	(8,682.6)	(8,794.4)	(7,904.3)	(8,041.5)
Subordinated liabilities	(227.5)	(287.1)	(229.8)	(279.0)
Long term life assurance business liabilities	(901.0)	(901.0)	(555.6)	(555.6)
Off balance sheet and similar instruments	<u>74.5</u>	<u>(113.0)</u>	<u>72.6</u>	<u>112.1</u>

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, retail savings accounts and other balance sheet items whose book and fair values differ.

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

The book value for subordinated liabilities includes a net £9.4 million (1998 – £10.0 million) included within prepayments and accrued income and accruals and deferred income.

34. Non-Sterling assets and liabilities

Group and Society

<u>1999</u>	<u>1998</u>	<u>1997</u>
<i>£m</i>	<i>£m</i>	<i>£m</i>

The aggregate amount of assets and liabilities included in the balance sheet denominated in a currency other than Sterling was as follows:

Assets	3,413.0	2,735.5	2,012.2
Liabilities	<u>1,858.3</u>	<u>1,300.1</u>	<u>2,101.4</u>

35. Directors' loans and related party transactions

The aggregate amount outstanding at the end of the financial year in respect of loans from the Society or a subsidiary company to Directors of the Society or persons connected with a Director of the Society was £804,142 (1998 – £760,427, 1997 – £781,846) representing loans to 10 persons (1998 – 12 persons, 1997 – 11 persons).

A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and Directors of the Society or persons connected with Directors of the Society. The register will be available for inspection by members at the Annual General Meeting and during normal office hours at the Society's Principal Office (Nationwide House, Pipers Way, Swindon) during the period of 15 days prior to the Meeting.

There are no other related party transactions which require disclosure under FRS 8 (Related Party Disclosures).

ANNUAL BUSINESS STATEMENT

For the year ended 4 April, 1999

1. Statutory percentages

	1999	Statutory Limit
	%	%
Lending Limit	12.8	25.0
Funding Limit	22.3	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as $(X-Y)/X$ where:

X = business assets, being the total assets of the Group plus provisions for bad and doubtful debts less liquid assets, tangible and intangible fixed assets and long term life assurance business assets as shown in the Society's consolidated accounts.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as $(X-Y)/X$ where:

X = shares and borrowings, being the aggregate of:

- (i) the principal value of, and interest accrued on, shares in the Society;
- (ii) the principal of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society; and
- (iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking, less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	<i>1999</i>	<i>1998</i>
	%	%
As percentage of shares and borrowings:		
Gross capital	6.6	6.8
Free capital	5.3	5.3
Liquid assets	19.7	20.6
Profit for the financial year as a percentage of mean total assets	0.54	0.58
Management expenses as a percentage of mean total assets	1.16	1.25

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
- 'Gross capital' represents the aggregate of general reserve, revaluation reserve and subordinated liabilities.
- 'Free capital' represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible and intangible fixed assets.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to Directors and other Officers at 4 April, 1999

Directors:

<i>Name and date of birth</i>	<i>Occupation</i>	<i>Date of appointment</i>	<i>Other directorships</i>
C K R Nunneley CA Chairman 3 April, 1936	Company Director	1 December, 1994	FICIT Securities Ltd Fleming Income & Capital Investment Trust plc Grenville Place Tenant Management Company Ltd Grocers' Trust Co Ltd Monks Investment Trust plc The Nationwide Foundation
Dr B E Davis BSc, PhD, FRSA, CIMgt 22 September, 1944	Chief Executive	1 September, 1989	Member of Council & Court – University of Sussex
A R H Dales FCA 26 May, 1949	Group Finance Director	1 January, 1993	at.home nationwide ltd First Nationwide Foundation Insurance Ltd Nationwide Anglia Property Services Ltd Nationwide Home Loans Ltd UCB Home Loans Corporation Ltd
B K Simpson MIMIS 29 January, 1948	Group Services Director	4 May, 1994	Nationwide International Ltd Nationwide Trust Ltd
P F Williamson BA (Econ), ACIB 11 December, 1947	Marketing & Commercial Director	5 April, 1996	at.home nationwide ltd Moulton Park Properties I-IV plc Nationwide BES Fund Managers Ltd Nationwide Housing Trust Ltd Nationwide Life Ltd Nationwide Mortgage Corporation Ltd Nationwide Rented Housing Ltd

3. Information relating to Directors and other Officers at 4 April, 1999 (continued)

Directors:

