



## NATIONWIDE BUILDING SOCIETY

(incorporated in England under the Building Societies Act 1986)

### **£400,000,000 5.769 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 £400,000,000 5.769 per cent. Permanent Interest Bearing Shares of Nationwide Building Society**

**Issue Price: 100 per cent.**

Nationwide Building Society (the "Society") will issue £400,000,000 5.769 per cent. Permanent Interest Bearing Shares (the "PIBS") at an issue price of 100 per cent. of their principal amount, comprising 40,000 PIBS of £10,000 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 6 February 2004 and made between the Society and the Trustee, the Trustee will issue £400,000,000 5.769 per cent. Permanent Interest Bearing Share Receipts (the "PIBS Receipts"), comprising 40,000 PIBS Receipts of £10,000 each in respect of the PIBS. 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").

Although the PIBS are freely transferable subject to Condition 4 of the special conditions of issue of the PIBS, in the Trust Deed the Trustee has irrevocably undertaken for the benefit of the PIBS Receiptholders not to transfer any of the PIBS other than to a successor trustee, except in certain circumstances set out therein.

The PIBS and the PIBS Receipts will be freely transferable and the PIBS Receipts 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 6 February 2026 or each fifth anniversary thereof or in certain limited circumstances as described in "Special conditions of issue of the PIBS - 6. Repayment" on page 12 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 (as defined below), other than rights to receive perpetual subordinated bonds issued by the Society's successor company, ranking behind any undated subordinated debt previously issued by the Society, of the same principal amount as their holdings of the PIBS Receipts and carrying the same rate of interest as the PIBS. 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 16 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 6 of this document.

The liability of the Trustee will be limited as specified under the "Special conditions of issue of the PIBS Receipts - 14. Enforcement; Indemnification and Liability of the Trustee" set out on page 20 of this document.

Application has been made to list the PIBS and the PIBS Receipts on the Luxembourg Stock Exchange.

The PIBS will be in registered form in the denomination of £10,000 and will be represented by an individual PIBS Certificate and will be accepted for clearing in Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") on or about 6 February 2004.

The PIBS Receipts will be in registered form in the denomination of £10,000. The PIBS Receipts will be represented by a Global PIBS Receipt Certificate (the "Global PIBS Receipt Certificate") which will be registered in the name of a nominee for a common depositary for Clearstream, Luxembourg and Euroclear on or about 6 February 2004. The Global PIBS Receipt Certificate will be exchangeable for individual PIBS Receipt Certificates in certain limited circumstances set out in it.

**The PIBS will be deferred shares in the Society for the purposes of section 119 of the Act. The PIBS will not be an investment in respect of which a claim may be entertained by the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000 and will be excluded from the deposit sub-scheme of the Financial Services Compensation Scheme. Attention is drawn to the sections of this document entitled "Risk factors associated with the PIBS and the PIBS Receipts" on pages 4 and 5 of this document and "Certain features distinguishing the PIBS Receipts from the PIBS" on page 6 of this document.**

**BARCLAYS CAPITAL  
UBS INVESTMENT BANK**

*The Society accepts responsibility for the information contained in this document, save for the section entitled “The Law Debenture Intermediary Corporation p.l.c.” and to the best of the knowledge and belief of the Society (which has taken all reasonable care to ensure that such is the case), that information is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*The Trustee accepts responsibility for the section entitled “The Law Debenture Intermediary Corporation p.l.c.” in this document and to the best of the knowledge and belief of the Trustee (who has 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 the Managers (as defined in “Marketing Arrangements”). 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.*

*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 Managers 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 Managers 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 92 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.**

*In connection with the issue of the PIBS Receipts, Barclays Bank PLC or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the PIBS Receipts at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on Barclays Bank PLC or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.*

*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 special conditions of issue of the PIBS Receipts 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) there is no expectation of repayment unlike normal investment accounts where the Society must return the capital investment (plus any accrued interest) to investors as and when they demand it (subject, of course, to the stated period of notice etc. on that particular account). The principal amount of the PIBS, and accordingly the PIBS Receipts, will be repayable only at the option of the Society on 6 February 2026 or each fifth anniversary thereof or in certain limited circumstances as described in “Special conditions of issue of the PIBS – 6. Repayment ” on page 12 of this document, subject to the permission of the statutory authority responsible for regulating building societies, which is currently the Financial Services Authority, or any successor body performing for the time being the same or similar functions in relation to building societies in the United Kingdom (so long as the Society remains a building society) or banks in the United Kingdom (in the event that the Society transfers its business to a company pursuant to section 97 of the Act). The Society is under no obligation to the investor to seek such permission to repay the PIBS (and accordingly the PIBS Receipts) and permission will generally only be given if the Financial Services Authority, or such successor body, is satisfied that the remaining capital would be adequate for the Society’s present and foreseeable future needs and is unlikely to be given within five years of the issue date of the PIBS. 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 order to realise an investment in the PIBS Receipts an investor must either go to an established secondary market or look to make a private sale. There is no guarantee that the investor will be able to liquidate an investment in the PIBS Receipts either because the future liquidity of the secondary market is not guaranteed or alternatively the investor may be unable to find any potential private purchasers. Therefore, there is a risk that an investor cannot realise an investment in the PIBS Receipts at will;
- (c) as the capital value of the PIBS Receipts (and the PIBS) will vary with market interest rates, the market perception of the value of the Society and the availability of purchasers, there is a real chance that an investor will make a capital loss on selling PIBS Receipts;
- (d) 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);
- (e) the PIBS Receipts are not an investment in respect of which a claim may be entertained by the Financial Services Compensation Scheme and are excluded from the deposit sub-scheme of the Financial Services Compensation Scheme;
- (f) 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);
- (g) if the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (f) above, and accordingly no interest falls to be paid in respect of the PIBS Receipts, such interest will be cancelled;
- (h) the rights of the PIBS holders are markedly different from those of shareholders in a company, e.g. as to voting rights and protection of minorities; and
- (i) if the Society amalgamates with, or transfers all or part of its engagement to, another building society, the PIBS will not become repayable, but will become deferred shares in that society. If the Society transfers the

whole of its business to any other body, the transfer will incorporate arrangements to secure that the PIBS are effectively converted into undated subordinated debt of that body ranking behind any undated subordinated debt previously issued by the Society and carrying the same rate of interest as the PIBS, and do not become repayable.

In relation to the above, investors may wish to consult the Interim Prudential Sourcebook for Building Societies published by the Financial Services Authority.

## CERTAIN FEATURES DISTINGUISHING THE PIBS RECEIPTS FROM THE PIBS

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 (as defined below). 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 (if the Society's successor company issues perpetual subordinated bonds) transfer to each PIBS Receiptholder, perpetual subordinated bonds comprising upper tier 2 capital of the Society's successor company, ranking behind any undated subordinated debt previously issued by the Society, 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 (the “PIBS Conditions”) (as set out in the Trust Deed and on pages 9 to 15 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;
- (b) on the voting qualification date; and
- (c) 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 PIBS as they apply to holders of the PIBS and in the form in which they will appear on the reverse of each certificate issued in respect of each holding of PIBS (a "PIBS Certificate"). 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 5.769 per cent. 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 deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000;
  - (c) are not withdrawable;
  - (d) are deferred share investments for the purposes of the Rules; and
  - (e) rank *pari passu* among themselves and in all respects with the £200,000,000 7.971 per cent. Permanent Interest Bearing Shares issued on 13 March 2000 and the £100,000,000 7.859 per cent. Permanent Interest Bearing Shares issued on 13 March 2000 (the "Existing PIBS").

### 2 Form and denomination

The PIBS are in registered form and are transferable in accordance with the Rules in amounts and integral multiples of £10,000.

### 3 Register

- (1) The Society has appointed Citibank, N.A. as the Registrar (the "Registrar") and Citibank International plc as the Transfer Agent (the "Transfer Agent") for the PIBS under the terms of a Registrar and Agency Agreement (the "Registrar and Agency Agreement") dated 6 February 2004 and made between the Society, The Law Debenture Intermediary Corporation p.l.c. (the "Trustee"), the Registrar, the Agent Bank (as defined below) and the Transfer Agent. The Society shall at all times maintain a Transfer Agent in Luxembourg so long as the PIBS are listed on the Luxembourg Stock Exchange.
- (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 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 or the Transfer Agent shall, on behalf of the Society, issue a certificate in respect of each holding of PIBS (a "PIBS Certificate") to each PIBS holder within 14 days after one is requested.
- (5) No person shall have any right to enforce any term or condition of the PIBS under the Contracts (Rights of Third Parties) Act 1999.

#### 4 Transfers

No legal transfer of PIBS shall be valid unless made in the form endorsed on the PIBS Certificate or in such other form as the Society may agree, which form shall be presented to the Registrar or the Transfer Agent. Title to the PIBS will pass upon registration of such transfer in the PIBS Register and the Registrar or the Transfer Agent shall on behalf of the Society issue a PIBS Certificate in respect of such holding (which will be made available at the offices of the Transfer Agent or the Registrar, as the case may be).

#### 5 Interest

- (1) The PIBS bear interest from and including 6 February 2004 to but excluding 6 February 2026 at the rate of 5.769 per cent. 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 6 August and 6 February in each year (each an “Interest Payment Date”), commencing on 6 August 2004. 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 6 August 2004) is called an “Interest Period”. Interest on the PIBS is non-cumulative.

The interest payment in respect of any period of less than a half year will be calculated on the basis of the actual number of days in the relevant period from and including the first day of such period to but excluding the last day of such period, divided by the actual number of days (including the first and excluding the last) in the Interest Period in which the relevant period falls, 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 6 February 2026 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 2.08 per cent. 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 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 and such determination shall be deemed to have been made by the Agent Bank;

“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 United Kingdom Debt Management Office (DMO) in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section one: “Price/Yield Formulae: Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998 and as updated on 15 January 2002)) 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. In the event that the Agent Bank fails to select such gilt edged market makers as provided above, the gilt edged market makers shall be selected by the Society and approved for this purpose by the Trustee;

“Reset Date” means 6 February 2026 and every fifth successive 6 February; 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 £10,000 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 13 and, so long as the PIBS are listed on the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange.
  - (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 Transfer Agent, the Registrar and all PIBS holders and (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 for that Interest Period 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 any requirement relating to capital adequacy imposed on the Society by or pursuant to the Financial Services and Markets Act 2000, including any statutory modification or re-enactment thereof, or any other enactment imposing capital adequacy requirements, 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 requirement in Condition 5(4)(a) 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 principal or interest on the PIBS in respect of which no cheque has been cashed and no payment claimed shall cease to be payable after twelve years from the due date for such payment.

## 6 Repayment

- (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 6.
- (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 (as defined below) and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with Condition 13 (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) 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 13 (which notice shall be irrevocable), redeem, prior to the first Reset Date (as defined in Condition 5(2)) at any time, and after the first Reset Date, on any Interest Payment Date (as defined in Condition 5(1)) 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, if:
- (a) (i) the Society has or will become obliged to pay additional amounts as described under Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 6 February 2004; and
  - (ii) such obligation cannot be avoided by Society taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Society would be obliged to pay such additional amounts were a payment in respect of the PIBS then due; or
  - (b) as a result of a change in any law or regulation of the United Kingdom or in the published official interpretation or application of any law or regulation by any relevant body in the United Kingdom or any action taken by any appropriate authority there is a substantial risk that the Society would not obtain relief in full or substantially in full for the purposes of United Kingdom corporation tax for any interest, premium (if any) or discount (if any) in respect of the PIBS, assuming that the Society had profits against which such relief could be used, and provided that the Society would not have been able to obtain such relief by taking reasonable measures available to it.

(6) All PIBS redeemed in accordance with this Condition 6 shall be cancelled forthwith and may not be reissued or resold.

(7) For the purposes of these Conditions:

“Relevant Supervisory Consent” means consent by the Financial Services Authority (or any other body performing for the time being the same or similar functions in relation to building societies in the United Kingdom (so long as the Society remains a building society) or banks in the United Kingdom (in the event that the society transfers its business to a company pursuant to section 97 of the Act)) to the relevant redemption.

## 7 Payments

All payments in respect of the PIBS will be made by sterling cheque 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”)) provided that payments of principal in respect of the PIBS will be made against presentation and surrender of such PIBS at the specified office of the Transfer Agent or the Registrar. Upon application of a PIBS holder or the person to whose order the payment is to be made to the Registrar or the Transfer Agent in the form obtainable from the specified office of the Registrar or the Transfer Agent, 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. All payments in respect of the PIBS shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”) imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Society will pay such additional amounts as may be necessary in order that the net amounts received by the PIBS holders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the PIBS in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any PIBS:

- (i) to, or to the order of, a holder where the holder or the person to whose order the payment is made is liable to the Taxes in respect of the PIBS by reason of having some connection with the United Kingdom other than the mere holding of the PIBS; or
- (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iii) held by a holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another registrar or agent in a member state of the EU; or
- (iv) where (in the case of a payment of principal or interest on repayment or redemption) the relevant PIBS Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant PIBS holder would have been entitled to such additional amounts if it had surrendered the relevant PIBS Certificate on the last day of such period of 30 days; or
- (v) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate; or
- (vi) where the relevant PIBS Certificate is surrendered for payment in the United Kingdom if such payment could have been made without withholding or deduction by or through another registrar or agent outside the United Kingdom.

In this Condition 7, “Relevant Date” means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London by the

Registrar or another registrar or agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the PIBS holders.

*Notwithstanding Condition 7, all payments in respect of interests in PIBS held through Euroclear and Clearstream, Luxembourg will be credited to the cash accounts of Euroclear and Clearstream, Luxembourg accountholders in accordance with each system's rules and procedures.*

## **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 9) 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 ranking behind any undated subordinated debt previously issued by the Society (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 perpetual subordinated bonds of the successor company ranking behind any undated subordinated debt previously issued by the Society (the "Bonds"). The principal amount of the Bonds will be equal to the principal amount of the Subordinated Deposit and the Bonds will carry 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 Interim Prudential Sourcebook for Banks as replaced, amended or supplemented from time to time) or its equivalent (if any) 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 Replacement of PIBS Certificates**

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

## **13 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. In addition, if required by the rules of the Luxembourg Stock Exchange all notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the second day following the mailing of such notice.

## **14 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 in the Trust Deed and on the reverse of each individual receipt certificate issued in respect of a holding of PIBS Receipts (each a “PIBS Receipt Certificate”) and (subject to the provisions thereof) apply to the Global PIBS Receipt Certificate.*

Nationwide Building Society (the “Society”) has issued £ 400,000,000 5.769 per cent. Permanent Interest Bearing Shares (the “PIBS”), comprising 40,000 PIBS of £10,000 each, to The Law Debenture Intermediary Corporation p.l.c. (the “Trustee”). Under the terms of a Trust Deed (the “Trust Deed”) dated 6 February 2004 and made between the Society and the Trustee, the Trustee has issued the £400,000,000 5.769 per cent. Permanent Interest Bearing Share Receipts (the “PIBS Receipts”), comprising 40,000 PIBS Receipts of £10,000 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 (such that payments of all principal (if any) of, premium (if any) and interest on, a PIBS Receipt of £10,000 denomination will be equal to the payments of all principal (if any) of, premium (if any) and interest on, a PIBS of £10,000 denomination).

