2003-04 RESULTS

Graham Beale

Group Finance Director
Today’s Agenda

- Overview
  - Results Highlights
  - Strategic Focus
- Performance Highlights
- Summary of Results
- Market Outlook
Overview

2003-04 Results
## Results Highlights

Profit up 21%.....

<table>
<thead>
<tr>
<th></th>
<th>03/04</th>
<th>02/03</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Tax Profit</td>
<td>427</td>
<td>353</td>
<td>21</td>
</tr>
<tr>
<td>Pricing Benefit</td>
<td>588</td>
<td>510</td>
<td>15</td>
</tr>
<tr>
<td>Total Member Value Generated</td>
<td>906</td>
<td>773</td>
<td>17</td>
</tr>
</tbody>
</table>
## Results Highlights

**Assets exceed £100bn….**

<table>
<thead>
<tr>
<th></th>
<th>03/04 £bn</th>
<th>02/03 £bn</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Advances</td>
<td>24.4</td>
<td>17.4</td>
<td>40</td>
</tr>
<tr>
<td>Total Assets</td>
<td>101.4</td>
<td>85.4</td>
<td>19</td>
</tr>
<tr>
<td>Total Capital</td>
<td>6.2</td>
<td>5.1</td>
<td>21</td>
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<tr>
<td>Solvency Ratio</td>
<td>11.72%</td>
<td>11.68%</td>
<td>-</td>
</tr>
</tbody>
</table>
Strategic Focus

- “Modern mutual”
- No shareholders – aim is to generate maximum value for members for:
  - Distribution – Pricing Benefit
  - Retaining – fund growth of business
  - Investing – in our people and in our business

Business approach

- Full range of FS products
- Full range, integrated distribution channels
- Strong organic growth
- UK focused
Performance Highlights
Key Business Areas

- Lending
- Insurance
- Member Benefit
- Savings
- Banking
Lending - Net Mortgage Growth

- Gross Advances £24.4bn – 8.5% market share
- Principal Repaid £11.1bn - 6.1% market share
- Net Lending £13.2bn – 12.8% market share
Competitor Net Lending 2003

Relative to Par Share of the Market

NBS: 5.8%
Abbey: -2.4%
A&L: -1.6%
Barclays: -6.8%
HBOS: 2.9%
HSBC: 2.0%
Lloyds: -1.1%
RBS: -0.2%

All numbers are 2003 calendar year
Lending - Mortgage Retention

- 82% retained 6 months post maturity
- Boosted net lending by c.£4.5bn in 2003/04
Quality of Lending

- **Responsible lender**
  - No lending over 95% Loan to Value
  - Loan size based on ability to service repayment

- **Society only lends in core markets**
  - House purchase
  - Re-mortgage
  - Further advances

- **Specialist lending through UCB**
  - Self Certified – robust approval systems in place
  - Buy to Let – total balances £750m – c.1% of Group Residential balances
Lending – Control of Arrears

- Arrears levels keep falling

Mortgage Arrears 3 Months Plus

**Nationwide**

December 2003

- Nationwide = 0.41%
- Market = 0.81%
Lending – Unsecured Loans

- Record levels of lending in recent months
  - Gross advances £897m – up 25%
  - Net Advances £181m – up 49%
  - Total balances £1,190m – up 18%
- Single pricing for all loan sizes - 6.7% APR
- Strenuous credit assessment
  - 1 in 2 cases rejected
  - 80% of lending to existing Nationwide customers
Savings

• **£5.0bn** increase in savings balances (**6.9%** market share)
  - Renewed focus on retail savings in market – strong competition
  - Inflows into e-savings, fixed rate bonds and member loyalty bonds
  - Total balances **£65.9bn** – UK’s **third largest** Retail Savings provider
Banking

- **500,000** new Current Accounts (8.3% market share – par 4%)
  - 3 million customers
  - 23% regularly use our online bank

- **222,000** Credit Cards issued – up 25%
  - Gross lending **£1.4bn** (1% market share)
  - 868,000 cards in issue
  - Good quality - benchmark performance for accounts over limit 1.3% - average 3.9%
Insurance

- **159,000** new Life policies and Investment products issued – up **5%**
  - Strong sales of term assurance – up **16%**
  - No with profit sales
  - Mortgage payment protection free of charge for first 12 months

- **529,000** General Insurance covers sold
  - Total covers **1.6m**
  - All underwritten by third parties
Cross holding ratio improved despite adding 0.5m new members….