<i>Name and date of birth</i>	<i>Occupation</i>	<i>Date of appointment</i>	<i>Other directorships</i>
			Nationwide Syndications Ltd Nationwide Unit Trust Managers Ltd Pipers Way Properties Ltd Rugby Park Properties 1-16 plc
S D M Bernau BSc (Econ), FCIB, MCT (Dip) 15 August, 1951	Retail Operations Director	1 October, 1996	Member of Building Societies Investor Protection Board Ethos Independent Financial Services Ltd First Nationwide Nationwide Home Loans Ltd UCB Home Loans Corporation Ltd
J G W Agnew MA Deputy Chairman 30 July, 1941	Company Director	1 March, 1997	J G W Agnew & Co Ltd Thos Agnew & Sons Ltd Bankside Syndicates Ltd Henderson Geared Income & Growth Trust plc Gerrard Group plc Janson Green Ltd Limit plc
Mrs A J Carnwath BA, ACA 18 January, 1953	Company Director	31 March, 1994	DLJ Phoenix Media Ltd DLJ Phoenix Securities Ltd National Power plc Skillsgroup plc Tresises (Printers) Ltd Vitec plc
Mrs P A Doble BSc 9 December, 1943	Marketing Director	1 June, 1995	Member of Council of Royal Holloway, University of London The Nationwide Foundation

3. Information relating to Directors and other Officers at 4 April, 1999 (continued)

Directors:

<i>Name and date of birth</i>	<i>Occupation</i>	<i>Date of appointment</i>	<i>Other directorships</i>
J Engestrom MBA 7 February, 1942	Company Director	1 March, 1997	Cresco International Geneva Association Nationwide Life Ltd Nationwide Unit Trust Managers Ltd
D J English FCIB 29 November, 1944	Company Secretary	22 July, 1993	
P H Twyman MSc (Econ), MCIT, FRSA, FIMgt 24 July, 1943	Management Consultant	1 June, 1982	Political Strategy Ltd

Documents may be served on any of the Directors at 35 St Thomas Street, London SE1 9SN.

Directors' Service Contracts

Details of the Directors' Service Contracts are shown in the Report of the Directors on Remuneration in the full published Report and Accounts.

Directors' Share Options

No Director or other officer, including connected persons, has any rights to subscribe for shares in, or debentures of, any connected undertaking of the Society.

3. Information relating to Directors and other Officers at 4 April, 1999 (continued)

Officers:

<i>Name</i>	<i>Occupation</i>	<i>Directorships</i>
R T Bailey	Divisional Director (General Insurance)	Ethos Independent Financial Services Ltd
D B Brockwell FRSA, FIMgt	Divisional Director (Personnel and Development)	
S C Clode BSc (Econ), MA, PhD	Divisional Director (Savings and Investment)	BACS Ltd Nationwide International Ltd Nationwide Life Ltd Nationwide Unit Trust Managers Ltd
R G Lassen FCA, FCT	Divisional Director (Finance and Treasury)	Foundation Insurance Ltd
M J Lazenby FCIB, ACIH	Divisional Director (Marketing)	Urban Villages Forum Ltd
T L Morshead MCIM	Divisional Director (Central Retail Operations)	
D G Parry ACIB, DMS	Divisional Director (Planning)	
A J del Strother BA, FCIB, FIPD	Divisional Director (Communications)	The Nationwide Foundation
J A Sutherland MA, MBA, ACIB, Dip FS	Divisional Director (Mortgages and Loans)	Nationwide Trust Ltd
F I Walsh BSc	Divisional Director (Technology)	
J H Willens MBA, DMS ACIB	Divisional Director (Branch Network)	
C R L Wilson	Group Secretary and Solicitor	Building Societies Ombudsman Co Ltd Financial Services Ombudsman Scheme Ltd

DIRECTORS' REPORT

For the year ended 4 April, 1999

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 4 April, 1999.

Business Objectives

The main aim of the Society and its subsidiaries (the 'Group') is to provide a full range of top value, quality financial services that are widely available and delivered with speed, courtesy and reliability. This aim is backed by the key values of fairness, honesty, employee importance and corporate responsibility.

Business Review and Future Developments

The Group's business and future plans are reviewed by the Chairman and Chief Executive in the full published Report and Accounts.

Profits and Capital

The Group achieved a pre-tax profit of £407.5 million (1998 – £372.3 million). The profit after tax transferred to the general reserve was £271.7 million (1998 – £253.5 million).

Total Group reserves at 4 April, 1999 were £2,937.9 million (1998 – £2,659.0 million) after taking into account the revaluation reserve of £71.1 million (1998 – £63.1 million) relating to freehold and long leasehold premises and properties held for rental.

Gross capital at 4 April, 1999 amounted to £3,174.8 million (1998 – £2,898.8 million) including £236.9 million (1998 – £239.8 million) of subordinated debt. The ratio of gross capital as a percentage of shares and borrowings at 4 April, 1999 was 6.6% (1998 – 6.8%) and the free capital ratio was 5.3% (1998 – 5.3%). The Tier 1 solvency ratio at 4 April, 1999 was 10.3% (1998 – 10.9%).

Assets

The Group's total assets at 4 April, 1999 were £52,953.0 million (1998 – £47,078.2 million), an increase of 12.5%.

Changes in tangible fixed assets during the year are detailed in Note 16 to the Accounts. Freehold and long leasehold premises, excluding specialised administration buildings, were revalued at 4 April, 1999 and have been included in the Accounts at those valuations. Specialised administration buildings are carried at depreciated historical cost.

Liquid assets in the form of cash and authorised securities were £9,469.9 million (1998 – £8,826.3 million), representing 17.9% (1998 – 18.7 %) of total assets.