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 the Board of Directors of the Trustee passed on 2 February 2004.

Copies of the Trust Deed are available for inspection during normal business hours at the registered office of the Trustee (being, at 4 February 2004, at Fifth Floor, 100 Wood Street, London EC2V 7EX), at the specified office of the Registrar referred to below (being, at 4 February 2004, at Citigroup Centre, Canada Square, London E14 5LB) and at the specified office of the listing agent, Dexia Banque Internationale à Luxembourg, société anonyme (being, at 4 February 2004, at 69 route d’Esch, L-2953 Luxembourg).

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 13 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.
- (5) The PIBS Receipts rank *pari passu* among themselves and in all respects with the £200,000,000 7.971 per cent. Permanent Interest Bearing Share Receipts issued on 13 March 2000 and the £100,000,000 7.859 per cent. Permanent Interest Bearing Share Receipts issued on 13 March 2000 (the “Existing PIBS Receipts”).

### **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 £10,000.

*The PIBS Receipts will be represented by a Global PIBS Receipt Certificate (the “Global PIBS Receipt Certificate”) and will be exchangeable in certain limited circumstances into individual PIBS Receipt Certificates. The Global PIBS Receipt Certificate is expected to be deposited on or about 6 February 2004 with, and registered in the name of a nominee for, a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). Beneficial interests in the Global PIBS Receipt Certificate will be shown on, and transfers*

*thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream, Luxembourg in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global PIBS Receipt Certificate will be limited to persons who maintain accounts with Euroclear and Clearstream, Luxembourg or persons who hold interests through such persons.*

*The Global PIBS Receipt Certificate will be exchangeable in whole but not in part (free of charge to the holder by the Society or the Registrar) for individual PIBS Receipt Certificates (which will be in registered form) in certain limited circumstances only described therein and herein. The Global PIBS Receipt Certificate will become exchangeable in whole but not in part for individual PIBS Receipt Certificates if and only if Euroclear or Clearstream, Luxembourg (or any alternative clearing system on behalf of which the Global PIBS Receipt Certificate may be held (an “Alternative Clearing System”)) is closed for business for a continuous period of 14 calendar days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so. Any individual PIBS Receipt Certificate issued in exchange for beneficial interests in the Global PIBS Receipt Certificate will be issued to and delivered to such persons or registered in such name or names, as the case may be, as the PIBS Receiptholder shall instruct the Registrar against surrender of the Global PIBS Receipt Certificate at the specified office of the Registrar. It is expected that such instructions will be based upon directions received by Euroclear and Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System from accountholders with respect to ownership of beneficial interests in the Global PIBS Receipt Certificate. Such exchange will be effected in accordance with the provisions of the Registrar and Agency Agreement.*

### **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 Receiptholder 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 and Title**

- (1) The Society has appointed Citibank, N.A. (the “Registrar”) as the registrar for the PIBS Receipts under the terms of a Registrar and Agency Agreement (the “Registrar and Agency Agreement”) dated 6 February 2004 and made between the Society, the Trustee, the Registrar, the Agent Bank and the Transfer Agent. The Society shall at all times maintain a Transfer Agent in Luxembourg so long as the PIBS Receipts are listed on the Luxembourg Stock Exchange.
- (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 or the Transfer Agent 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 (which will be made available at the offices of the Transfer Agent or the Registrar, as the case may be) (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.
- (5) No person shall have any right to enforce any term or condition of the PIBS Receipts or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

## **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 legal 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 and presented to the Transfer Agent or the Registrar. 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 16.
- (3) Two, three or four persons may jointly hold any one PIBS Receipt and no PIBS Receipts shall be issued to holders, or be held by them at any time, as tenants in common.
- (4) 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 the interest payable under the PIBS on a *pro rata* basis in respect of each denomination of the PIBS Receipts (such that payments of interest on a PIBS Receipt of £10,000 denomination will be equal to the payments of interest on a PIBS of £10,000 denomination).

- (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 the Luxembourg Stock Exchange, the Luxembourg 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 16.
- (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 or principal of the PIBS and payable to a PIBS Receiptholder in respect of which no cheque 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 (as defined in the PIBS Conditions) (if required) and, for so long as the PIBS Receipts are listed on the Luxembourg Stock Exchange, subject to and in accordance with the requirements from time to time of the Luxembourg 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.

*As long as the PIBS Receipts are represented by the Global PIBS Receipt Certificate, cancellation of any PIBS Receipts which is required by the Conditions of the PIBS Receipts to be cancelled will be effected by reduction in the principal amount of the Global PIBS Receipt Certificate.*

## **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 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 or the Transfer Agent in the form obtainable from the specified office of the Registrar and the Transfer Agent, not less than 10 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.

*Notwithstanding Condition 9, all payments in respect of interests in the Global PIBS Receipt Certificate held through Euroclear and Clearstream, Luxembourg will be credited to the cash accounts of Euroclear and Clearstream, Luxembourg accountholders in accordance with each system's rules and procedures.*

## **10 Replacement of PIBS Receipt 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. The duplicate PIBS Receipt Certificate will be made available at the offices of the Transfer Agent or the Registrar (as the case may be).

## **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 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.

## **14 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 shall be entitled to rely on a certificate, report and/or engagement letter of the Auditors notwithstanding that such certificate or report and/or engagement letter or any document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof.
- (4) The Trustee and any affiliate 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.
- (5) 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.

## **15 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 and Agency Agreement. Save as provided in paragraph (2) of this Condition 15, 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 and Agency 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 and Agency 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, in the sole opinion of the Trustee, 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 to accordance with Condition 16 below.

*As long as the PIBS Receipts are represented by the Global PIBS Receipt Certificate, the holder of the Global PIBS Receipt Certificate shall be treated at any meeting of PIBS Receiptholders as having one vote in respect of each £10,000 principal amount of PIBS Receipts for which the Global PIBS Receipt Certificate may be exchanged.*

## **16 Notices**

All notices regarding the PIBS Receipts shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). 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.

*Notwithstanding Condition 16, so long as the Global PIBS Receipt Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, notices may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; provided, however, that, so long as the PIBS Receipts are listed on the Luxembourg Stock Exchange, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).*

## **17 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.

# NATIONWIDE BUILDING SOCIETY

## Introduction and Constitution

The Society is a building society incorporated under the Act, as amended, for an unlimited duration. As such, it is a mutual organisation owned by its members, and is regulated by the Financial Services Authority (the “FSA”), Register 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 Rules. The Society is the result of an amalgamation of building societies over a long period. 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. The Society, together with its subsidiary undertakings, (the “Group”) had total assets of £93.9 billion<sup>(1)</sup> as at 4 October 2003. The Group’s network of customer offices as at 4 October 2003 included 680 Society branches and 14 branches of Nationwide Trust Limited. This network, together with the additional support of 194 appointed agents, UCB Home Loans Corporation Limited, 24 hour call centres and internet banking facilities, provide the Group’s retail customers with a comprehensive range of financial services. The average number of staff employed by the Group during the six months to 4 October 2003 was 15,509.

## 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 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 substantial liquid balances which are invested in readily realisable assets, pursuant to the Act.

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

- A current account (FlexAccount) which offers an overdraft facility, and pays interest.
- Secured and unsecured personal loans offered through the subsidiary Nationwide Trust Limited.
- A range of general insurance products including buildings and contents insurance, mortgage payment protection insurance (including accident, sickness and unemployment insurance), personal accident insurance, travel insurance, and car insurance. These products are underwritten by UK insurers.
- A range of life assurance and pension products including guaranteed equity bonds, critical illness cover, level and decreasing term assurance and a stakeholder pension plan. These are offered through the subsidiary Nationwide Life Limited.
- Unit trusts and equity ISA’s 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.
- Specialised 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 by at.home nationwide limited.
- Syndicated lending provided through the subsidiary Nationwide Syndications Limited.
- Business investment accounts and secured commercial lending.

<sup>(1)</sup> Unless otherwise stated, the financial information appearing in this section has been extracted from the unaudited half year results of the Group for the six months ended 4 October 2003.

## Subsidiaries

The Society's principal subsidiaries, all of which are wholly owned within the Group and are consolidated in the Group's unaudited half year results, as at 4 October 2003 are set out below:

<u>Directly held subsidiary undertakings</u>	<u>Nature of business</u>
First Nationwide .....	Investment company
Monument (Sutton) Limited .....	Property rental
Nationwide International Limited.....	Offshore investment
Nationwide Investments No 1 Limited.....	Investment company
Nationwide Life Limited .....	Life assurance
Nationwide Mortgage Corporation Limited .....	Mortgage book acquisition and management
Nationwide Syndications Limited .....	Syndicated lending
Nationwide Trust Limited.....	Consumer finance
Nationwide Unit Trust Managers Limited.....	Unit trust management
at.home nationwide limited .....	Property rental
Foundation Insurance Limited .....	Mortgage indemnity insurance
UCB Home Loans Corporation Limited.....	Centralised mortgage lender

All of the above subsidiaries are limited liability companies except for First Nationwide which is an unlimited liability company with share capital. The Society holds 100 per cent. of the issued ordinary share capital of all its subsidiary undertakings.

All the above companies are registered in England (with their registered office at Nationwide House, Pipers Way, Swindon, SN38 1NW) and operate in the UK, except for Nationwide International Limited and Foundation Insurance Limited which are registered in (with their registered office at 5-11 George Street, Douglas, Isle of Man, IM99 1RN and 3rd Floor, Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2LR respectively) and operate in the Isle of Man.

## Liquid Assets

All building societies are required to maintain adequate assets in liquid form. As at 4 October 2003 the Group's liquid assets, including accrued interest, totalled £17.0 billion (4 October 2002 - £15.7 billion), or 19.6 per cent. of its total shares and borrowings. This figure includes securities held for liquidity purposes. The types of securities which count as liquid for regulatory purposes are specified in guidance issued by the FSA.

## Funding

Member funds are the Group's major source of funding, and totalled £63.0 billion at 4 October 2003 (4 October 2002 - £58.6 billion) which represented 67.1 per cent. of total liabilities and reserves. This funding consisted of over 11.5 million savings accounts and nearly 2.5 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 50.0 per cent. of its total funding in the form of share account balances provided by individuals.

Wholesale funding was increased by £5.5 billion during the six months to 4 October 2003 to support strong growth in the balance sheet. As at 4 October, wholesale balances stood at £22.9 billion (4 October 2002 - £14.0 billion).

A significant proportion of the increased wholesale funds came from the money markets via deposit taking and the Society's issuance of commercial paper and certificates of deposit, totalling £14.8 billion at 4 October 2003 (4 October 2002 - £7.5 billion).

## Sources of Income for the Half Year Ended 4 October 2003

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 October 2003 this totalled £1.47 billion (4 October 2002 - £1.27 billion).

Returns earned on the Group's debt securities and liquid assets were £280.6 million (4 October 2002 - £311.6 million) with interest on other loans (mainly commercial lending) of £269.4 million (4 October 2002 - £277.1 million). The net expense on derivatives hedging assets was £186.2 million (4 October 2002 - £140.1 million). A more detailed breakdown is shown on pages 77 to 84 of this document.

Group pre-tax profit for the year ended 4 October 2003 increased to £188.4 million (4 October 2002 - £154.2 million).

The consolidated after tax profit for the year ended 4 October 2003 was £140.2 million (4 October 2002 - £109.7 million) and is reflected in the total reserves figure as at 4 October 2003 of £4,326.3 million (4 October 2002 - £3,998.3 million).

### Capital Strength

The Group's key capital ratios remain strong, with a total solvency ratio of 11.4 per cent. and Tier 1 solvency ratio of 9.0 per cent. at 4 October 2003.

In order to maintain a strong capital base the Society made the following subordinated debt issuances during the year to 4 October 2003:

5 ¼ per cent. Subordinated Callable Notes 2018 .....	£200m
FRN Subordinated Callable Notes 2013 .....	EUR400m
5 per cent. Subordinated Notes 2015 .....	\$400m

### Recent Developments

In 2001 Nationwide launched its Fair Pricing Initiative as a three year strategy. It was envisaged that this would result in an initial reduction in business volumes which was witnessed last year. However this year we have seen a strong recovery in business well ahead of schedule.

The Society achieved a 15.7 per cent. share of net new UK residential mortgage lending in the six months to 4 October 2003. This marks an increase from the same period last year of 6.8 per cent., and puts us comfortably above our par market share of 8.0 per cent.

Additionally the Society has enjoyed success in the remortgage sector of the market, attracting an estimated 9.5 per cent. of business in this market.

Savings balances have also continued to perform strongly. Nationwide attracted 5.5 per cent. of all new savings balances in the UK in the six months to 4 October 2003. The Society's share of the current account market remained strong with an estimated 6.3 per cent. of the new UK current accounts this year.

The Society's Commercial lending division also continues to perform strongly. Loan balances at 4 October 2003 stood at £11.0 billion (4 October 2002 - £10.0 billion), representing 15.0 per cent. of total Society lending.

### Legal Proceedings

The Society on its own account and, during the period from 1 January 1990 to 31 December 1995 as appointed representative of Guardian Assurance plc ("Guardian"), sold a substantial number of endowment policies to the Society's mortgage borrowers for the purpose of repaying their mortgage loans on maturity. The value of these policies is typically related to the performance of underlying investments in managed funds. As a result of the relatively poor performance of many of these funds and of the securities market generally over the past few years some policyholders have experienced, or expect to experience, a shortfall between the value of their policies and the value of their outstanding mortgage loans at maturity.

Some of these policyholders have brought claims alleging that they were unaware of this risk and were missold their policies by the Society.

Guardian contends that it is entitled to be indemnified by the Society in respect of any liability on its part to compensate policyholders. On the basis of external legal advice the Society contends that it is not liable to indemnify Guardian.

The Society is currently seeking to ascertain and will continue to evaluate the magnitude of any potential exposure in respect of claims for allegedly missold endowment policies. As a precautionary measure the Society may decide to make a provision in relation to any liability for such claims or potential claims.

### Strategy

Nationwide is committed to remaining a building society because it believes that this is in the best long-term interests of its current and future members. The Society's primary business objectives are:

- to maximise value, which is comprised of member value and retained profits, over the long term for the benefit of our current and future members.

- to provide our members with a full range of top quality, top quartile priced financial services that will be delivered in an honest and forthright manner.