<table>
<thead>
<tr>
<th></th>
<th>03/04</th>
<th></th>
<th>02/03</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>%</td>
<td>m</td>
<td>%</td>
</tr>
<tr>
<td>Total Members</td>
<td>11.0</td>
<td></td>
<td>10.5</td>
<td></td>
</tr>
<tr>
<td>With 1 product</td>
<td>6.6</td>
<td>60</td>
<td>6.6</td>
<td>63</td>
</tr>
<tr>
<td>With 2 products</td>
<td>2.4</td>
<td>22</td>
<td>2.3</td>
<td>22</td>
</tr>
<tr>
<td>With 3 products</td>
<td>1.1</td>
<td>10</td>
<td>0.9</td>
<td>9</td>
</tr>
<tr>
<td>With 4 products</td>
<td>0.5</td>
<td>5</td>
<td>0.4</td>
<td>4</td>
</tr>
<tr>
<td>With 5+ products</td>
<td>0.4</td>
<td>3</td>
<td>0.3</td>
<td>2</td>
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<tr>
<td>Average Product Groups per member</td>
<td>1.70</td>
<td></td>
<td>1.65</td>
<td></td>
</tr>
</tbody>
</table>
Key Business Areas

- Lending
- Insurance
- Member Benefit
- Savings
- Commercial
- Value Generation
- Banking
- Treasury
Commercial

- Gross lending £4.1bn – up 6%
- Net Lending £1.6bn – up 15%
- Outstanding balances represent 14% of total Group lending
- 20 year track record
- Whole book is secured
  - No development finance
- Asset quality strong - arrears balances only 0.03% of total book (2003 – 0.04%)
- Strong margin and fee contribution
Wholesale funding used to support asset growth
  - Additional £9.4bn raised – wholesale funding ratio 28.9%
  - Active MTN programmes – UK, USA, Euro

Capital raising
  - $625m Sub Debt
  - £400m PIBS – very attractive pricing – 1.5x over subscribed

Liquid assets and investment - £17.4bn
Planning for strong organic growth...

- Savings to grow at par share
- Strong growth in other PFS lines
- Controlled growth of Commercial & Treasury

...while continuing to closely manage...

- Margin & spreads – to deliver required profit
- Asset quality – to maintain earnings quality
- Profit retention – strong solvency ratio
- Profit distribution – meaningful difference
- Investment – building a modern business
2003-04 Results

Summary of Results
<table>
<thead>
<tr>
<th></th>
<th>03/04</th>
<th>02/03</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income &amp; Expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>1,350</td>
<td>1,259</td>
<td>7</td>
</tr>
<tr>
<td>Expenses &amp; Deprec.</td>
<td>(866)</td>
<td>(807)</td>
<td>7</td>
</tr>
<tr>
<td>Provisions / Write Offs</td>
<td>(57)</td>
<td>(99)</td>
<td>(42)</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>427</td>
<td>353</td>
<td>21</td>
</tr>
<tr>
<td>Profit Post Tax</td>
<td>318</td>
<td>263</td>
<td>21</td>
</tr>
<tr>
<td>Income by category</td>
<td>03/04</td>
<td>02/03</td>
<td>Change</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>1,099</td>
<td>1,031</td>
<td>7</td>
</tr>
<tr>
<td>Non-Interest Income</td>
<td>251</td>
<td>228</td>
<td>10</td>
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<tr>
<td>Total Income</td>
<td>1,350</td>
<td>1,259</td>
<td>7</td>
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Net Interest Margin

Margin impacted by low interest rate environment

<table>
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<tr>
<th>Year</th>
<th>Margin</th>
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<tr>
<td>99/00</td>
<td>1.66</td>
</tr>
<tr>
<td>00/01</td>
<td>1.60</td>
</tr>
<tr>
<td>01/02</td>
<td>1.34</td>
</tr>
<tr>
<td>02/03</td>
<td>1.29</td>
</tr>
<tr>
<td>03/04</td>
<td>1.18</td>
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Competitor NIMs 2002 and 2003

%  

<table>
<thead>
<tr>
<th></th>
<th>December 2002</th>
<th>December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBS</td>
<td>1.33</td>
<td>3.13</td>
</tr>
<tr>
<td>Abbey</td>
<td>1.50</td>
<td>2.97</td>
</tr>
<tr>
<td>A&amp;L</td>
<td>1.51</td>
<td>2.27</td>
</tr>
<tr>
<td>HBOS</td>
<td>1.73</td>
<td>2.32</td>
</tr>
<tr>
<td>HSBC</td>
<td>1.77</td>
<td>2.23</td>
</tr>
<tr>
<td>Barclays</td>
<td>2.27</td>
<td>2.61</td>
</tr>
<tr>
<td>RBS</td>
<td>3.13</td>
<td>3.04</td>
</tr>
<tr>
<td>Lloyds</td>
<td>3.20</td>
<td>3.04</td>
</tr>
</tbody>
</table>

c.1.67 if Pricing Benefit included
Efficiency

- Costs: Mean Total Assets fallen for 15th year
- Targeting improvement in Cost: Income ratio to 55% by 2006-07
Competitor Efficiency 2003