Loans and Advances to Customers

Gross advances made during the year amounted to £9,743.7 million (1998 – £7,622.3 million). The mortgage portfolio at 4 April, 1999 included 4,840 mortgage accounts (1998 – 6,839), including those in possession, where payments were more than 12 months in arrear. The total amount of principal loans outstanding in these cases was £271.8 million (1998 – £411.1 million). The total amount of arrears in these cases was £47.3 million (1998 – £71.2 million) or 0.1% (1998 – 0.2%) of total mortgage balances.

Funding

Share net receipts in the year were £4,394.3 million (1998 – £6,199.6 million), and share balances at 4 April, 1999 totalled £37,442.3 million (1998 – £33,048.0 million). Net receipts of deposits and other borrowings in the year were £799.8 million (1998 – net repayments of £214.6 million) and the balances at 4 April, 1999 totalled £10,695.3 million (1998 – £9,895.5 million).

Charitable and Political Donations

The Group made charitable donations amounting to £2,731,608 (1998 – £2,781,642) including £2,000,000 (1998 – £2,000,000) to The Nationwide Foundation in the financial year. No contributions were made for political purposes.

Creditor Payment Policy

The Society's policy concerning the payment of its trade creditors for the next financial year is to discharge the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments) when in full conformity with the terms and conditions of the purchase within the agreed payment terms.

For all trade creditors it is the Society's policy to agree the terms of payment at the start of trading with that supplier, ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations.

The creditor days were 28 days at 4 April, 1999 (1998 – 27 days).

Employees

During the financial year the Society has maintained and developed systems for the provision of information to employees. The Society has continued to consult actively with the Nationwide Group Staff Union. In addition meetings, team briefings, circulars and newsletters ensure employees are aware of the Society's performance and objectives, and the business environment in which it operates.

It is the Society's policy to afford access to training, career development and promotion opportunities equally to all employees. It is the Society's policy to give full and fair consideration to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. In the event employees become disabled it is the Society's policy to continue their employment where possible with appropriate training and redeployment where necessary.

AD2000

The AD2000 issue – which is sometimes known as the 'millennium bug' – has widespread implications across the whole business community. The issue has arisen because some computer systems register only the last two digits of each year and may interpret the year 2000 as 1900.

The Society recognised the importance of the AD2000 issue early and work started during 1995 to identify and carry out the necessary changes to its systems. A full assessment of the issue and its impact on the Group has been completed and the appropriate level of resources and funding has been committed to its resolution.

The project has been divided into several streams to cover each area that is impacted by the problem:

- mainframe and central systems
- networks and end user computing
- third party suppliers
- embedded chips (e.g. fire alarms)
- back up sites
- business areas

The project is led by two executive Directors – Alistair Dales, Group Finance Director and Bernard Simpson, Group Services Director – and is run by a team of experienced full time project managers supported by technical expertise from senior managers.

The project board meets fortnightly and the Society's Board is kept informed of progress each month. The project covers all parts of the Group. A standard approach is being followed throughout the Group and the activity is co-ordinated (and the majority of work carried out) centrally.

It is difficult to estimate precisely the incremental cost of the project as costs are in some cases incurred purely for the project and in other cases as an acceleration of normal expenditure. Our estimate of the total cost continues to be in the region of £90 million, including approximately £60 million of capital expenditure. The revenue expenditure includes employee costs and the cost of contractors employed solely in connection with the project. The cost of contractors will cease after project completion. The capital investment includes new or replacement computer hardware, nearly all of which was needed to replace ageing equipment as well as to implement the AD2000 project.

Currently the AD2000 project is the Society's highest priority project. The Group's systems have been put through extensive testing to ensure that they will be able to operate up to and following the millennium. Our core systems were AD2000 compliant by the end of December 1998 as planned. This allows for continuing testing to maintain compliance during 1999 where necessary. The millennium issue is not simply a systems matter and other departments, including purchasing, estates, legal and internal audit are involved. Much of this effort has been met by redeploying resources, but some additional help, principally from contractors, has been necessary.

The project has also established procedures in respect of third party providers from whom the Group obtains services, to test that they are also AD2000 compliant. The Group's standard purchasing contract has been revised to require new computer hardware, software and other products to be AD2000 compliant. Additionally, all new purchases are tested on site to verify AD2000 compliance. In common with the rest of the financial services industry, the Group relies ultimately upon utilities, key suppliers and financial industry networks to be AD2000 compliant. Our existing comprehensive continuity plans have been revisited and revised where needed.

Regular updates are provided to the Financial Services Authority on the progress of the project. The Society is an active supporter of the Building Societies Association Year 2000 panel and other financial services sector forums. These groups meet regularly to discuss the millennium problem and to disseminate useful information through the sector.

Regular information is provided to employees so that they understand the issue and the activity being undertaken, including guidance to recognise and address the AD2000 issue in their own homes.

Information is also provided in the Society's customer magazines and is available through branches and call centres. Customer service and the safeguarding of our members' assets are of primary importance to the Society. The Directors are confident that the steps they are taking to address the AD2000 issue are sufficient to avoid disruption to business now and into the next millennium.