### The Board of Directors

The business of the Society is under the control of the Board of Directors. Each director is elected by the members, retires by rotation and is eligible for re-election every three years. The executive directors are the Chief Executive, the Deputy Chief Executive and Chief Operating Officer, the Group Finance Director, the Retail Operations Director and the Commercial and Treasury Director. All other directors are non-executive directors. The business address of the directors and officers is at Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under the Society's Rules, the Board of Directors must consist of not less than eight directors of whom not less than five must 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 as at 4 October 2003 is as follows:

<u>Name</u>	<u>Business Occupation</u>	<u>Other Directorships</u>
J G W Agnew MA (Chairman)	Banker	Beazley Group plc Beazley Furlonge Ltd Soditic Ltd Thos Agnew & Sons Ltd
B A Walsh MSc(Econ), FCMA, CIMgt (Deputy Chairman)	Company Director	
P F Williamson BA (Econ), FCIB	Chief Executive	Building Societies Association, Council Member
B K Simpson MIMIS, FRSA	Deputy Chief Executive and Chief Operating Officer	Nationwide Anglia Property Services Ltd Nationwide Trust Ltd NBS Fleet Services Ltd The Nationwide Foundation
G J Beale BSc, ACA	Group Finance Director	First Nationwide Nationwide Anglia Property Services Ltd NBS Fleet Services Ltd
S D M Bernau BSc (Econ), FCIB, MCT	Commercial & Treasury Director	at.home nationwide ltd Council of Mortgage Lenders Council of the Chartered Institute of Bankers Ethos Independent Financial Services Ltd Financial Services National Training Organisation First Nationwide First Nationwide Investments Ltd Nationwide BES Fund Managers Ltd

Name	Business Occupation	Other Directorships
J H Willens MBA, DMS, ACIB	Retail Operations Director	Nationwide Housing Trust Ltd Nationwide Investments (No. 1) Ltd Nationwide Lease Finance Ltd Nationwide Mortgage Corporation Ltd Nationwide Life Ltd Nationwide Syndications Ltd Nationwide Unit Trust Managers Ltd
Mrs S David	Company Director	Institution of Financial Services Retail Faculty Board Monument (Sutton) Ltd Nationwide Anglia Property Services Ltd Nationwide Home Loans Ltd Nationwide Life Ltd Nationwide Unit Trust Managers Ltd UCB Home Loans Corporation Ltd
J Engestrom MBA	Company Director	Barcardi-Martini Ltd Barcardi UK Ltd First Drinks Brands Ltd The Pure Brewing Company Ltd Westbay Distributors Ltd Supervisory Board of Bacardi-Martini Netherlands NV
Ms R E Evans MA	Company Director	Nationwide Life Ltd Nationwide Unit Trust Managers Ltd Wellington Underwriting Agencies Ltd Wellington Underwriting plc Britain in Europe, Council Member General Medical Council, Lay Member Independent Inquiry into Drug Testing at Work Independent Review Panel for the Advertising of Medicines for Human Use Panel of Independent Assessors, Office of the Commissioner for Public Appointments Women in Europe, Council Member
R G Handover	Company Director	Adult Learning Inspectorate Business in the Community Royal Mail Holdings Plc WHSmith plc
R P Walther MA, FIA	Company Director	Fidelity European Values plc JP Morgan Fleming Claverhouse Investment Trust plc

## CAPITALISATION AND INDEBTEDNESS

The following is a summary of the Group's consolidated capitalisation and indebtedness, extracted (without material adjustment) from the unaudited consolidated half year results of the Group, as at 4 October 2003.

	<b>As at 4 October 2003</b>
	<u>(£m)</u>
<b>Consolidated Indebtedness<sup>(1)</sup></b>	
Amounts owed to credit institutions .....	2,055.9
Amounts owed to other customers .....	5,819.5
Debt securities in issue .....	15,017.0
<b>Total Senior Debt</b> .....	<u>22,892.4</u>
<b>Subordinated Debt<sup>(1)(2)</sup></b>	
Comprising an issue maturing in 2013, an issue maturing in 2015 and two issues maturing in 2018 .....	853.6
<b>Total Senior and Subordinated Debt</b> .....	<u>23,746.0</u>
<b>Permanent Interest Bearing Shares (PIBS)<sup>(1)(3)(8)</sup></b>	
Comprising two issues of PIBS callable (subject to relevant supervisory consent) in 2015 and 2030 .....	298.1
<b>Member's Funds</b>	
General reserve .....	4,162.3
Revaluation reserve .....	164.0
U.K. retail member deposits <sup>(1)(4)</sup> .....	63,008.3
<b>Total Member's Funds</b> .....	<u>67,334.6</u>
<b>Total Capitalisation<sup>(5)(6)</sup></b> .....	<u>91,378.7</u>
Long term life assurance business liabilities .....	1,629.0

- (1) If the Society were to go into liquidation the claims of non-member depositors and other unsubordinated creditors would rank before those of holders of U.K. retail member deposits and the claims of holders of U.K. retail member deposits would rank before those of subordinated debt holders. The claims of holders of permanent interest bearing shares rank behind those of all other creditors, including subordinated debt holders.
- (2) For consistency with other indebtedness, accrued interest of £16.7 million is included.
- (3) For consistency with other indebtedness, accrued interest of £1.5 million is included.
- (4) Members may withdraw all or any of their investments in accordance with the terms and conditions of the relevant investments. The Board of Directors has the power to suspend or limit the withdrawals for a maximum of six months when it considers it is prudent or in the interest of members generally.
- (5) None of our debt is secured or guaranteed.
- (6) Nationwide Life Limited is included in our consolidated financial statements in accordance with generally accepted accounting principles 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 £1,629.0 million as of 4 October 2003, were included in our audited consolidated balance sheet but the liabilities are not included in the above indebtedness table because they are not attributable to our members.
- (7) As at the date hereof, the Group has no material contingent liabilities or guarantees outstanding.
- (8) The PIBS are fully paid.
- (9) This table does not include the PIBS now being issued.

Save for the issue of the PIBS and the issue of subordinated debt in the form of U.S.\$225 million maturing in 2014 (totalling £132 million), there has been no material change to the consolidated capitalisation and indebtedness table since 4 October 2003.

## FINANCIAL SUMMARY

### Financial Results: 2002 - 2003

The following financial information has been extracted from the Summary Financial Statements issued by the Group for years ended 4 April 2003 and 2002 and from the unaudited half year results of the Group for the six months ended 4 October 2003.

	For the 12 months to 4 April		For the 6 months to 4 October 2003
	2002 <i>(Audited)</i> <i>(£m)</i>	2003 <i>(Audited)</i> <i>(£m)</i>	<i>(Unaudited)</i> <i>(£m)</i>
<b>Results for the Period</b>			
Net interest receivable .....	976.0	1,031.1	536.5
Other income and charges .....	197.9	227.9	103.4
Management expenses .....	770.8	818.1	432.1
Operating profit before provisions .....	403.1	440.9	207.8
Provisions for bad and doubtful debts .....	36.8	49.4	30.0
Amounts (released)/written off fixed asset investments .....	40.6	38.2	(10.6)
Profit on ordinary activities before tax .....	325.7	353.3	188.4
Tax on profit on ordinary activities .....	92.5	90.6	48.2
<b>Profit for the period</b> .....	<u>233.2</u>	<u>262.7</u>	<u>140.2</u>
<b>Balance Sheets</b>			
<b>Assets</b>			
Liquid assets .....	15,006.1	16,985.2	17,037.6
Mortgages .....	49,053.7	57,212.4	64,650.7
Other loans .....	7,611.0	8,521.0	9,131.4
Fixed and other assets .....	1,373.8	1,227.4	1,413.8
Long term life assurance business assets .....	1,410.3	1,471.7	1,629.0
<b>Total assets</b> .....	<u>74,454.9</u>	<u>85,417.7</u>	<u>93,862.5</u>
<b>Liabilities</b>			
Shares .....	55,460.8	60,943.5	63,008.3
Borrowings .....	12,771.6	17,386.4	22,892.4
Other liabilities .....	476.7	539.6	873.0
Subordinated liabilities .....	150.7	594.0	836.9
Subscribed Capital .....	296.2	296.4	296.6
General reserve .....	3,754.7	4,021.0	4,162.3
Revaluation reserve .....	133.9	165.1	164.0
Long term life assurance business liabilities .....	1,410.3	1,471.7	1,629.0
<b>Total liabilities</b> .....	<u>74,454.9</u>	<u>85,417.7</u>	<u>93,862.5</u>

## FINANCIAL INFORMATION

The financial information set out on pages 29 to 76 has been extracted (without material adjustment) from the audited accounts of the Group.

### INCOME AND EXPENDITURE ACCOUNTS

**For the year ended 4 April 2003**

	Notes	Group		Society	
		2003	2002	2003	2002
		£m	£m	£m	£m
Interest receivable and similar income .....	1	3,547.0	3,820.5	3,377.9	3,666.5
Interest payable and similar charges.....	2	2,515.9	2,844.5	2,514.7	2,852.3
Net interest receivable .....		1,031.1	976.0	863.2	814.2
Income from investments .....	3	0.2	4.3	44.0	31.8
Fees and commissions receivable.....		247.1	189.2	197.3	144.4
Fees and commissions payable.....		(87.4)	(58.1)	(71.9)	(42.6)
Other operating income .....	4	68.0	62.5	7.7	10.5
Total income .....		1,259.0	1,173.9	1,040.3	958.3
Administrative expenses.....	5	726.6	674.8	705.9	650.6
Depreciation and amortisation.....	17	91.5	96.0	88.8	82.3
Operating profit before provisions .....		440.9	403.1	245.6	225.4
Provisions for bad and doubtful debts .....	15	49.4	36.8	38.6	22.9
Amounts written off fixed asset investments .....	13	38.2	40.6	38.2	40.6
Profit on ordinary activities before tax.....		353.3	325.7	168.8	161.9
Tax on profit on ordinary activities .....	9	90.6	92.5	44.7	51.2
Profit for the financial year.....	31	262.7	233.2	124.1	110.7

All profits arise from continuing operations.

The accounting policies and notes on pages 29 to 68 form part of these Accounts.<sup>(1)</sup>

<sup>(1)</sup> The reference to pages 29 to 68 refers to the information set out on pages 34 to 67 of this document.

## STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

**For the year ended 4 April 2003**

	Notes	Group		Society	
		2003	2002	2003	2002
		£m	£m	£m	£m
Profit for the financial year.....		262.7	233.2	124.1	110.7
Unrealised surplus on revaluation of properties.....	30	34.8	19.2	16.1	2.0
		297.5	252.4	140.2	112.7
Translation difference on foreign currency investment.....		2.7	(11.1)	0.6	(11.1)
Translation difference on foreign currency hedge.....		(3.8)	15.8	(0.8)	15.8
Taxation on translation difference on foreign currency hedge.....		1.1	(4.7)	0.2	(4.7)
Total gains and losses recognised relating to the year .....		297.5	252.4	140.2	112.7
Prior year adjustment re adoption of FRS 19 Deferred Tax.....		—	43.6	—	32.7
Total gains and losses recognised since the last Annual Accounts .....		297.5	296.0	140.2	145.4

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

**For the year ended 4 April 2003**

	Notes	Group		Society	
		2003	2002	2003	2002
		£m	£m	£m	£m
Reported profit on ordinary activities before tax .....		353.3	325.7	168.8	161.9
Unrealised (increase)/decrease in valuation of long term life assurance business.....		(3.8)	13.0	—	—
Realisation of net property revaluation gains of previous years .....		3.6	1.3	—	0.1
Historical cost profit on ordinary activities before tax.....		353.1	340.0	168.8	162.0
Historical cost profit for the financial year.....		262.9	243.6	124.1	103.1

The accounting policies and notes on pages 29 to 68 form part of these Accounts.<sup>(1)</sup>

<sup>(1)</sup> The reference to pages 29 to 68 refers to the information set out on pages 34 to 67 of this document.

## GROUP BALANCE SHEET

At 4 April 2003

	Notes	2003 £m	2002 £m
<b>Assets</b>			
Liquid assets			
Cash in hand and balances with the Bank of England.....		348.4	341.7
Loans and advances to credit institutions.....	11	975.8	1,003.2
Debt securities .....	12	15,661.0	13,661.2
Loans and advances to customers			
Loans fully secured on residential property .....	14	57,212.4	49,053.7
Other loans.....	14	8,521.0	7,611.0
Investments			
Equity shares.....	16	6.6	3.6
Tangible fixed assets .....	17	798.4	758.5
Other assets.....	18	301.4	320.0
Prepayments and accrued income.....	19	121.0	291.7
		83,946.0	73,044.6
Long term life assurance business assets.....	20	1,471.7	1,410.3
Total assets .....		85,417.7	74,454.9
<b>Liabilities</b>			
Shares.....	21	60,943.5	55,460.8
Amounts owed to credit institutions.....	22	1,758.8	1,451.2
Amounts owed to other customers .....	23	4,539.5	4,345.5
Debt securities in issue .....	24	11,088.1	6,974.9
Other liabilities .....	25	250.0	264.8
Accruals and deferred income .....	26	259.0	198.6
Provisions for liabilities and charges.....	27	30.6	13.3
Subordinated liabilities .....	28	594.0	150.7
Subscribed capital.....	29	296.4	296.2
		79,759.9	69,156.0
Revaluation reserve .....	30	165.1	133.9
General reserve.....	31	4,021.0	3,754.7
		83,946.0	73,044.6
Long term life assurance business liabilities .....	20	1,471.7	1,410.3
Total liabilities .....		85,417.7	74,454.9
<b>Memorandum items</b>			
Commitments.....	32	3,561.5	2,704.7

Other loans include £932.6 million (2002 – £1,022.2 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 14).

The accounting policies and notes on pages 29 to 68 form part of these Accounts.<sup>(1)</sup>

Approved by the Board of Directors on 21 May 2003.

J G W Agnew, Chairman  
 B A Walsh, Deputy Chairman  
 P F Williamson, Director and Chief Executive

<sup>(1)</sup> The reference to pages 29 to 68 refers to the information on pages 34 to 67 of this document.