Consistent assumptions used
## Provisions charge

<table>
<thead>
<tr>
<th></th>
<th>03/04</th>
<th>02/03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bad debt provisions</strong></td>
<td>(44)</td>
<td>(49)</td>
</tr>
<tr>
<td><strong>Liabilities provisions</strong></td>
<td>(40)</td>
<td>(11)</td>
</tr>
<tr>
<td><strong>Fixed asset investments</strong></td>
<td>26</td>
<td>(38)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(58)</td>
<td>(98)</td>
</tr>
</tbody>
</table>

- Liabilities provision includes £34m for customer redress relating to current and future endowment review claims
- Fixed asset investment held at mark to market – enjoyed improvements in underlying value
Balance Sheet Assets

High quality asset composition – 98.2% secured / AA rated

April 2004

- Mortgages: 65.8%
- Consumer: 11.9%
- Commercial: 3.3%
- Liquidity: 1.8%
- Other: 1.9%

April 2003

- Mortgages: 62.7%
- Consumer: 12.3%
- Commercial: 3.2%
- Liquidity: 1.9%
- Other: 1.9%

High quality asset composition – 98.2% secured / AA rated
Balance Sheet Liabilities

Efficient funding of asset growth

April 2004

- Shares: 26.4%
- Debt Securities: 4.5%
- Other: 1.6%
- SD & PIBS: 2.5%
- Reserves: 65.0%

April 2003

- Shares: 20.4%
- Debt Securities: 4.9%
- Other: 1.0%
- SD & PIBS: 2.3%
- Reserves: 71.4%
Capital Solvency Ratios

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Capital</th>
<th>Tier 1</th>
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<tbody>
<tr>
<td>99/00</td>
<td>11.48%</td>
<td></td>
</tr>
<tr>
<td>00/01</td>
<td>10.96%</td>
<td></td>
</tr>
<tr>
<td>01/02</td>
<td>11.51%</td>
<td></td>
</tr>
<tr>
<td>02/03</td>
<td>11.68%</td>
<td></td>
</tr>
<tr>
<td>03/04</td>
<td>11.72%</td>
<td></td>
</tr>
</tbody>
</table>

Credit Rating

- **Fitch IBCA**
  - Short Term: F1+
  - Long Term: AA-

- **Moody’s**
  - Short Term: P-1
  - Long Term: Aa3

- **S & P**
  - Short Term: A-1
  - Long Term: A+
Basel II
- On course to achieve IRB status
- Core risk systems in place / being developed
- Should be a net beneficiary

International Accounting Standards
- On schedule to report in 2005/06

Mortgage & Insurance Regulation
- Developing appropriate policies and processes
- Greater transparency consistent with Nationwide’s agenda
- Will be compliant on time
Summary
Strong financial results...

- Profits up 21% to £427m
- Capital strength - total solvency 11.72%
- Asset quality – average LTV of 38% (41%)
- Efficiency - Cost:MTA down again for 15th year

...underpin growth across all of our markets

- Total Assets up 19% in 03/04
- 12.8% share of net mortgage market
- 6.9% share of savings market
- 508,000 new current accounts issued
- Secured commercial lending assets exceed £12bn
Market Outlook
Market Outlook

- **Recent Trends**
  - Housing Market
  - Lending & Savings Markets
  - Retail Spreads

- **Outlook**
  - Debt levels
  - Interest rates
  - Economy
Housing market accelerated in last six months

Source: Nationwide, Inland Revenue
Mortgage rates

- Worth £600 off annual payment for £100k mortgage

Source: Nationwide, Survey of Mortgage Lenders
Mortgage Lending

- Housing market being driven by existing owners
- Equity withdrawal boosting net lending
- Internal switching equivalent to remortgage advances

Source: Nationwide, Survey of Mortgage Lenders
**Mortgage Book**

- Churn is reducing proportion of SVR balances
  - 25bp SVR increase yields 17bp book rate rise

**December 2000**
- 33% Standard
- 18% Discount
- 2% Fix/Cap
- 47% Tracker

Source: Nationwide Estimates

**February 2004**
- 34% Standard
- 23% Discount
- 13% Fix/Cap
- 30% Tracker

Source: Nationwide Estimates
Retail Funding

- Retail Savings flows are strong
  - 8% of income vs average 6% 1960-2003
  - But retail saving has been outstripped by lending

Source: Bank of England
Remortgage churn & deals pushing mortgage rates down

Savings rates broadly stable since 2002

Source: Nationwide, Bank of England
Debt Levels

- Debt at record levels
  - More widespread borrowing
  - Easier servicing & confidence in economy

Source: Bank of England
Interest Rate Outlook

- Debt servicing sensitive to rising interest rates
  - Peak in rates of c5% expected
  - 8% base rate moves payments back to peak