Economic and Monetary Union

In anticipation of Economic and Monetary Union and the introduction of the euro, all operational and system changes had been made by the relevant business areas in time for the opening of the financial markets on 4 January, 1999. From this date our Treasury division had full functionality to deal in euro and settle euro transactions. Members also now have the ability to make and receive payments in euro through specified channels. Costs incurred to 4 April, 1999 were £0.6 million.

It is possible that the UK will join the single currency in due course and this will have considerable strategic and operational implications for the Group. We are already well advanced with an impact analysis and are evaluating the cost implications.

Directors' Responsibilities

A statement of the Directors' responsibilities in respect of the preparation of the Annual Accounts, accounting records and internal control appears on page 24⁽¹⁾.

(1) The reference to page 24 refers to the information set out on page 80 of this document.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that it is, therefore, appropriate to adopt the going concern basis in preparing the accounts.

Directors

The following served as Directors of the Society during the year:

C K R Nunneley CA (Chairman)

D A Beety (Deputy Chairman)

J G W Agnew MA (Deputy Chairman)

Dr B E Davis BSc, PhD, FRSA, CIMgt (Chief Executive)

A R H Dales FCA (Group Finance Director)

B K Simpson MIMIS (Group Services Director)

P F Williamson BA (Econ), ACIB (Marketing & Commercial Director)

S D M Bernau BSc (Econ), FCIB, MCT (Dip) (Retail Operations Director)

Mrs A J Carnwath BA, ACA

Mrs P A Doble BSc

J Engestrom MBA

D J English FCIB

P H Twyman MSc (Econ), MCIT, FRSA, FIMgt

D A Beety served as Deputy Chairman until his death in March 1999.

J G W Agnew was appointed as Deputy Chairman on 1 January, 1999.

In accordance with the Rules Dr B E Davis, A R H Dales, Mrs P A Doble and D J English will retire at the Annual General Meeting on 22 July, 1999 and will be eligible for re-election.

None of the Directors has any beneficial interest in shares in, or debentures of, any connected undertaking of the Society.

The Auditors

Price Waterhouse merged with Coopers & Lybrand on 1 July, 1998 to form a new firm, PricewaterhouseCoopers. Price Waterhouse resigned as auditors and PricewaterhouseCoopers were appointed in their place. PricewaterhouseCoopers have signified their willingness to continue in office and a resolution to approve their re-appointment as auditors will be proposed at the Annual General Meeting.

C K R Nunneley

Chairman

26 May, 1999

RESPONSIBILITIES OF THE DIRECTORS

In respect of the preparation of the Annual Accounts

The following statement, which should be read in conjunction with the statement of the respective responsibilities of directors and auditors on page 25⁽¹⁾, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (the 'Act') to prepare, for each financial year, Annual Accounts which give a true and fair view of the income and expenditure of the Society and the Group for the financial year and of the state of the affairs of the Society and the Group as at the end of the financial year. In preparing those Annual Accounts, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts; and
- prepare the Annual Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its connected undertakings.

In respect of accounting records and internal control

The Directors are responsible for ensuring that, in accordance with the Act, the Society and its connected undertakings:

- keep accounting records; and
- establish and maintain systems of control of its business and records and of inspection and report.

Under the Act, the Directors are required to report to the Building Societies Commission (the 'Commission'), for each financial year, on the compliance of those systems with the relevant requirements of the Act. The auditors are required to make a similar, but separate, report to the Commission.

The Directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

(1) The reference to page 25 refers to the information set out on page 81 of this document.

AUDITORS' REPORT TO THE MEMBERS OF NATIONWIDE BUILDING SOCIETY

We have audited the Annual Accounts on pages 26 to 61⁽¹⁾, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and investment properties and the valuation of the long term life assurance business, and in accordance with the accounting policies set out on pages 30 to 33⁽¹⁾. We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report on pages 62 to 66⁽¹⁾ and pages 14 to 17⁽¹⁾ respectively.

Respective responsibilities of Directors and Auditors

The Directors are responsible for the preparation of the Annual Report including, as described on page 24⁽¹⁾, the Annual Accounts, the Annual Business Statement and the Directors' Report. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, and our profession's ethical guidance.

We report our opinions to you as to whether the Annual Accounts give a true and fair view and have been prepared in accordance with the Building Societies Act 1986, on certain information included within the Annual Business Statement and on whether the Directors' Report is consistent with the accounting records and the Annual Accounts. We also report to you if in our opinion we have not received all the information and explanations which we require for our audit, or if the Annual Accounts are not in agreement with the accounting records.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, the Annual Business Statement or the Directors' Report.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Society's and Group's circumstances, consistently applied and adequately disclosed.

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

(1) The references to pages 26 to 61, pages 30 to 33, pages 62 to 66, pages 14 to 17 and page 24 respectively refer to the information set out on pages 29 to 69, pages 35 to 38, pages 70 to 75, pages 76 to 79 and page 80 of this document respectively.