## SOCIETY BALANCE SHEETS

At 4 April 2003

	Notes	<u>2003</u> <i>£m</i>	<u>2002</u> <i>£m</i>
<b>Assets</b>			
Liquid assets			
Cash in hand and balances with the Bank of England.....		347.8	341.4
Loans and advances to credit institutions.....	11	741.5	976.2
Debt securities.....	12	15,115.1	12,893.3
Loans and advances to customers			
Loans fully secured on residential property.....	14	51,994.3	44,596.5
Other loans.....	14	6,946.5	6,112.1
Investments			
Equity shares.....	16	1.6	1.4
Investments in subsidiary undertakings.....	16	7,263.3	6,553.2
Tangible fixed assets.....	17	572.3	546.3
Other assets.....	18	47.9	113.4
Prepayments and accrued income.....	19	253.2	418.3
Total assets.....		<u>83,283.5</u>	<u>72,552.1</u>
<b>Liabilities</b>			
Shares.....	21	60,943.5	55,460.8
Amounts owed to credit institutions.....	22	1,758.2	1,452.3
Amounts owed to other customers.....	23	4,830.6	4,493.7
Debt securities in issue.....	24	11,006.7	6,974.9
Other liabilities.....	25	133.1	224.8
Accruals and deferred income.....	26	252.2	188.5
Provisions for liabilities and charges.....	27	29.5	11.1
Subordinated liabilities.....	28	594.0	150.7
Subscribed capital.....	29	296.4	296.2
		<u>79,844.2</u>	<u>69,253.0</u>
Revaluation reserve.....	30	86.3	70.2
General reserve.....	31	3,353.0	3,228.9
Total liabilities.....		<u>83,283.5</u>	<u>72,552.1</u>
<b>Memorandum Items</b>			
Commitments.....	32	3,103.2	2,496.0

Other loans include £361.0 million (2002 – £418.6 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 14).

The accounting policies and notes on pages 29 to 68 form part of these Accounts.<sup>(1)</sup>

Approved by the Board of Directors on 21 May 2003

J G W Agnew, Chairman  
 B A Walsh, Deputy Chairman  
 P F Williamson, Director and Chief Executive

<sup>(1)</sup> The reference to pages 29 to 68 refers to the information set out on pages 34 to 67 of this document.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 4 April 2003

	Notes	2003 <i>£m</i>	2002 <i>£m</i>
Net cash inflow from operating activities.....	34	1,753.0	1,376.6
Returns on investments and servicing of finance			
Interest paid on subordinated liabilities .....		(16.0)	(13.6)
Interest paid on subscribed capital.....		(23.8)	(23.8)
		(39.8)	(37.4)
Taxation .....		(59.2)	(176.6)
Capital expenditure and financial investment			
Purchase of investment securities .....		(27,372.9)	(26,850.9)
Sale and maturity of investment securities .....		25,363.1	25,945.6
Purchase of tangible fixed assets .....		(110.9)	(122.6)
Sale of tangible fixed assets.....		13.4	6.5
		(2,107.3)	(1,021.4)
		(453.3)	141.2
Financing			
Issue of subordinated liabilities .....	28	473.8	—
Maturity of subordinated liabilities.....	28	(27.1)	—
(Decrease)/increase in cash.....	34	(6.6)	141.2

## 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

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 (the 'Regulations') with applicable accounting standards issued by the Accounting Standards Board and pronouncements of its Urgent Issues Task Force and with the Statements of Recommended Practice (SORPs) issued by the British Bankers' Association.

Compliance with Statement of Standard Accounting Practice (SSAP) 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 32.<sup>(1)</sup>

The Association of British Insurers (ABI) has issued a SORP addressing the accounting and disclosure of insurance business for insurance undertakings. Nationwide is not an insurance undertaking and the ABI SORP does not specifically address the accounting for long term life assurance business for predominantly retail banking institutions. In line with other retail banking groups, Nationwide uses the embedded value method to measure its interest in the long term life assurance business.

Long term life assurance funds comprising the assets and liabilities relating to the policyholders 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 20 to the Accounts. The movement in the value of the long term life assurance business is included within other operating income. For the purposes of presentation, the net 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 for the purpose of presenting the Group's results and financial position.

Although the Group has continued to account for pensions under SSAP 24, the additional transitional disclosures required under Financial Reporting Standard ('FRS') 17 'Retirement Benefits' are set out in Note 8 to the Accounts.

An analysis of results by business segment is provided in Note 10. A business segment is defined as one providing products with different risks and returns from other business segments. No segmental analysis is presented on geographical lines because substantially all of the Group's activities are in the United Kingdom and the Isle of Man.

### Basis of consolidation

The Group Accounts consolidate the state of affairs, cash flows and income and expenditure of the Society, its subsidiary undertakings and other companies which are considered by the Directors to be quasi-subsidiaries as defined in FRS 5 'Reporting the Substance of Transactions'. Investments in subsidiary undertakings are stated in the Society Accounts at cost less provisions for any impairment in value. The Directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Certain quasi-subsidiaries 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.

### Interest

Interest is recognised in the Income and Expenditure Account on an accruals basis with the exception of accounts where interest has been suspended in accordance with the provisioning policy for bad and doubtful debts as set out below on page 31.<sup>(2)</sup>

<sup>(1)</sup> The reference to page 32 refers to the information set out on page 37 of this document.

<sup>(2)</sup> The reference to page 31 refers to the information set out on page 37 of this document.

## STATEMENT OF ACCOUNTING POLICIES—(Continued)

### Mortgage cashbacks and discounts

The cost of mortgage cashbacks and discounts is charged as incurred to other operating charges and interest receivable and similar income respectively.

### Mortgage guarantee income and other fees and commissions receivable or payable

Mortgage guarantee income is deferred and offset against relevant loan balances and is then credited to interest receivable and similar income so as to achieve a constant yield over the expected life of the underlying loan. Other fees and commissions are recognised on an accruals basis in the period during which they are earned or incurred.

### 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 using the straight line method over the Directors' best estimate of its useful economic life. This is determined at the time of acquisition by considering the nature of the acquired business, the economic environment in which it operates and the period over which the value of the business is expected to exceed the values of the net tangible assets.

### Deferred taxation

Deferred taxation is provided at tax rates expected to be applicable when a liability or asset crystallises, on a non-discounted basis, on all timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation where this results in an obligation or right to pay more or less tax in the future. Deferred tax assets are recognised only to the extent that there will be sufficient taxable profits available against which they can be offset in the future.

### Tangible fixed assets and depreciation

The directly attributable costs 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 are capitalised.

Freehold and long leasehold premises are included at an open market valuation for existing use except certain specialised administration buildings which are carried at depreciated historical cost. Movements in freehold and long leasehold valuations are taken to the revaluation reserve except where a deficit is deemed permanent, when it is charged 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, which are reviewed regularly in the light of technological developments, usage and other relevant factors:

Short leasehold premises	the period of the lease
Fixtures and fittings	7 to 10 years
Plant and machinery	5 to 10 years
Office equipment	5 to 7 years
Computer equipment	3 to 5 years
Motor vehicles	3 to 5 years

Depreciation is not charged on freehold land and 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 immaterial, such assets being subject to annual impairment reviews as required by FRS 15. The remaining premises, including specialised administration buildings, are depreciated over their useful economic lives ranging from 25 to 43 years.

## STATEMENT OF ACCOUNTING POLICIES—(Continued)

### Leases

Operating lease charges are recognised in the Income and Expenditure Account in the year to which they relate.

### Debt securities and other eligible bills

Securities intended for use on a continuing basis in the Group's activities are classified as investment securities and are stated at cost less provision for any impairment in value. The carrying value of investment securities is adjusted over the period to maturity to allow for the amortisation of premiums or discounts. Such amortisation is typically on a straight line basis, being not materially different from constant yield, and is included in interest receivable and similar income.

### Sale and repurchase transactions

Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase transactions are not recognised in the balance sheet and the purchase price is treated as a loan. The difference between the sale price and repurchase price is accrued evenly over the life of the transaction and charged or credited to the Income and Expenditure Account as interest payable and similar charges, or interest receivable and similar income.

### Hedging instruments

The criteria required for an instrument to be classified as a hedge are that the instrument 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 one or more of interest rates, exchange rates, market indices and/or credit risk. 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 rate, exchange rate, market price and credit risk related instruments which are designated as hedges are valued on an equivalent basis to the underlying assets, liabilities or positions. Cash flows 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. Income and expenditure movements are included as net income or expense on financial instruments within interest receivable and similar income, or interest payable and similar charges.

### 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.

Exchange differences on the translation of the opening net assets of overseas Group undertakings are taken to reserves. Exchange differences arising from the translation of funding and hedge transactions relating to investments in such undertakings are also taken to reserves to offset the exchange differences arising from the translation of these investments.

### 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 on a straight line basis to interest payable and similar charges over the term of the instrument.

## STATEMENT OF ACCOUNTING POLICIES—(Continued)

### **Provisions for bad and doubtful debts**

Provisions are made to reduce the value of loans and advances to the amount that the Directors consider likely to be recovered.

#### *Specific provisions*

Specific provisions are raised against defaulted loans where, in the opinion of the Directors, it is likely that some of the capital will not be repaid or, where the loan is secured, recovered through enforcement of security. No specific provision is made where the estimated value of the security is in excess of the secured debt.

The specific provisions established against the Group's high volume homogeneous loans such as the residential mortgage, personal lending and credit card portfolios are calculated using statistical techniques. These techniques apply a propensity factor against each portfolio based on recent experience and other relevant risk considerations to determine the appropriate provision. Specific provisions are calculated as the difference between the outstanding loan balance and, where applicable, the estimated market value (net of costs) of the security.

For residential mortgages, the estimated value of security is derived by applying Nationwide's regional house price index less a forced sale discount to the purchase value for each property.

For the Group's other lending portfolios, the specific provision is determined on a case by case basis from a review of the financial condition of the counterparty and any guarantor and takes into account the nature and value of any security held.

#### *General provisions*

General provisions are made to cover latent losses which, although not yet specifically identified, are known from experience to exist in the Group's loan portfolios. General provisions are determined using management judgement based on a combination of past loss experience, lending quality and other relevant risk considerations.

Specific and general provisions are deducted from loans and advances. The charge to the Income and Expenditure Account represents new or additional provisions made less any reduction in provisions or recoveries of amounts previously written off. Interest that is considered irrecoverable, where the property has been taken into possession or the normal lending relationship has ceased, is suspended and debited to the borrower. Interest up to that time is credited to income and a provision made as appropriate.

### **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 any 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 Annual Accounts 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.

### **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 independent actuaries. A formal actuarial valuation of the Society's pension scheme is undertaken on a triennial basis.

### **Long term life assurance business**

The value of the Group's long term life assurance business, included in the balance sheet within other assets, represents a prudent valuation of future earnings of in-force business, together with the net worth of the business,

## STATEMENT OF ACCOUNTING POLICIES—(Continued)

being the net tangible assets and the surplus retained within the long term life assurance fund. This value is determined annually by the Appointed Actuary using assumed economic parameters (future investment returns, expense inflation and risk discount rate) and taxation, mortality, persistency and expense assumptions. Changes in the value of the long term life assurance business, which are determined on a post-tax basis, are included in other operating income and are grossed up at the effective rate of tax for the purpose of presentation.

During the year the Group has changed its basis of calculating Embedded Value to use unsmoothed asset values; this represents a change in policy from prior years and reflects Association of British Insurers guidance recommending the use of unsmoothed asset values to calculate the value of in-force business. The impact of this change on the results for the current and prior years is insignificant and accordingly no restatement of prior year results has been made.

## NOTES TO THE ACCOUNTS

### 1. Interest receivable and similar income

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
On loans fully secured on residential property .....	2,641.5	2,626.7	2,350.4	2,340.6
On other loans				
• Connected undertakings .....	—	—	296.3	305.5
• Other .....	555.3	563.8	431.9	433.5
On debt securities				
• Interest and other income .....	622.9	706.2	574.2	666.9
• Net gains arising on realisation .....	5.4	8.5	5.4	6.9
On other liquid assets				
• Interest and other income .....	18.9	79.9	17.6	78.6
Other interest receivable .....	0.9	0.9	—	—
Net expense on financial instruments hedging assets .....	(297.9)	(165.5)	(297.9)	(165.5)
	<u>3,547.0</u>	<u>3,820.5</u>	<u>3,377.9</u>	<u>3,666.5</u>
Interest receivable on loans fully secured on residential property includes:				
Discounts provided to customers charged to interest receivable .....	<u>78.6</u>	<u>142.5</u>	<u>66.5</u>	<u>127.1</u>

Interest receivable on 'other loans' includes Group £59.6 million (2002 – £78.2 million) and Society £22.7 million (2002 – £34.6 million), in respect of loans to corporate bodies, such as Registered Social Landlords, 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 14).

Interest and other income on debt securities includes Group and Society £64.5 million (2002 – £74.2 million) of income from fixed income securities.

Interest which is considered irrecoverable, where the property has been taken into possession or the normal lending relationship has ceased, has been suspended and debited to the borrower. Movements in the suspended interest accounts are as follows:

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Balance brought forward .....	8.9	10.1	7.3	8.6
Interest written off during the year .....	(1.4)	(2.7)	(1.3)	(2.6)
Interest suspended in the year .....	1.6	1.5	0.3	1.3
Balance carried forward .....	<u>9.1</u>	<u>8.9</u>	<u>6.3</u>	<u>7.3</u>

### 2. Interest payable and similar charges

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
On shares held by individuals .....	1,993.7	2,192.8	1,993.7	2,192.8
On other shares .....	0.4	0.7	0.4	0.7
On subscribed capital .....	24.0	24.0	24.0	24.0
On deposits and other borrowings				
• Subordinated liabilities .....	13.6	13.7	13.6	13.7
• Connected undertakings .....	—	—	30.7	35.5
• Other .....	536.8	674.9	504.9	647.2
Net income on financial instruments hedging liabilities .....	(52.6)	(61.6)	(52.6)	(61.6)
	<u>2,515.9</u>	<u>2,844.5</u>	<u>2,514.7</u>	<u>2,852.3</u>

**NOTES TO THE ACCOUNTS—(Continued)**

**3. Income from investments**

	<b>Group</b>		<b>Society</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Income from equity shares .....	0.2	4.3	0.2	4.3
Income from shares in subsidiary undertakings.....	—	—	43.8	27.5
	<u>0.2</u>	<u>4.3</u>	<u>44.0</u>	<u>31.8</u>

**4. Other operating income**

	<b>Group</b>		<b>Society</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<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 .....	43.7	34.7	—	—
	<u>43.7</u>	<u>34.7</u>	<u>—</u>	<u>—</u>

**5. Administrative expenses**

	<b>Group</b>		<b>Society</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Employee costs</b>				
• Wages and salaries .....	288.9	258.5	271.1	240.7
• Social security costs .....	23.5	22.6	21.7	21.3
• Other pension costs .....	47.0	34.0	44.1	32.1
	359.4	315.1	336.9	294.1
Other administrative expenses .....	367.2	359.7	369.0	356.5
	<u>726.6</u>	<u>674.8</u>	<u>705.9</u>	<u>650.6</u>

Other administrative expenses include:

Auditors' remuneration and expenses

Statutory audit fees.....	0.8	0.7	0.5	0.5
Audit related and regulatory fees .....	0.1	0.1	0.1	0.1
	0.9	0.8	0.6	0.6
Tax.....	0.1	—	0.1	—
Other fees .....	0.2	0.2	0.2	0.2

	1.2	1.0	0.9	0.8
Property rentals under operating leases.....	26.7	24.0	26.0	22.9

**6. Directors' emoluments**

A separate report to members outlining the remuneration policy for Directors is set out in the full published Annual Report and Accounts.