Source: Nationwide, NES, SML
Economic Outlook

- Economy to grow in line with trend
- Labour market to remain supportive

Source: ONS
Questions
Lending - UCB

- Gross advances £1.9bn - up 19%
- Net advances £0.7bn - up 40%
- Outstanding Balances £4.8bn – up 17%
- Deals with:
  - Self Certified applications
  - Buy to Let
- Robust approval processes & strong control of arrears
- Only 3.7% of customers in arrears (2003 - 3.95%)
Retail banking spreads

<table>
<thead>
<tr>
<th>Year</th>
<th>Asset Spread</th>
<th>Liabilities Spread</th>
<th>Total Spread</th>
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</thead>
<tbody>
<tr>
<td>99/00 H1</td>
<td>1.52</td>
<td>-0.34</td>
<td>1.18</td>
</tr>
<tr>
<td>99/00 H2</td>
<td>1.46</td>
<td>-0.64</td>
<td>0.82</td>
</tr>
<tr>
<td>00/01 H1</td>
<td>1.36</td>
<td>-0.53</td>
<td>0.83</td>
</tr>
<tr>
<td>00/01 H2</td>
<td>1.43</td>
<td>-0.55</td>
<td>0.68</td>
</tr>
<tr>
<td>01/02 H1</td>
<td>1.17</td>
<td>-0.35</td>
<td>0.82</td>
</tr>
<tr>
<td>01/02 H2</td>
<td>1.37</td>
<td>-0.37</td>
<td>1.00</td>
</tr>
<tr>
<td>02/03 H1</td>
<td>1.27</td>
<td>-0.51</td>
<td>0.76</td>
</tr>
<tr>
<td>02/03 H2</td>
<td>1.32</td>
<td>-0.49</td>
<td>0.83</td>
</tr>
<tr>
<td>03/04 H1</td>
<td>1.41</td>
<td>-0.48</td>
<td>0.93</td>
</tr>
<tr>
<td>03/04 H2</td>
<td>1.18</td>
<td>-0.47</td>
<td>0.71</td>
</tr>
<tr>
<td>Charge for losses</td>
<td>03/04</td>
<td>02/03</td>
<td></td>
</tr>
<tr>
<td>-------------------</td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>H1</td>
<td>H2</td>
<td>Total</td>
</tr>
<tr>
<td>Residential Mortgages</td>
<td>11</td>
<td>(6)</td>
<td>5</td>
</tr>
<tr>
<td>Banking</td>
<td>17</td>
<td>16</td>
<td>33</td>
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<tr>
<td>Total Retail Banking</td>
<td>28</td>
<td>10</td>
<td>38</td>
</tr>
<tr>
<td>Commercial</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Treasury</td>
<td>(11)</td>
<td>(15)</td>
<td>(26)</td>
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<tr>
<td>Group Total</td>
<td>19</td>
<td>(1)</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>03/04</td>
<td>02/03</td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------</td>
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<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>250</td>
<td>272</td>
<td></td>
</tr>
<tr>
<td>% of book</td>
<td>0.30%</td>
<td>0.40%</td>
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</tr>
<tr>
<td>Charge</td>
<td>18</td>
<td>87</td>
<td></td>
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<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan loss</td>
<td>44</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>% of book</td>
<td>0.28%</td>
<td>0.33%</td>
<td></td>
</tr>
<tr>
<td>Investment assets</td>
<td>(26)</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>03/04</td>
<td>02/03</td>
<td>Change</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>£bn</td>
<td>£bn</td>
<td>%</td>
</tr>
<tr>
<td>Retail Shares &amp; Deposits</td>
<td>67.4</td>
<td>62.7</td>
<td>7.5</td>
</tr>
<tr>
<td>Wholesale &amp; Other</td>
<td>25.3</td>
<td>16.1</td>
<td>57.1</td>
</tr>
<tr>
<td>Life Assurance Assets</td>
<td>1.8</td>
<td>1.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Capital</td>
<td>6.1</td>
<td>5.1</td>
<td>19.6</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>100.7</td>
<td>85.4</td>
<td>17.9</td>
</tr>
</tbody>
</table>
Asset Quality

- Arrears at record lows
  - Debt servicing relatively easy
  - Unemployment at 30-year low

Bar chart showing:
- Mortgages, 6-month + arrears
- Personal loans, 2 payments or >31 days
- Credit Cards, 2 payments or >31 days

Source: CML, FLA
Strategic Targets

● **Maintain Pricing Benefit - over £500m p.a.**
  - Meaningful spread – 75bp above competition
  - Balance distribution between borrowers, savers and other customers

● **Add to Capital from Retained Profit**
  - Maintain Tier 1 ratio above 8.0%

● **Net Interest Margin of 1.20%**

● **Reduce Cost : Income ratio to 55% by 2006/07**
  - Hold costs below rate of earnings inflation
  - Grow income by more than 8% per annum