Opinion

In our opinion:

- (a) the Annual Accounts give a true and fair view of the state of affairs of the Society and of the Group as at 4 April 1999 and of the income and expenditure of the Society and the income and expenditure and cash flows of the Group for the year then ended;
- (b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- (c) the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- (d) the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors

26 May 1999
London

THE LAW DEBENTURE INTERMEDIARY CORPORATION p.l.c.

The Law Debenture Intermediary Corporation p.l.c. (the "Trustee") is a wholly owned subsidiary of The Law Debenture Corporation p.l.c. The Trustee was incorporated under the laws of England and Wales under the Companies Acts 1948 to 1976 with limited liability on 29 October, 1980 and registered under No.1525148. The registered office of the Trustee is at Princes House, 95 Gresham Street, London EC2V 7LY.

The Trustee is a trust corporation and acts as a trustee of loan capital issues. The principal objects of the Trustee are described in clause 4 of its Memorandum of Association. The principal objects of the Trustee are to carry on business as a trust corporation and to undertake any trust or trust business, including acting as trustee of pension funds or as trustee, depositary or intermediary for or in connection with any securities of or issued by any person or persons and to issue securities of any kind.

The accounts of the Trustee for the three years ended 31 December, 1998 have been audited in accordance with United Kingdom auditing standards by Price Waterhouse and, following the merger in the United Kingdom of Coopers & Lybrand and Price Waterhouse (which was completed on 1 July, 1998), the resulting United Kingdom partnership carrying on business under the name PricewaterhouseCoopers, Chartered Accountants and Registered Auditors of Southwark Towers, 32 London Bridge Street, London SE1 9SY and have been reported on without qualification.

The Board of Directors of the Trustee, and details of their outside directorships and partnerships are as follows:

<i>Name</i>	<i>Business Occupation</i>	<i>Outside Directorships and Partnerships held within the last 5 years</i>
Christopher Charles Biddulph Duffet	Company Director	Chairman of the Association of Investment Trust Companies (AITC)
Denyse Monique Anderson	Company Director	None
Abigail Holladay	Company Director	None
Julian Robert Mason-Jebb	Company Director	None
David Frank Norris	Company Director	None
Clive Laurence Charles Rakestrow	Company Director	None
Richard Forbes Thomas	Company Director	Glaxo Trustees Limited TACT Services Limited Dunlop Executive Directors Superannuation Fund Trustee Limited* Dunlop Pensions Trust Limited* Dunlop SE Pensions Trustee Limited* The Wellcome Foundation Investment Company Limited* ASBL – Pension Fund – Members of the European Parliament Fonds de Pension Députés au Parlement Européen (SICAV)
Robert James Williams	Company Director	Themis FTSE All-Small Index Trust PLC Themis FTSE Fledgling Index Trust PLC*

RTP Shareholder SVC Pty Limited
(incorporated in Australia)
RTL Shareholder SVC Limited
Overseas Protector Limited
HT Investments Limited (incorporated in
Guernsey)
MWS Investments Limited (incorporated in
Guernsey)
KPN (Australia) Limited*
Rugby Park Properties 1 PLC*
Rugby Park Properties 2 PLC*
Rugby Park Properties 3 PLC*
Rugby Park Properties 4 PLC*
Rugby Park Properties 5 PLC*
Rugby Park Properties 6 PLC*
Rugby Park Properties 7 PLC*
Rugby Park Properties 8 PLC*
Rugby Park Properties 9 PLC*
Rugby Park Properties 10 PLC*
Rugby Park Properties 11 PLC*
Rugby Park Properties 12 PLC*
Rugby Park Properties 13 PLC*
Rugby Park Properties 14 PLC*
Rugby Park Properties 15 PLC*
Rugby Park Properties 16 PLC*

The directorships and partnerships marked * are not currently held.

At the date of this document, none of the Directors has any unspent convictions in respect of indictable offences, has had a bankruptcy or receivership order made against them, has been a party to an individual voluntary arrangement, has been subject to any public criticisms by statutory or regulatory authorities or has been disqualified by a court from acting as a director of or from acting in the management or conduct of the affairs of a company, a bank or building society. None of the Directors has been a director of a company, bank or building society which has been placed in receivership, liquidation or administration or has been a party to a voluntary arrangement or a composition or arrangement with its creditors while they were a director of that company, bank or building society or within the twelve months after he ceased to be a director of that company, bank or building society.

None of the Directors of the Trustee has any interest in transactions which are or were unusual in their nature or conditions or were significant to the business of the Trustee's group and which were effected by the Trustee during the current or immediately preceding financial year or during an earlier financial year and remain in any respect outstanding or unperformed.

The business address of each of the Directors is Princes House, 95 Gresham Street, London EC2V 7LY.

USE OF PROCEEDS

The net proceeds of the issue of the PIBS Receipts (estimated to be approximately £197,500,000 in respect of the Tranche A PIBS Receipts and £98,750,000 in respect of the Tranche B PIBS Receipts) will be used by the Trustee to subscribe for the Tranche A PIBS and the Tranche B PIBS, respectively. The net proceeds of the issue of the PIBS (estimated to be approximately £296,250,000) will be used by the Society to strengthen further its capital base.