**NOTES TO THE ACCOUNTS—(Continued)**

**7. Employees**

	Group		Society	
	2003	2002	2003	2002
The average number of persons employed during the year was:				
• Full-time .....	10,542	10,328	9,678	9,432
• Part-time .....	4,647	3,570	4,479	3,384
	<u>15,189</u>	<u>13,898</u>	<u>14,157</u>	<u>12,816</u>
Building society				
• Central administration .....	5,941	5,260	5,941	5,260
• Branches .....	8,216	7,556	8,216	7,556
Subsidiaries .....	1,032	1,082	—	—
	<u>15,189</u>	<u>13,898</u>	<u>14,157</u>	<u>12,816</u>

Employee numbers include 458 (2002 – 466) 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 majority of the Group’s employees are members of the defined benefit scheme the Nationwide Pension Fund (the ‘Fund’).

The Group also participates in other pension arrangements for a number of employees of subsidiary companies and has two unapproved pension schemes, one unfunded scheme for certain Directors who were members of the Board prior to 10 January 1990 and a funded scheme for executive Directors and Officers whose benefits are unable to be provided in full using an approved pension arrangement.

The pension cost included in administrative expenses under SSAP 24 (Note 5) and the cash contributions paid to the Fund are based on the latest full actuarial valuation as at 31 March 2001. The valuation was 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 assumptions used in assessing the pension cost are a matter of judgement for the independent actuary in consultation with the Society. The assumptions used in determining the cash contribution are recommended by the independent actuary and are agreed with the Fund Trustees. For the year ended 4 April 2003 the assumptions used to determine the pension cost are the same as those used to determine the cash contributions. For the year ended 4 April 2002, the pension cost was determined using different assumptions from the cash contribution assumptions. Both sets of assumptions, which are based on the latest full actuarial valuation under SSAP 24 as at 31 March 2001, and the resulting pension charge are summarised below:

	Cash contribution assumptions and pension cost assumptions (Year ended 4 April 2003)	Pension cost assumptions (Year ended 4 April 2002)
Rate of return on investments .....	6.8% (before retirement) 5.8% (after retirement)	7.3% per annum (before retirement) 5.8% per annum (after retirement)
Rate of increase in salaries .....	4.3% – 5.3% per annum	4.3% – 5.3% per annum
Rate of increase in pensions .....	2.4% per annum	2.4% per annum
Market value of the Fund’s assets, excluding money purchase additional voluntary contributions .....	£752.0 million	£752.0 million
Market value as a percentage of the value of the benefits based on service to date, allowing for assumed future salary and pension increases .....	98%	102%
Long term regular cost.....	17.3%	16.1%
Employer’s cash contribution rate....	19.1%	19.1%
Employees’ contribution rate.....	5%	5%

**NOTES TO THE ACCOUNTS—(Continued)**

	<u>Group</u>		<u>Society</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Pension charge for the year (Note 5).....	47.0	34.0	44.1	32.1
The pension charge is calculated after taking account of:				
• Amortisation of pension fund deficit/(surplus).....	1.0	(2.5)	1.0	(2.5)
• Charge for provision of part-time employee pension rights (Note 27).....	—	1.5	—	1.5
Cumulative excess of cash contributions paid to the Fund over the SSAP 24 pension charge included in:				
• Prepayments and accrued income (Note 19).....	(5.3)	(2.6)	(5.3)	(2.6)
• Provisions for liabilities and charges including charge for contribution to unfunded Directors' pension obligations (Note 27).....	5.4	0.2	5.3	—
Provision for part-time employee pension rights included in Provisions for liabilities and charges (Note 27) .....	0.6	0.7	0.6	0.7

Because of lower investment returns and declining stock markets, the Directors consider that the deficit in the Fund has increased significantly since the last full actuarial valuation at 31 March 2001. Consequently, the Directors agreed in April 2003 to inject an additional £100 million into the Fund to reduce the deficit. This amount was paid on 14 May 2003.

The Group's pension arrangements for employees who joined the Fund after 31 December 2001 are based on a career average of revalued, earnings ('CARE') rather than their final salary. The employer's cash contribution rate for these employees is 12.6%. The employees' contribution rate is 5%.

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.

**FRS 17 disclosures**

The Group has continued to account for pensions under SSAP 24. Financial Reporting Standard 17, Retirement Benefits, will fundamentally change the calculation and reporting of the cost of retirement benefits. The transitional arrangements of FRS 17 requires additional disclosures as set out below. Only the Nationwide Pension Fund is of a material size for the purposes of this note. As explained above, a full actuarial valuation of the Fund was carried out at 31 March 2001 and has been updated to take account of the requirements of FRS 17, to 4 April 2003 by qualified independent actuaries.

**Main Financial Assumptions**

The major assumptions used for the FRS 17 disclosures are:

	<u>4 April 2003</u>	<u>4 April 2002</u>
	<u>(%pa)</u>	<u>(%pa)</u>
Inflation .....	2.6	2.7
Rate of general long term increase in salaries .....	4.6*	4.7*
Rate of increase to pensions in payment .....	2.6	2.7
Discount rate for scheme liabilities .....	5.5	6.0

\* plus an additional 1% p.a. until 4 April 2004

NOTES TO THE ACCOUNTS—(Continued)

Scheme assets and liabilities and expected return

	Long term rate of return expected at 4 April 2003	Value at 4 April 2003	Long term rate of return expected at 4 April 2002	Value at 4 April 2002
	%	£m	%	£m
Equities.....	7.7	490	8.1	578
Bonds (gilts).....	4.9	146	5.5	167
Other.....	4.3	28	4.1	24
Total market value of assets.....	6.9	664	7.4	769
Present value of scheme liabilities.....		(1,152)		(965)
Deficit in the scheme.....		(488)		(196)
Related deferred tax asset.....		146		59
Net pension liability.....		(342)		(137)

The net pension liability does not take account of the additional £100 million payment made on 14 May 2003 (described above).

The assets of the scheme are mainly invested with Schroder Investment Management (UK) Ltd and UBS Global Asset Management UK Ltd.

Money purchase pension assets and liabilities (AVCs) are excluded from the table above.

The increase in the net pension liability arises from a fall in the market value of investments and new long term assumptions.

The position shown represents the funded status of the Fund based on the market conditions at 4 April 2003. Market related calculations are subject to daily variations. The net pension liability shown does not represent a debt of the Society. Contributions to the Fund will continue to be determined in accordance with the full triennial actuarial valuations.

**NOTES TO THE ACCOUNTS—(Continued)**

If the requirements of FRS 17 were fully adopted in the Annual Accounts in the year to 4 April 2003 the impact would be:

	<u>2003</u>
	<u>£m</u>
<b>Amount charged to operating profit:</b>	
Current service cost.....	(47)
<b>Amount charged to other finance income:</b>	
Expected return on pension scheme assets .....	58
Interest on pension scheme liabilities .....	(59)
Net amount charged to other finance income .....	(1)
<b>Analysis of amount in the statement of total recognised gains and losses:</b>	
Actual return less expected return on pension scheme assets.....	(197)
Experience gains and losses arising on scheme liabilities .....	(3)
Changes in assumptions underlying the present value of scheme liabilities .....	(86)
Actuarial loss recognised in the statement of total recognised gains and losses .....	(286)
<b>Analysis of movement in deficit during the year:</b>	
Deficit in scheme at beginning of the year .....	(196)
Current service cost.....	(47)
Other finance charge .....	(1)
Contributions.....	42
Actuarial loss .....	(286)
Deficit in scheme at the end of the year.....	(488)
<b>Details of experience gains and losses for the year to 4 April 2003:</b>	
Difference between expected and actual return on scheme assets:	
• Amount (£ million) .....	(197)
• Percentage of scheme assets .....	29.7%
Experience (losses) on scheme liabilities:	
• Amount (£ million) .....	(3)
• Percentage of the present value of the scheme liabilities .....	0.3%
Total amount recognised in the statement of total recognised gains and losses:	
• Amount (£ million) .....	(286)
• Percentage of the present value of the scheme liabilities .....	24.8%

If the net pension liability had been recognised in the Annual Accounts, the Group's liabilities would increase by £342 million and the Group's general reserve at 4 April 2003 would be as follows:

	<u>4 April 2003</u>	<u>4 April 2002</u>
	<u>£m</u>	<u>£m</u>
General reserve excluding net pension liability .....	4,021.0	3,754.7
SSAP 24 prepayment (net of deferred tax).....	(3.7)	(1.8)
Pension liability (net of deferred tax).....	(342.0)	(137.0)
General reserve as adjusted .....	<u>3,675.3</u>	<u>3,615.9</u>

NOTES TO THE ACCOUNTS—(Continued)

9. Tax on profit on ordinary activities

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Current tax:				
UK corporation tax at 30% (2002 – 30%) .....	118.4	86.4	76.3	44.3
Corporation tax – adjustment in respect of prior periods .....	(33.9)	(6.8)	(32.1)	1.2
Isle of Man income tax .....	0.2	0.6	—	—
Taxation relating to change in value of long term life assurance business .....	13.1	8.9	—	—
Total current tax .....	97.8	89.1	44.2	45.5
Deferred tax (Note 18):				
Current year .....	(6.9)	6.9	2.8	9.1
Adjustment in respect of prior periods .....	(0.3)	(3.5)	(2.3)	(3.4)
	<u>90.6</u>	<u>92.5</u>	<u>44.7</u>	<u>51.2</u>

The Society's tax charge includes payments in consideration for the surrender of tax losses by subsidiary undertakings totalling £1.4 million (2002 – £8.5 million).

The actual current tax charge for the year differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Profit on ordinary activities before tax.....	353.3	325.7	168.8	161.9
Profit on ordinary activities before tax at the standard rate of UK corporation tax of 30% (2002 – 30%) .....	106.0	97.7	50.7	48.6
Effects of:				
Specifically allowable and non deductible items .....	10.3	5.5	10.9	5.1
Depreciation for the period in excess of capital allowances .....	2.7	7.5	2.7	7.7
Effect of change in non allowable bad debt provisions .....	5.8	6.6	4.6	3.5
Effect of changes in other provisions.....	8.2	(21.0)	8.7	(20.2)
Gains exempted or covered by capital losses.....	(1.3)	(0.4)	(1.3)	(0.4)
Adjustment to current tax charge in respect of previous periods.....	(33.9)	(6.8)	(32.1)	1.2
Current tax charge for the year.....	<u>97.8</u>	<u>89.1</u>	<u>44.2</u>	<u>45.5</u>

During the year a number of long standing tax issues were resolved permitting the release of prior year tax provisions.

10. Segmental reporting

Analysis of class of business:

	Group			Group		
	2003			2002		
	Profit/ (Loss) before tax	Total assets	Net assets	Profit/ (Loss) before tax	Total assets	Net assets
	£m	£m	£m	£m	£m	£m
Retail.....	196.6	57,431.2	2,627.2	157.9	49,799.6	2,451.8
Commercial.....	144.3	10,550.1	889.6	157.3	9,116.6	793.9
Treasury .....	34.4	17,436.4	669.3	25.9	15,538.7	642.9
Central items.....	(22.0)	—	—	(15.4)	—	—
Group .....	<u>353.3</u>	<u>85,417.7</u>	<u>4,186.1</u>	<u>325.7</u>	<u>74,454.9</u>	<u>3,888.6</u>

## NOTES TO THE ACCOUNTS—(Continued)

Retail represents the provision of personal financial services including all the attributable income and expenditure relating to retail mortgages, unsecured and secured personal lending, credit card, insurance products and FlexAccount. Nationwide's strategy of better pricing means that retail profit contribution is intentionally reduced.

Commercial includes all of the costs and income associated with the Group's lending to Registered Social Landlords and other loans to support investment in commercial properties and residential housing.

Treasury includes the costs and income associated with managing the Group's capital position, fixed asset investment portfolio, wholesale funding and the liquid asset management of the Group.

Administrative expenses and depreciation have been allocated to segments based on resources consumed, except where they cannot be meaningfully allocated in which case they are included within Central items.

Capital is allocated to each business segment for investment purposes and is based upon the regulatory capital framework. No charge has been made for capital.

Central items include rental income and associated property costs plus the core Group administrative expenses that have not been allocated to business segments.

### 11. Loans and advances to credit institutions

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

	Group		Society	
	2003	2002	2003	2002
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest.....	0.3	1.6	0.3	1.5
Repayable on demand .....	109.5	122.8	86.8	96.1
Other loans and advances by residual maturity repayable:				
• In not more than three months .....	654.5	878.5	654.4	878.3
• In more than three months but not more than one year .....	211.5	0.3	—	0.3
	<u>975.8</u>	<u>1,003.2</u>	<u>741.5</u>	<u>976.2</u>

### 12. Debt securities

	Group		Society	
	2003	2002	2003	2002
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Government debt securities.....	482.6	720.7	284.1	530.9
Other public sectors debt securities.....	8.8	8.4	8.3	8.3
Issued by public bodies .....	491.4	729.1	292.4	539.2
Private sector debt securities .....	15,169.6	12,932.1	14,822.7	12,354.1
	<u>15,661.0</u>	<u>13,661.2</u>	<u>15,115.1</u>	<u>12,893.3</u>

The amount of bank and building society certificates of deposits included in the above was £5,183.2 million (2002 – £2,602.3 million).

**NOTES TO THE ACCOUNTS—(Continued)**

	Group		Society	
	2003	2002	2003	2002
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Debt securities have remaining maturities as follows:				
• Accrued interest .....	111.0	253.8	106.2	126.4
• In not more than one year.....	8,053.3	4,895.9	8,004.6	4,667.4
• In more than one year.....	7,496.7	8,511.5	7,004.3	8,099.5
	15,661.0	13,661.2	15,115.1	12,893.3
Transferable debt securities comprise:				
• Listed.....	9,577.3	10,221.1	9,059.8	9,736.2
• Unlisted .....	6,083.7	3,440.1	6,055.3	3,157.1
	15,661.0	13,661.2	15,115.1	12,893.3
Market value of transferable debt securities				
Government debt securities.....	500.8	727.4	299.0	543.8
Other public sector securities.....	8.9	8.4	8.4	8.4
Private sector debt securities.....	15,422.3	12,997.7	15,017.8	12,419.2
	15,932.0	13,733.5	15,325.2	12,971.4

The market value of bank and building society certificates of deposit included in the above was £5,187.1 million (2002 – £2,603.3 million).

	Group		Society	
	2003	2002	2003	2002
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Market value of listed transferable debt securities.....	9,841.3	10,339.8	9,262.6	9,813.1
Included in debt securities are:				
• Unamortised premiums .....	38.5	31.8	9.3	15.0
• Unamortised discounts.....	(115.3)	(189.1)	(115.3)	(31.6)

The Directors 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.