Amalgamation

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires approval by a shareholding members' resolution (called an "investing members' resolution" in the Society's Rules) and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of each amalgamating society and confirmation of amalgamation by the Commission. The Act provides that on the date specified by the Central Office of the Registry of Friendly Societies (the "Central Office") all the property, rights and liabilities (which would include permanent interest bearing shares) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned.

Transfer of engagements

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Commission consents to the transfer being approved by a resolution of its board of directors only. The transfer must be confirmed by the Commission. The Act provides that on the date specified by the Central Office and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some (including obligations under the PIBS) of the liabilities of the Society, the PIBS may, according to the terms of the transfer, become deferred shares in the transferee without any alteration of their terms.

Conversion

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company (which has been formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or which is an existing company) which is to assume and conduct the society's business in its place. The transfer must be approved by a shareholding members' resolution and by a borrowing members' resolution and the society must obtain the confirmation of the Commission to the transfer and its terms. If the Commission confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all the property, rights and liabilities of the society making the transfer, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with transfer regulations (then in force) be transferred to and vested in the successor company. Pursuant to section 100(2)(a) of the Act, permanent interest bearing shares would be converted into deposits with the successor company. The terms of the PIBS provide that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor company subject as provided therein. The terms of the PIBS Receipts provide that the perpetual subordinated bonds of the successor company will be transferred to the PIBS Receiptholders as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the society to acquire shares in priority to other subscribers, the right is restricted to shareholding members of the society who have held their shares throughout the period of two years expiring on a qualifying day specified by the society in the transfer agreement. On any such transfer, shareholding members of the society who were members on the qualifying day but not entitled to vote on the shareholding members' resolution will receive a cash bonus equal to their notional share of reserves of the society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to those shareholding members of the society who have held their shares for at least two years expiring on a qualifying day specified by the society in the transfer agreement. No distribution of funds (apart from the statutory cash bonus) may be made if the transfer is to a specifically formed company.

The Trustee will, at or before the time of issue of the PIBS, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any benefits described in this paragraph which may be receivable by it on a transfer of the whole of the Society's business to a company in accordance with section 97 of the Act, other than rights to receive perpetual subordinated bonds issued by the Society's successor company of the same principal amount as the PIBS, as specifically provided for under section 100(2)(a) of the Act and the special conditions of issue of the PIBS.

General

The Society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced, as the principal debtor under all or some of the PIBS, by an entity substantially different in nature from the Society at present or with a substantially different capital position. In all cases, the confirmation of the Commission is required before any such change can take place.

The Commission is required to have regard to the position of the Trustee (as the PIBS holder) pursuant to the provisions of section 1(4) of the Act which requires the Commission to promote the protection by each building society of the investments of that building society's "shareholders", for which purpose the expression "shareholders" includes the Trustee (as the PIBS holder).

The Financial Services and Markets Bill, which is currently before Parliament, makes provision for the regulatory powers of the Commission to be transferred to the Financial Services Authority.

UNITED KINGDOM TAXATION

The following is a summary of the Society's understanding of current law and practice in the United Kingdom relating to the taxation of the PIBS Receipts. The summary relates only to the deduction of United Kingdom tax from interest on the PIBS Receipts and to the tax treatment of United Kingdom corporation tax payers which are the absolute beneficial owners of the PIBS Receipts and the interest on them and some aspects do not apply to certain classes of taxpayer (such as dealers). The summary does not apply to other United Kingdom taxpayers. **Prospective PIBS Receiptholders who are not United Kingdom corporation tax payers, who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.**

Interest on the PIBS Receipts

1. On payment of interest on the PIBS an amount must currently be withheld by the Society on account of United Kingdom income tax at the lower rate (currently 20 per cent.). Accordingly, PIBS Receiptholders will generally receive interest under deduction of tax at the lower rate. Certain classes of taxpayer (such as tax exempt investors, companies and unit trusts within the meaning of section 75(8) of the Financial Services Act 1986) may be entitled to receive interest without deduction of United Kingdom income tax under SI 1990/2231 or may be able to reclaim all or part of any tax deducted from interest on the PIBS Receipts. PIBS Receiptholders who are not resident in the United Kingdom may be able to recover all or part of any tax deducted pursuant to the provisions of an applicable double taxation treaty.
2. Notwithstanding that interest may be received net of lower rate income tax, PIBS Receiptholders who are individuals or companies resident in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom via a branch or agency with which the holding of PIBS Receipts is connected may be liable to pay further United Kingdom tax on the interest received (see further below).

Corporation Tax Payers

3. PIBS Receiptholders who are subject to United Kingdom corporation tax will be charged to tax on interest arising on the PIBS Receipts under the "loan relationships" regime in the Finance Act 1996, broadly in accordance with their accounting treatment. However, the PIBS Receipts themselves are not assets within the loan relationships regime (and are not "qualifying corporate bonds" for the purposes of corporation tax) and therefore on any disposal of the PIBS Receipts a holder subject to United Kingdom corporation tax may realise a gain or loss for the purposes of corporation tax on chargeable gains, depending upon that holder's particular circumstances.

Stamp Duty

4. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS Receipts.

MARKETING ARRANGEMENTS

The Manager has, pursuant to a subscription agreement dated 2 March, 2000 (the "Subscription Agreement"), agreed with the Trustee and the Society, subject to the satisfaction of certain conditions (including, without limitation, the admission of the PIBS Receipts to the Official List being granted by not later than 13 March, 2000 or such later date as the Trustee, the Society and the Manager may agree), to subscribe for, or procure subscribers for, the PIBS Receipts at the issue price of 100.00 per cent. of their principal amount. The Society has agreed to pay the Manager a combined management and underwriting commission of 1.25 per cent. of such principal amount if the conditions to which the issue of the PIBS Receipts are subject are satisfied or waived by the Manager. The Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Manager and the Trustee against certain liabilities in connection with the issue of the PIBS Receipts.

The PIBS Receipts have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons otherwise than in accordance with applicable United States securities laws and regulations. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the PIBS Receipts, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells PIBS Receipts during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the PIBS Receipts within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of a PIBS Receipt within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Manager represents that (1) it has not offered or sold and will not offer or sell any PIBS Receipts to persons in the United Kingdom prior to admission of the PIBS Receipts to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSA (2) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the PIBS Receipts in, from or otherwise involving the United Kingdom and (3) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the PIBS Receipts (other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by the listing rules) if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

Save for having obtained approval of this document by the London Stock Exchange pursuant to listing rules made under Part IV of the FSA and having delivered copies thereof to the Registrar of Companies in England and Wales, no action has been or will be taken by the Society or the Trustee or the Manager that would, or is intended to, permit a public offer of the PIBS Receipts in any country or jurisdiction where action for that purpose is required. The PIBS Receipts may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the PIBS Receipts may not, directly or indirectly, be offered or sold and neither this document nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor the Trustee nor the Manager represents that the PIBS Receipts may at any time lawfully be sold in or from any jurisdiction (other than in or from the United Kingdom) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

Material change

There has been no significant change in the financial or trading position of the Society or the Group or any material adverse change in the prospects of the Society or the Group since 4 April, 1999, being the date to which the latest published audited accounts were made up.

Litigation

Neither the Society nor the Group is or has been involved in any legal or arbitration proceedings or is aware of any pending or threatened legal or arbitration proceedings which may have, or have had during the past twelve months, a significant effect on the financial position of the Society or the Group taken as a whole.

The Trustee is not involved and has not been involved in any legal or arbitration proceedings nor is it aware of any pending or threatened legal or arbitration proceedings which may have, or have had during the past twelve months, a significant effect on the financial position of the Trustee.

Accounts

The consolidated accounts of the Society for the three years ended 4 April, 1999 have been audited in accordance with United Kingdom auditing standards by Price Waterhouse and following the merger in the United Kingdom of Coopers & Lybrand and Price Waterhouse (which was completed on 1 July, 1998), the resulting United Kingdom partnership carrying on business under the name PricewaterhouseCoopers, Chartered Accountants and Registered Auditors of Southwark Towers, 32 London Bridge Street, London SE1 9SY and have been reported upon without qualification.

Auditors

PricewaterhouseCoopers has given and not withdrawn its written consent to the inclusion herein of its report on the Society and the Group and the references thereto and to its name in the form and context in which they appear and has authorised the contents of that part of the listing particulars for the purposes of section 152(1)(e) of the Financial Services Act 1986.

Authorisation

The issue of the PIBS was authorised by a resolution of the Board on 19 January, 2000.

Expenses

The overall cost of the issue of the PIBS by the Society and the related PIBS Receipts by the Trustee, including all commissions and expenses, is estimated to amount to approximately £4,300,000 (exclusive of VAT).

Material contracts

Each of the Group and the Trustee has entered into or will enter into the following contracts (other than in the ordinary course of business) within the two years immediately preceding the date of this document which are or may be material:

- (i) the Trust Deed to be dated 13 March, 2000 between the Trustee and the Society;
- (ii) the Subscription Agreement dated 2 March, 2000 between the Manager, the Trustee and the Society;
- (iii) the Registrar's Agreement to be dated 13 March, 2000 between the Registrar, the Trustee and the Society appointing the Registrar as registrar for the PIBS and the PIBS Receipts; and
- (iv) the Agent Bank Agreement to be dated 13 March, 2000 between the Agent Bank, the Trustee and the Society appointing the Agent Bank as agent bank for the PIBS.

Directors' interests

The Directors of the Society have no interest in any transactions which are or were unusual in their nature or conditions or significant to the business of the Society and which were effected by the Society during the current or immediately preceding financial year or were effected by the Society during an earlier financial year and remain in any respect outstanding or unperformed.

Neither any Director of the Society nor any child, stepchild (in each case under the age of 18), spouse or connected person of any Director of the Society has any interest in any PIBS or PIBS Receipts.

Capital

So far as is known to the Society, no persons, directly or indirectly or jointly or severally, exercise or could exercise control over the Society or are interested, directly or indirectly, in 3 per cent. or more of the Society's capital.