The carrying value of debt securities is net of a specific provision of £21.5 million (2002 – nil) and a general provision of £35.7 million (2002 – £26.6 million) recognising impairment within a portfolio of assets held for their long term investment potential (Note 13). The credit risk on £838.8 million (Sterling equivalent at 4 April 2003) of assets within this investment portfolio has been hedged by the Society entering into a credit derivative. Under the terms of this overall risk mitigating transaction the Society retains the risk of credit losses on the assets which are covered by the credit derivative and certain other reference assets, up to a maximum of £78.5 million (Sterling equivalent at 4 April 2003), which is divided into two distinct tranches. Under the first tranche, the Society bears the first tier of credit losses up to an amount of £28.8 million, of which £25.4 million is already reflected in the provisions against debt securities. Beyond this level, the Society's second tranche of exposure to credit losses of £49.7 million is impacted once £24.2 million of loss protection has been utilised. All of the Society's credit loss protection under the transaction will be settled by the credit derivative counterpart, an A+ rated US Banking institution.

£304.9 million (2002 – £249.4 million) of debt securities are subject to sale and repurchase agreements.

## NOTES TO THE ACCOUNTS—(Continued)

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

	Group £m	Society £m
Adjusted cost and net book value (excluding accrued interest)		
At 5 April 2002.....	13,407.4	12,766.9
Additions .....	27,372.9	26,853.4
Disposals/maturities .....	(25,363.1)	(24,740.7)
Other movements.....	132.8	129.3
At 4 April 2003.....	15,550.0	15,008.9

### 13. Amounts written off and provisions against fixed asset investments

Group and Society	Specific £m	General £m	Total £m
Provisions at 5 April 2002.....	—	26.6	26.6
Charge for the year.....	29.1	9.1	38.2
Amounts written off .....	(7.6)	—	(7.6)
Provisions at 4 April 2003.....	21.5	35.7	57.2

Provisions for impairment have been deducted in arriving at the carrying value of debt securities (as shown in Note 12) in the balance sheet.

### 14. Loans and advances to customers

	Group		Society	
	2003 £m	2002 £m	2003 £m	2002 £m
Loans fully secured on residential property .....	57,212.4	49,053.7	51,994.3	44,596.5
Other loans:				
• Loans fully secured on land .....	6,561.3	6,090.0	5,976.9	5,455.3
• Other loans .....	1,959.7	1,521.0	969.6	656.8
	65,733.4	56,664.7	58,940.8	50,708.6

Other loans fully secured on land include Group £932.6 million (2002 – £1,022.2 million) and Society £361.0 million (2002 – £418.6 million) of loans to corporate bodies, such as Registered Social Landlords, 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.

**NOTES TO THE ACCOUNTS—(Continued)**

**Maturity analysis**

Loans and advances to customers have remaining maturities as follows:

	<b>Group</b>		<b>Society</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Repayable on demand .....	522.5	396.1	494.3	369.0
Other loans and advances by residual maturity repayable:				
• In not more than three months .....	527.8	615.1	374.7	257.7
• In more than three months but not more than one year .....	1,435.1	1,163.6	1,182.8	954.2
• In more than one year but not more than five years.....	8,003.7	6,487.3	7,255.0	5,886.2
• In more than five years.....	55,505.0	48,274.3	49,861.8	43,471.9
	<u>65,994.1</u>	<u>56,936.4</u>	<u>59,168.6</u>	<u>50,939.0</u>
Less				
• Provisions for bad and doubtful debts (Note 15) .....	214.7	206.7	183.2	167.4
• Deferred mortgage guarantee income .....	46.0	65.0	44.6	63.0
	<u>65,733.4</u>	<u>56,664.7</u>	<u>58,940.8</u>	<u>50,708.6</u>

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

**15. Provisions for bad and doubtful debts**

	<b>Loans fully secured on residential property</b>		<b>Other loans fully secured on land</b>		<b>Other loans</b>		<b>Total</b>	
	<b>Specific</b>	<b>General</b>	<b>Specific</b>	<b>General</b>	<b>Specific</b>	<b>General</b>	<b>Specific</b>	<b>General</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Group</b>								
At 5 April 2002.....	15.5	77.9	10.0	51.0	43.9	8.4	69.4	137.3
Amounts written off.....	(7.4)	—	(4.1)	—	(40.3)	—	(51.8)	—
Recoveries of amounts previously written off .....	4.8	—	0.4	—	5.2	—	10.4	—
Charge/(credit) for the year .....	<u>(4.2)</u>	<u>13.9</u>	<u>6.4</u>	<u>3.6</u>	<u>29.4</u>	<u>0.3</u>	<u>31.6</u>	<u>17.8</u>
At 4 April 2003.....	<u>8.7</u>	<u>91.8</u>	<u>12.7</u>	<u>54.6</u>	<u>38.2</u>	<u>8.7</u>	<u>59.6</u>	<u>155.1</u>
<b>Society</b>								
At 5 April 2002.....	13.1	71.0	9.9	51.0	17.7	4.7	40.7	126.7
Amounts written off.....	(5.8)	—	(4.0)	—	(19.4)	—	(29.2)	—
Recoveries of amounts previously written off .....	3.8	—	0.4	—	2.2	—	6.4	—
Charge/(credit) for the year .....	<u>(3.1)</u>	<u>13.0</u>	<u>6.4</u>	<u>3.6</u>	<u>18.9</u>	<u>(0.2)</u>	<u>22.2</u>	<u>16.4</u>
At 4 April 2003.....	<u>8.0</u>	<u>84.0</u>	<u>12.7</u>	<u>54.6</u>	<u>19.4</u>	<u>4.5</u>	<u>40.1</u>	<u>143.1</u>

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

The total of non performing loans, being those on which interest is no longer being credited to the Income And Expenditure account is as follows:-

	<b>Group</b>		<b>Society</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Non performing loans before provisions.....	87.4	83.9	59.6	47.7
Non performing loans after provisions .....	61.3	48.4	50.0	35.0

## NOTES TO THE ACCOUNTS—(Continued)

### 16. Investments

Investments in equity shares and subsidiary undertakings are financial fixed assets.

Investments in equity shares	<u>Group</u>	<u>Society</u>
	<u>£m</u>	<u>£m</u>
Cost and net book value		
At 5 April 2002.....	3.6	1.4
Additions .....	3.0	0.2
Disposals.....	—	—
At 4 April 2003.....	<u>6.6</u>	<u>1.6</u>

#### Society

Investments in subsidiary undertakings	<u>Shares</u>	<u>Loans</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 5 April 2002 .....	776.2	5,777.0	6,553.2
Additions.....	181.0	825.4	1,006.4
Redemptions/repayments .....	(208.6)	(88.3)	(296.9)
Exchange adjustments.....	0.6	—	0.6
At 4 April 2003 .....	<u>749.2</u>	<u>6,514.1</u>	<u>7,263.3</u>

The exchange adjustments arise on the Society's investment in Nationwide (Isle of Man) Investments Limited whose functional currency is yen (Note 31).

The interests of the Society in its principal subsidiary undertakings, all of which are consolidated, as at 4 April 2003 are set out below:

<u>Directly held subsidiary undertakings</u>	<u>Nature of business</u>
First Nationwide	Investment company
Monument (Sutton) Limited	Property rental
Nationwide Home Loans Limited	Mortgage book acquisition and management
Nationwide International Limited	Offshore investment
Nationwide Investments No 1 Limited	Investment company
Nationwide (Isle of Man) Investments Limited	Investment company
Nationwide Life Limited	Life assurance
Nationwide Mortgage Corporation Limited	Mortgage book acquisition and management
Nationwide Syndications Limited	Syndicated lending
Nationwide Trust Limited	Consumer finance
Nationwide Unit Trust Managers Limited	Unit trust management
at.home nationwide limited	Property rental
Foundation Insurance Limited	Mortgage indemnity insurance
UCB Home Loans Corporation Limited	Centralised mortgage lender

All the above subsidiary undertakings are limited liability companies except First Nationwide which is an unlimited liability company with share capital.

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

All the above companies are registered in England and operate in the UK except for Nationwide International Limited, Nationwide (Isle of Man) Investments Limited and Foundation Insurance Limited which are registered and operate in the Isle of Man.

#### Quasi-subsidiaries

The Group has interests in a number of entities considered by the Directors to be quasi-subsidiaries because they do not meet the definition of a legal subsidiary but give rise to the risks and rewards that are in substance no different than if they were legal subsidiaries. As a consequence, these entities are consolidated in the same way as if they were subsidiaries.

**NOTES TO THE ACCOUNTS—(Continued)**

The primary financial statements of these entities can be summarised as follows:

	<b>Investment Companies</b>	<b>Securitisation Companies</b>	<b>Total</b>	<b>Total</b>
	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Profit &amp; loss account</b>				
Interest receivable.....	13.8	0.3	14.1	—
Interest payable.....	(13.8)	(0.3)	(14.1)	—
Profit/(loss) for the period .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Balance sheet</b>				
<b>Assets</b>				
Loans and advances to credit institutions .....	15.7	—	15.7	16.2
Loans & advances to customers .....	—	71.5	71.5	—
Debt securities .....	359.3	—	359.3	—
Investments .....	5.0	—	5.0	2.2
Total assets .....	<u>380.0</u>	<u>71.5</u>	<u>451.5</u>	<u>18.4</u>
<b>Liabilities</b>				
Amounts owed to credit institutions .....	20.7	71.5	92.2	18.4
Debt securities in issue .....	111.6	—	111.6	—
Other liabilities .....	247.7	—	247.7	—
Total liabilities .....	<u>380.0</u>	<u>71.5</u>	<u>451.5</u>	<u>18.4</u>
<b>Cash flow statement</b>				
Net cash inflow from operating activities .....	362.1	—	362.1	2.2
Capital expenditure and financial investment .....	(362.1)	—	(362.1)	(2.2)
Increase/(decrease) in cash .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

**17. Tangible fixed assets**

<b>Group</b>	<b>Branches and non specialised buildings</b>	<b>Specialised administration buildings</b>	<b>Short leasehold buildings</b>	<b>Investment properties</b>	<b>Total land and buildings</b>	<b>Plant and machinery</b>	<b>Equipment, fixtures, fittings and vehicles</b>	<b>Total</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Cost or valuation</b>								
At 5 April 2002 .....	199.3	101.7	34.4	193.4	528.8	87.7	676.4	1,292.9
Additions .....	7.7	1.0	1.2	5.0	14.9	5.8	88.0	108.7
Adjustment on revaluation .....	15.7	—	—	19.1	34.8	—	—	34.8
Disposals .....	(1.2)	(0.1)	(0.4)	(9.6)	(11.3)	(1.1)	(65.1)	(77.5)
At 4 April 2003 .....	<u>221.5</u>	<u>102.6</u>	<u>35.2</u>	<u>207.9</u>	<u>567.2</u>	<u>92.4</u>	<u>699.3</u>	<u>1,358.9</u>
<b>Depreciation</b>								
At 5 April 2002 .....	—	30.9	24.9	—	55.8	58.7	419.9	534.4
Charge for the year.....	—	3.5	1.7	—	5.2	7.0	79.3	91.5
Disposals .....	—	—	(0.4)	—	(0.4)	(1.0)	(64.0)	(65.4)
At 4 April 2003 .....	<u>—</u>	<u>34.4</u>	<u>26.2</u>	<u>—</u>	<u>60.6</u>	<u>64.7</u>	<u>435.2</u>	<u>560.5</u>
<b>Net book value</b>								
At 4 April 2003 .....	<u>221.5</u>	<u>68.2</u>	<u>9.0</u>	<u>207.9</u>	<u>506.6</u>	<u>27.7</u>	<u>264.1</u>	<u>798.4</u>
At 4 April 2002 .....	<u>199.3</u>	<u>70.8</u>	<u>9.5</u>	<u>193.4</u>	<u>473.0</u>	<u>29.0</u>	<u>256.5</u>	<u>758.5</u>
<b>Cost or valuation at 4 April 2003 is represented by:</b>								
• Valuation .....	221.5	—	—	207.9	429.4	—	—	429.4
• Cost .....	—	102.6	35.2	—	137.8	92.4	699.3	929.5
	<u>221.5</u>	<u>102.6</u>	<u>35.2</u>	<u>207.9</u>	<u>567.2</u>	<u>92.4</u>	<u>699.3</u>	<u>1,358.9</u>

Cost or valuation of land and buildings includes £444.9 million (2002 – £408.2 million) in respect of freehold and long leasehold land and buildings which are not depreciated.

**NOTES TO THE ACCOUNTS—(Continued)**

Society	Branches and non specialised buildings	Specialised administration buildings	Short leasehold buildings	Total land and buildings	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 5 April 2002.....	187.9	101.7	33.9	323.5	86.0	651.6	1,061.1
Additions.....	7.6	1.0	1.2	9.8	5.9	85.7	101.4
Adjustment on revaluation.....	16.1	—	—	16.1	—	—	16.1
Disposals.....	(1.2)	(0.1)	(0.4)	(1.7)	(1.1)	(65.1)	(67.9)
At 4 April 2003.....	<u>210.4</u>	<u>102.6</u>	<u>34.7</u>	<u>347.7</u>	<u>90.8</u>	<u>672.2</u>	<u>1,110.7</u>
Depreciation							
At 5 April 2002.....	—	30.9	24.6	55.5	57.8	401.5	514.8
Charge for the year.....	—	3.5	1.6	5.1	6.9	76.8	88.8
Disposals.....	—	—	(0.4)	(0.4)	(1.1)	(63.7)	(65.2)
At 4 April 2003.....	<u>—</u>	<u>34.4</u>	<u>25.8</u>	<u>60.2</u>	<u>63.6</u>	<u>414.6</u>	<u>538.4</u>
Net book value							
At 4 April 2003.....	<u>210.4</u>	<u>68.2</u>	<u>8.9</u>	<u>287.5</u>	<u>27.2</u>	<u>257.6</u>	<u>572.3</u>
At 4 April 2002.....	<u>187.9</u>	<u>70.8</u>	<u>9.3</u>	<u>268.0</u>	<u>28.2</u>	<u>250.1</u>	<u>546.3</u>
Cost or valuation at 4 April 2003 is represented by:							
• Valuation.....	210.4	—	—	210.4	—	—	210.4
• Cost.....	—	102.6	34.7	137.3	90.8	672.2	900.3
	<u>210.4</u>	<u>102.6</u>	<u>34.7</u>	<u>347.7</u>	<u>90.8</u>	<u>672.2</u>	<u>1,110.7</u>

Cost or valuation of land and buildings includes £225.9 million (2002 – £203.4 million) in respect of freehold and long leasehold land and buildings which are not depreciated.