No capital of the Society or any of its subsidiaries is under option or has been agreed by the Society to be put under option to any person.

Guarantees and loans

As at 31 December, 1999, the balances on loans made to Directors of the Society and persons connected with them as defined by section 70 of the Act, totalled £403,696.

No guarantees have been provided by the Society for the benefit of any Director of the Society.

Employee schemes

There are no existing schemes involving the Directors or any employees of the Society or the Group in any capital of the Society or its subsidiary undertaking.

Directors' service agreements

The Society has entered into the following service agreements with its executive Directors:

Dr. BE Davis CBE has a rolling two year service contract entered into on 19 December, 1990, terminable on six months' notice by Dr. Davis. His current annual salary is £385,000.

ARH Dales and BK Simpson have rolling two year service contracts entered into on 16 April, 1992, terminable on three months' notice by them. Their current annual salaries are £245,000 and £256,000 respectively.

PF Williamson and SDM Bernau have rolling one year service contracts, each at current annual salaries of £228,000.

In addition to his salary each Executive Director's remuneration package includes performance related annual and medium term bonus schemes, pension contributions and other taxable benefits including a car, healthcare provision and a mortgage allowance.

Save as disclosed above, no Director of the Society or the Group has a service agreement with either the Society or the Group.

The Directors of the Society have not waived or agreed to waive future emoluments and no emoluments have been waived during the past financial year.

Estimate of amounts payable to the Directors

It is estimated that an aggregate sum of £2,500,000 (including remuneration for executive duties) will be payable to the Directors of the Society by the Group in respect of remuneration and benefits in kind during the financial year ending 4 April, 2000.

Registrar

The Society has, and the Society and the Trustee have, respectively, appointed Lloyds TSB Registrars at its specified office at The Causeway, Worthing, West Sussex BN99 6DA to maintain the PIBS Register in respect of the Tranche A PIBS and the PIBS Register in respect of the Tranche B PIBS (together, the "PIBS Registers") and the PIBS Receipts Register in respect of the Tranche A PIBS Receipts and the PIBS Receipts Register in respect of the Tranche B PIBS Receipts (together, the "PIBS Receipts Registers") at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the PIBS Registers and agent of the Society and the Trustee for the purposes of maintaining the PIBS Receipts Registers, accepting instructions for and effecting transfers of the PIBS and the PIBS Receipts respectively, issuing PIBS Certificates and PIBS Receipts Certificates to the Trustee (as the PIBS holder) and PIBS Receiptholders respectively, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed PIBS Receipts Certificates and making payments in respect of the PIBS and the PIBS Receipts as they fall due.

PIBS Receipts Certificates

No temporary documents of title shall be issued by the Trustee. The Registrar will despatch the PIBS Receipts Certificates to all PIBS Receiptholders upon the request and at the risk of the person entitled thereto by first class post between 13 March, 2000 and 27 March, 2000 to the address specified in the PIBS Receipts Registers. The ISIN for the Tranche A PIBS Receipts is GB0001777449 and the SEDOL number is 0177744. The ISIN for the Tranche B PIBS Receipts is GB0001777886 and the SEDOL number is 0177788.

Payment for the PIBS Receipts

Payment for the PIBS Receipts subscribed for by the Manager or by persons procured by the Manager will be made by telegraphic transfer (or other approved means) to the account nominated by the Society in accordance with the Subscription Agreement.

Documents for inspection

Copies of the following documents may be inspected at the offices of Clifford Chance LLP, 200 Aldersgate Street, London EC1A 4JJ during normal business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:

- (i) the Rules and the Memorandum of the Society and the Memorandum and Articles of Association of the Trustee;
- (ii) the audited consolidated accounts of the Society for each of the three years ended 4 April, 1997, 1998 and 1999, the unaudited consolidated accounts of the Society for the six months ended 4 October, 1999 and the audited accounts of the Trustee for each of the three years ended 31 December, 1996, 1997 and 1998;
- (iii) the Trust Deed;
- (iv) the Subscription Agreement;
- (v) drafts of the Registrar's Agreement and Agent Bank Agreement and of a PIBS Certificate (including the special conditions of issue of the PIBS) and PIBS Receipts Certificate (including the special conditions of issue of the PIBS Receipts);
- (vi) the consent of PricewaterhouseCoopers;
- (vii) the Directors' service agreements referred to above;
- (viii) the material contracts referred to above;
- (ix) all other reports, letters and documents provided by expert parties included or referred to in this document; and
- (x) Prudential Note 1998/2 published by the Commission.

THE SOCIETY

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Swindon SN38 1NW

TRUSTEE

The Law Debenture Intermediary Corporation p.l.c.
Princes House
95 Gresham Street
London EC2V 7LY

REGISTRAR

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

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Limited Liability Partnership
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London EC1A 4JJ

To the Manager and to the Trustee
Allen & Overy
One New Change
London EC4M 9QQ

AUDITORS

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Southwark Towers
32 London Bridge Street
London SE1 9SY

MANAGER, AGENT BANK AND SPONSOR FOR LISTING

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5 The North Colonnade
Canary Wharf
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