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Net book value of land and buildings is represented by:				
• Freehold.....	454.9	420.2	261.8	244.9
• Long leasehold.....	42.7	43.3	16.8	13.8
• Short leasehold.....	9.0	9.5	8.9	9.3
	<u>506.6</u>	<u>473.0</u>	<u>287.5</u>	<u>268.0</u>
Net book value of land and buildings occupied by the Group/Society for its own activities.....	<u>235.5</u>	<u>233.3</u>	<u>224.3</u>	<u>220.9</u>
Net book value of land and buildings based on historical cost is:				
• Cost.....	427.3	419.9	270.5	262.4
• Aggregate depreciation.....	69.7	64.9	69.3	64.6
Net book value.....	<u>357.6</u>	<u>355.0</u>	<u>201.2</u>	<u>197.8</u>

All freehold and long leasehold land and buildings except specialised administration buildings and investment properties were valued at 4 April 2003 on the basis of an open market valuation for existing use. A representative sample of around 25% of the branches and non specialised buildings has been valued by members of the Royal Institution of Chartered Surveyors who are either independent or employed by the Society and the remaining properties have been included at valuation based on the percentage movement in values shown by the sample. Investment properties are included at Directors' valuation.

**NOTES TO THE ACCOUNTS—(Continued)**

**18. Other assets**

	<u>Group</u>		<u>Society</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Value of long term life assurance business .....	213.9	188.4	—	—
Deferred taxation .....	28.3	21.1	18.0	18.5
Other .....	59.2	110.5	29.9	94.9
	<u>301.4</u>	<u>320.0</u>	<u>47.9</u>	<u>113.4</u>

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% (2002 – 9.0%) per annum.
- Future investment returns of 4.5% (2002 – 5.0%) gross per annum for fixed interest investments and 7.0% (2002 – 7.5%) for equity investments. The investment return for guaranteed return products is linked to the matching assets.
- Expense inflation rate of 3.5% (2002 – 4.0%) gross.
- Mortality for the future based on general industry experience of the type of business concerned.
- Expenses and withdrawals for the future based on own recent experience of the type of business concerned.

**Deferred Taxation**

	<u>Group</u>		<u>Society</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Brought forward at 5 April .....	21.1	24.5	18.5	24.2
Deferred tax credit/(charge) in Income and Expenditure Account (Note 9).....	7.2	(3.4)	(0.5)	(5.7)
Carried forward at 4 April .....	<u>28.3</u>	<u>21.1</u>	<u>18.0</u>	<u>18.5</u>
The amounts provided for deferred taxation, which represent the full potential deferred assets/(liabilities), are set out below:				
Excess of capital allowances over depreciation .....	(5.3)	(8.0)	(6.0)	(8.7)
Interest adjustments.....	(9.1)	(9.1)	(9.1)	—
Other timing differences .....	42.7	38.2	33.1	27.2
	<u>28.3</u>	<u>21.1</u>	<u>18.0</u>	<u>18.5</u>

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.

**19. Prepayments and accrued income**

	<u>Group</u>		<u>Society</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Accruals relating to off balance sheet instruments .....	35.8	194.2	35.8	194.2
Due from subsidiary undertakings .....	—	—	143.1	154.3
Other .....	85.2	97.5	74.3	69.8
	<u>121.0</u>	<u>291.7</u>	<u>253.2</u>	<u>418.3</u>

Other prepayments and accrued income includes Group and Society £5.3 million (2002 – £2.6 million) being the cumulative excess of contributions paid to the pension fund over the pension charge (Note 8).

**NOTES TO THE ACCOUNTS—(Continued)**

**20. 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:

	<u>2003</u>	<u>2002</u>
	<i>£m</i>	<i>£m</i>
Investments.....	1,453.4	1,396.3
Current assets .....	18.3	14.0
Long term life assurance business assets .....	<u>1,471.7</u>	<u>1,410.3</u>
Creditors .....	697.1	603.8
Long term life assurance fund.....	<u>774.6</u>	<u>806.5</u>
Long term life assurance business liabilities.....	<u>1,471.7</u>	<u>1,410.3</u>

The above investments are stated at market value.

**21. Shares**

	<b>Group and Society</b>	
	<u>2003</u>	<u>2002</u>
	<i>£m</i>	<i>£m</i>
Held by individuals .....	60,930.2	55,443.1
Other shares.....	13.3	17.7
	<u>60,943.5</u>	<u>55,460.8</u>

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

	<b>Group and Society</b>	
	<u>2003</u>	<u>2002</u>
	<i>£m</i>	<i>£m</i>
Accrued interest.....	555.1	634.0
Repayable on demand .....	59,419.1	54,173.7
Other shares by residual maturity repayable:		
• In not more than three months .....	197.2	28.9
• In more than three months but not more than one year .....	453.4	415.5
• In more than one year but not more than five years.....	318.7	208.7
	<u>60,943.5</u>	<u>55,460.8</u>

**22. 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:

	<b>Group</b>		<b>Society</b>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accrued interest.....	8.2	9.7	8.2	9.7
Repayable on demand .....	0.5	1.0	0.5	1.0
Other amounts owed to credit institutions by residual maturity repayable:				
• In not more than three months .....	1,433.5	827.7	1,432.9	828.8
• In more than three months but not more than one year .....	32.8	335.9	32.8	335.9
• In more than one year but not more than five years.....	119.4	128.9	119.4	128.9
• In more than five years.....	164.4	148.0	164.4	148.0
	<u>1,758.8</u>	<u>1,451.2</u>	<u>1,758.2</u>	<u>1,452.3</u>

Amounts owed to credit institutions include £304.4 million (2002 – £248.3 million) in respect of sale and repurchase agreements.

NOTES TO THE ACCOUNTS—(Continued)

23. Amounts owed to other customers

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Amounts owed to subsidiary undertakings .....	—	—	1,002.8	842.7
Other.....	4,539.5	4,345.5	3,827.8	3,651.0
	<u>4,539.5</u>	<u>4,345.5</u>	<u>4,830.6</u>	<u>4,493.7</u>

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

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Accrued interest.....	14.4	18.6	15.4	20.3
Repayable on demand .....	1,284.0	1,403.9	2,040.5	2,015.6
Other amounts owed to other customers with residual maturity repayable:				
• In not more than three months .....	2,666.6	2,200.4	2,422.4	1,944.3
• In more than three months but not more than one year .....	458.5	597.4	236.8	385.2
• In more than one year but not more than five years.....	86.8	70.8	86.3	70.4
• In more than five years.....	29.2	54.4	29.2	57.9
	<u>4,539.5</u>	<u>4,345.5</u>	<u>4,830.6</u>	<u>4,493.7</u>

24. Debt securities in issue

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Certificates of deposit .....	7,141.8	2,863.6	7,060.4	2,863.6
Fixed and floating rate notes .....	3,735.9	3,903.0	3,735.9	3,903.0
Other debt securities.....	210.4	208.3	210.4	208.3
	<u>11,088.1</u>	<u>6,974.9</u>	<u>11,006.7</u>	<u>6,974.9</u>

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

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Accrued interest.....	57.5	65.4	57.5	65.4
Other debt securities in issue with residual maturity repayable:				
• In not more than one year.....	7,708.2	4,075.8	7,708.2	4,075.8
• In more than one year.....	3,322.4	2,833.7	3,241.0	2,833.7
	<u>11,088.1</u>	<u>6,974.9</u>	<u>11,006.7</u>	<u>6,974.9</u>

25. Other liabilities

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Amounts falling due within one year:				
Income tax .....	40.2	129.2	40.1	129.2
Corporation tax.....	42.0	16.5	22.1	—
Other creditors.....	167.8	119.1	70.9	95.6
	<u>250.0</u>	<u>264.8</u>	<u>133.1</u>	<u>224.8</u>
Other creditors include:				
• Amounts due to subsidiary undertakings .....	—	—	1.4	12.8

NOTES TO THE ACCOUNTS—(Continued)

26. Accruals and deferred income

	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Accruals relating to off balance sheet instruments .....	87.4	53.0	87.4	53.0
Interest accrued on subordinated liabilities .....	3.1	2.1	3.1	2.1
Interest accrued on subscribed capital.....	1.5	1.5	1.5	1.5
Other.....	167.0	142.0	160.2	131.9
	<u>259.0</u>	<u>198.6</u>	<u>252.2</u>	<u>188.5</u>

27. Provisions for liabilities and charges

	Pension obligations (Note 8)	Vacant premises and property rectification	Other provisions	Total
	£m	£m	£m	£m
<b>Group</b>				
At 5 April 2002 .....	0.9	4.1	8.3	13.3
Provisions utilised.....	(0.2)	(0.6)	(2.9)	(3.7)
Charge for the year.....	5.3	0.1	15.6	21.0
At 4 April 2003 .....	<u>6.0</u>	<u>3.6</u>	<u>21.0</u>	<u>30.6</u>
<b>Society</b>				
At 5 April 2002 .....	0.7	3.1	7.3	11.1
Provisions utilised.....	(0.1)	—	(2.5)	(2.6)
Charge for the year.....	5.3	0.1	15.6	21.0
At 4 April 2003 .....	<u>5.9</u>	<u>3.2</u>	<u>20.4</u>	<u>29.5</u>

**Pension obligations**

This provision primarily represents Group and Society £5.3 million (2002 – £nil) in respect of unfunded Directors' pension obligations with the remaining provision £0.6 million (2002 – £0.7 million), largely to provide certain pension rights to part-time employees.

**Vacant premises and property rectification**

This represents the estimated amounts in respect of the ongoing net costs of vacant premises and the Group's contractual liability to settle costs for the rectification work on one of the Society's specialised administration buildings and will be utilised over the period of the rectification work.

**Other provisions**

Other provisions have been made in respect of various customer claims.

28. Subordinated liabilities

	Group and Society	
	2003	2002
	£m	£m
EuroLibor + 0.6% Subordinated Notes 2014 .....	273.8	—
5 1/4% Subordinated Notes 2018.....	200.0	—
10 1/2% Subordinated Notes 2007.....	—	27.1
8 5/8% Subordinated Notes 2018.....	125.0	125.0
	598.8	152.1
Unamortised premiums and issue costs .....	(4.8)	(1.4)
	<u>594.0</u>	<u>150.7</u>

## NOTES TO THE ACCOUNTS—(Continued)

All of the Society's subordinated liabilities are unsecured. The EuroLibor + 0.6% subordinated liabilities are denominated in euro, the remaining subordinated liabilities are denominated in Sterling. The Society may, with the prior consent of the Financial Services Authority redeem the notes under the following conditions:-

- Redemption of all (but not some only) of the EuroLibor + 0.6% Notes at par on 11 April 2008 after giving not less than 15 nor more than 30 days notice to the holders. In the event the Society does not redeem the Notes on 11 April 2008 the floating rate Notes margin will increase by 0.5%.
- Redemption of all (but not some only) of the 5 1/4% Notes at par on 12 February 2013 after giving not less than 15 nor more than 30 days notice to the holders. In the event the Society does not redeem the Notes on 12 February 2013 the fixed rate of interest will become an aggregate of 1.98% and the then current 5 year benchmark Gilt rate.
- Redemption of all or some of the 8 5/8% Notes at the higher of par or the benchmark 8 3/4% 2017 Gilt, after giving not less than 30 nor more than 60 days notice to the holders.

The subordinated notes rank *pari passu* with each other and behind the claims against the Society of all depositors, creditors and investing members (other than holders of deferred shares) of the Society.

### 29. Subscribed capital

	Group and Society	
	2003	2002
	£m	£m
7.971% Permanent Interest Bearing Shares .....	200.0	200.0
7.859% Permanent Interest Bearing Shares .....	100.0	100.0
	300.0	300.0
Unamortised issue costs .....	(3.6)	(3.8)
	296.4	296.2

All Permanent Interest Bearing Shares ('PIBS') are unsecured and denominated in Sterling. They were issued on 13 March 2000. Net proceeds of the issue were £295.7 million.

The 7.971% PIBS are repayable, at the option of the Society, in whole in March 2015 or any fifth anniversary thereafter. The 7.859% PIBS are repayable, at the option of the Society, in whole in March 2030 or any fifth anniversary thereafter. Repaying the PIBS requires the prior consent of the Financial Services Authority. If the PIBS are not repaid on a call date then the interest rate is reset at a margin to the yield on the then prevailing five-year benchmark Gilt.

PIBS rank *pari passu* with each other. They are deferred shares of the Society and rank behind the claims against the Society of all subordinated noteholders, depositors, creditors and investing members of the Society.

### 30. Revaluation reserve

	Group Fixed assets	Group Investment properties	Group Total	Society Fixed assets
	£m	£m	£m	£m
At 5 April 2002.....	66.9	67.0	133.9	70.2
Surplus on revaluation .....	15.7	19.1	34.8	16.1
Transfer to general reserve .....	—	(3.6)	(3.6)	—
At 4 April 2003.....	82.6	82.5	165.1	86.3

NOTES TO THE ACCOUNTS—(Continued)

31. General reserve

	<u>Group</u>	<u>Society</u>
	<u>£m</u>	<u>£m</u>
At 5 April 2002 .....	3,754.7	3,228.9
Profit for the year .....	262.7	124.1
Transfer from revaluation reserve .....	3.6	—
At 4 April 2003 .....	<u>4,021.0</u>	<u>3,353.0</u>

The transfer from revaluation reserve in the Group and Society consists of the realisations of net property revaluation gains of previous years.

The general reserve includes £72.3 million (2002 – £69.6 million) of unrealised profit in respect of the increase in the value of the Group's long term life assurance business.

Translation losses arising from foreign currency borrowings, used to hedge investments in overseas subsidiary undertakings, of Group £3.8 million, Society £0.8 million (2002 – Group and Society translation gains of £15.8 million), together with the related tax credit of Group £1.1 million, Society £0.2 million (2002 – Group and Society charge £4.7 million), giving net losses of Group £2.7 million, Society £0.6 million (2002 – Group and Society net gains of £11.1 million), have been taken to the reserves of the Group and Society respectively. These translation movements are matched by corresponding translation movements on the investments in the financial statements of the Society, and translation movements on the net assets of overseas subsidiary undertakings in the Group financial statements.

32. Memorandum items

a) Commitments

	<u>Group</u>		<u>Society</u>	
	<u>Contract amount</u>	<u>Credit risk weighted amount</u>	<u>Contract amount</u>	<u>Credit risk weighted amount</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>2003</b>				
Irrevocable undrawn loan facilities .....	3,325.6	1,021.7	2,839.0	900.0
Unpaid share capital of subsidiary company .....	—	—	28.3	28.3
Forward asset purchases and forward deposits placed .....	156.9	46.3	156.9	46.3
Undrawn formal standby facilities, credit lines and other commitments to lend greater than one year .....	79.0	39.5	79.0	39.5
	<u>3,561.5</u>	<u>1,107.5</u>	<u>3,103.2</u>	<u>1,014.1</u>

	<u>Group</u>		<u>Society</u>	
	<u>Contract amount</u>	<u>Credit risk weighted amount</u>	<u>Contract amount</u>	<u>Credit risk weighted amount</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>2002</b>				
Irrevocable undrawn loan facilities .....	2,594.0	835.3	2,269.0	754.0
Unpaid share capital of subsidiary company .....	—	—	28.3	28.3
Forward asset purchases and forward deposits placed .....	31.7	6.3	119.7	23.9
Undrawn formal standby facilities, credit lines and other commitments to lend greater than one year .....	79.0	39.5	79.0	39.5
	<u>2,704.7</u>	<u>881.1</u>	<u>2,496.0</u>	<u>845.7</u>

b) Contingent liabilities

Nationwide, like many other distributors of savings and investment products to retail customers, are experiencing increasing customer concerns on the value of some life assurance products related to the repayment of residential mortgages (endowment type mortgages). Against falling investment returns concern is being raised that the value of the investment policies will be below the amount required to repay the mortgage. In some cases, these concerns convert to complaints and involve investigations by the Regulator. As a result, corrective action may be required which could include the payment of compensation.

## NOTES TO THE ACCOUNTS—(Continued)

Such complaints are dealt with on a case by case basis by Nationwide and any provisions included in the Annual Accounts are based on the level of complaints received. It is not possible to estimate with any degree of certainty the level of complaints expected to arise.

### 33. Financial commitments

Capital commitments	Group		Society	
	2003	2002	2003	2002
	£m	£m	£m	£m
Capital expenditure contracted for but not provided for in the Accounts .....	9.5	15.5	7.1	13.0

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

Leasing commitments	Land and buildings	
	2003	2002
	£m	£m
<b>Group</b>		
Leases which expire:		
• Within one year .....	5.4	1.5
• Between one and five years .....	10.2	11.1
• After five years .....	10.9	11.6
	26.5	24.2
<b>Society</b>		
Leases which expire:		
• Within one year .....	5.3	1.4
• Between one and five years .....	10.1	10.9
• After five years .....	10.5	11.2
	25.9	23.5

### 34. Consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2003	2002
	£m	£m
Operating profit .....	353.3	325.7
Decrease in prepayments and accrued income .....	313.5	30.4
Increase in accruals and deferred income .....	61.6	61.6
Provisions for bad and doubtful debts .....	49.4	36.8
Loans and advances written off, net of recoveries .....	(41.4)	(31.1)
Amounts written off fixed asset investments .....	38.2	40.6
Depreciation and amortisation .....	91.5	96.0
Interest on subordinated liabilities .....	13.6	13.7
Interest on subscribed capital .....	24.0	24.0
Profit on sale of tangible fixed assets .....	(1.3)	(1.2)
Increase/(decrease) in provisions for liabilities and charges .....	17.3	(13.5)
(Increase) in value of long term life assurance business .....	(43.7)	(34.7)
Non-cash movements in debt securities .....	(171.0)	(11.7)
Other non-cash movements .....	—	0.3
Net cash inflow from trading activities .....	705.0	536.9
Net (increase) in loans and advances to customers .....	(9,076.7)	(3,552.0)
Net increase in shares .....	5,482.7	5,788.1
Net increase in amounts owed to credit institutions and other customers .....	501.6	101.9
Net increase/(decrease) in debt securities in issue .....	4,113.2	(2,671.3)
Net (increase) in equity securities .....	(3.0)	—
Net decrease in loans and advances to credit institutions .....	14.1	1,207.6
Net decrease/(increase) in other assets .....	56.4	(81.6)
Net (decrease)/ increase in other liabilities .....	(40.3)	47.0
Net cash inflow from operating activities .....	1,753.0	1,376.6

## NOTES TO THE ACCOUNTS—(Continued)

Analysis of changes in financing during the year

	Subscribed capital	Subordinated liabilities
	<i>£m</i>	<i>£m</i>
At 5 April 2002.....	296.2	150.7
Cash inflow from financing.....	—	446.7
Amortisation of premiums and issue costs.....	0.2	(3.4)
At 4 April 2003.....	296.4	594.0

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

	2003	Flows	2002
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cash in hand and balances with the Bank of England.....	348.4	6.7	341.7
Loans and advances to credit institutions repayable on demand.....	109.5	(13.3)	122.8
	457.9	(6.6)	464.5

The Group is required to maintain balances with the Bank of England which, at 4 April 2003, amounted to £93.6 million (2002 – £84.4 million).

### 35. 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. The contract can be cash instruments such as bonds or derivative products. The Group 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 and raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk. This structure includes risk limits, reporting lines, mandates and other control procedures, and is reviewed regularly by the Assets and Liabilities Committee ('ALCO'), which is charged with the responsibility for managing and controlling interest rate and currency 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.

Derivatives are only used by the Group, in accordance with the Building Societies Act 1986, 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 used purely to hedge risk exposure and are not used for speculative purposes.

#### Types of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency interest rate swaps, foreign exchange contracts and credit derivatives. Derivatives are used to hedge Group balance sheet exposures arising from fixed and capped rate mortgage lending and fixed rate savings products, funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options.

## NOTES TO THE ACCOUNTS—(Continued)

The following table describes the significant activities undertaken by the Group, the 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 derivative instrument used
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps and forward rate agreements
Fixed rate savings products and funding activities involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
Fixed and capped rate mortgage lending and investment activities involving either fixed rate instruments or instruments with embedded options	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 and foreign exchange contracts
Equity-linked investment products	Sensitivity to changes in equity indices	Equity-linked futures, options and interest rate swaps
Investment of liquid resources in debt securities	Sensitivity to changes in obligor credit risk leading to default	Credit default swap

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. Limits over the use of derivative products are the responsibility of ALCO with the exception of the Group Credit Committee which sets Group credit policy and regularly monitors and reviews credit exposures arising in all aspects of the Group's operations, including derivatives.

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 derivative contracts are not subject to the cash requirements. The accounting policies for 'hedging instruments' are described in the accounting policies noted on page 31.<sup>(1)</sup>

<sup>(1)</sup> The reference to page 31 refers to the information on page 36 of this document.

## NOTES TO THE ACCOUNTS—(Continued)

The table below analyses derivatives by type of contract and maturity and shows the contract or underlying principal amounts, credit risk weighted amounts and replacement costs of contracts. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, 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. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date reflecting the Group's exposure should the counterparties default.

Group	Contract or underlying principal amount	Credit risk weighted amount	Replacement cost	Contract or underlying principal amount	Credit risk weighted amount	Replacement cost
	2003	2003	2003	2002	2002	2002
	£m	£m	£m	£m	£m	£m
Exchange rate contracts:						
• Cross-currency interest rate swaps ....	1,133.1	14.3	19.8	1,168.4	34.3	110.6
• Forward foreign exchange .....	3,289.0	8.6	9.1	3,629.7	12.7	29.5
	<u>4,422.1</u>	<u>22.9</u>	<u>28.9</u>	<u>4,798.1</u>	<u>47.0</u>	<u>140.1</u>
• Under one year .....	3,710.3	11.8	21.5	3,799.6	15.0	40.2
• Between one and five years .....	508.3	7.4	6.5	796.0	23.0	72.7
• Over five years .....	203.5	3.7	0.9	202.5	9.0	27.2
	<u>4,422.1</u>	<u>22.9</u>	<u>28.9</u>	<u>4,798.1</u>	<u>47.0</u>	<u>140.1</u>
Interest rate contracts:						
• Interest rate swaps .....	25,316.0	67.1	164.2	21,177.5	69.6	188.4
• Swaptions .....	68.9	2.6	12.2	93.7	1.5	6.3
• Forward rate agreements .....	1,544.9	—	0.1	750.0	—	—
• Caps, collars and floors .....	7,848.8	7.7	0.6	2,146.2	2.3	4.3
	<u>34,778.6</u>	<u>77.4</u>	<u>177.1</u>	<u>24,167.4</u>	<u>73.4</u>	<u>199.0</u>
• Under one year .....	8,775.7	6.3	31.3	7,831.8	12.0	59.2
• Between one and five years .....	22,121.9	32.2	50.7	12,507.9	25.5	58.6
• Over five years .....	3,881.0	38.9	95.1	3,827.7	35.9	81.2
	<u>34,778.6</u>	<u>77.4</u>	<u>177.1</u>	<u>24,167.4</u>	<u>73.4</u>	<u>199.0</u>
Equity and credit contracts:						
• Equity contracts .....	1,204.7	154.7	674.7	1,195.9	155.5	679.1
• Credit contracts .....	850.9	—	2.4	886.3	—	—
	<u>2,055.6</u>	<u>154.7</u>	<u>677.1</u>	<u>2,082.2</u>	<u>155.5</u>	<u>679.1</u>
• Under one year .....	17.5	3.6	16.9	124.7	27.8	131.5
• Between one and five years .....	1,904.6	123.6	535.9	823.6	100.0	434.0
• Over five years .....	133.5	27.5	124.3	1,133.9	27.7	113.6
	<u>2,055.6</u>	<u>154.7</u>	<u>677.1</u>	<u>2,082.2</u>	<u>155.5</u>	<u>679.1</u>

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

The financial risks faced by the Group include liquidity risk, market risk and credit 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 management control of the growth of the business and through wholesale funding facilities. As at 4 April 2003, the Group maintained £1.4 billion of committed standby facilities (2002 – £1.5 billion), of which £0.6 billion (2002 – £0.6 billion) are due to mature within one year.

**NOTES TO THE ACCOUNTS—(Continued)**

**Market risk**

The primary market risk faced by the Group is 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. In the table below items are allocated to time bands. After taking into account the various derivatives entered into by the Group, the interest rate sensitivity exposure of the Group by reference to the earlier of the next contractual interest rate repricing date and the maturity date was:

At 4 April 2003—Repricing date	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>							
Liquid assets .....	12,909.6	1,050.0	607.9	1,074.6	829.1	514.0	16,985.2
Loans and advances to customers.....	39,893.2	1,384.5	2,802.5	18,046.3	3,819.2	(212.3)	65,733.4
Tangible fixed assets .....	—	—	—	—	—	798.4	798.4
Other assets .....	—	—	—	—	—	1,900.7	1,900.7
<b>Total assets .....</b>	<b><u>52,802.8</u></b>	<b><u>2,434.5</u></b>	<b><u>3,410.4</u></b>	<b><u>19,120.9</u></b>	<b><u>4,648.3</u></b>	<b><u>3,000.8</u></b>	<b><u>85,417.7</u></b>
<b>Liabilities</b>							
Shares.....	58,379.4	114.2	385.5	1,992.4	72.0	—	60,943.5
Amounts owed to credit institutions and other customers and debt securities in issue .....	14,754.0	1,711.8	351.4	248.3	239.1	81.8	17,386.4
Other liabilities .....	—	—	—	—	—	2,011.3	2,011.3
Subordinated liabilities .....	272.4	—	—	—	321.6	—	594.0
Subscribed capital.....	—	—	—	—	296.4	—	296.4
Reserves.....	—	—	—	—	—	4,186.1	4,186.1
<b>Total liabilities .....</b>	<b><u>73,405.8</u></b>	<b><u>1,826.0</u></b>	<b><u>736.9</u></b>	<b><u>2,240.7</u></b>	<b><u>929.1</u></b>	<b><u>6,279.2</u></b>	<b><u>85,417.7</u></b>
Off balance sheet items.....	21,040.0	122.3	(2,137.2)	(15,250.6)	(3,774.5)	—	—
Interest rate sensitivity gap.....	437.0	730.8	536.3	1,629.6	(55.3)	(3,278.4)	—
Cumulative interest rate sensitivity gap .....	437.0	1,167.8	1,704.1	3,333.7	3,278.4	—	—

NOTES TO THE ACCOUNTS—(Continued)

At 4 April 2002– Repricing date	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>							
Liquid assets .....	11,053.2	1,056.2	247.0	1,171.1	842.8	635.8	15,006.1
Loans and advances to customers .....	39,418.9	877.3	2,589.8	10,925.3	3,065.3	(211.9)	56,664.7
Tangible and intangible fixed assets .....	—	—	—	—	—	758.5	758.5
Other assets .....	—	—	—	—	—	2,025.6	2,025.6
Total assets .....	<u>50,472.1</u>	<u>1,933.5</u>	<u>2,836.8</u>	<u>12,096.4</u>	<u>3,908.1</u>	<u>3,208.0</u>	<u>74,454.9</u>
<b>Liabilities</b>							
Shares .....	53,900.6	239.0	234.0	991.5	95.6	0.1	55,460.8
Amounts owed to credit institutions and other customers and debt securities in issue .....	10,349.5	952.5	660.1	449.8	268.7	91.0	12,771.6
Other liabilities .....	—	—	—	—	—	1,887.0	1,887.0
Subordinated liabilities .....	—	27.1	—	—	123.6	—	150.7
Subscribed capital .....	—	—	—	—	296.2	—	296.2
Reserves .....	—	—	—	—	—	3,888.6	3,888.6
Total liabilities .....	<u>64,250.1</u>	<u>1,218.6</u>	<u>894.1</u>	<u>1,441.3</u>	<u>784.1</u>	<u>5,866.7</u>	<u>74,454.9</u>
Off balance sheet items .....	<u>14,232.5</u>	<u>(276.1)</u>	<u>(1,974.4)</u>	<u>(8,984.1)</u>	<u>(2,997.9)</u>	<u>—</u>	<u>—</u>
Interest rate sensitivity gap .....	<u>454.5</u>	<u>438.8</u>	<u>(31.7)</u>	<u>1,671.0</u>	<u>126.1</u>	<u>(2,658.7)</u>	<u>—</u>
Cumulative interest rate sensitivity gap .....	<u>454.5</u>	<u>893.3</u>	<u>861.6</u>	<u>2,532.6</u>	<u>2,658.7</u>	<u>—</u>	<u>—</u>

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 and further information is given in the table on page 63<sup>(1)</sup>.

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 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.

A negative interest rate sensitivity gap exists when more liabilities than assets reprice during a given period. Although a negative gap position tends to benefit net interest income in a declining interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rate sensitivity within repricing periods and among currencies.

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 5 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 2003, Immediate risk as a percentage of consolidated reserves at the beginning of each quarter was maintained in the range 4.3% to 5.4% (2002 – 3.8% to 5.1%), with an average of 4.7% (2002 – 4.4%). At 4 April 2003 its value was 5.1% (2002 – 4.8%).

<sup>(1)</sup> The reference to page 63 refers to the information on page 62 of this document.

## NOTES TO THE ACCOUNTS—(Continued)

The Group has a subsidiary whose functional currency is yen. Structural currency exposure related to this investment has been fully hedged, consistent with the Group's policy on currency risk. Exchange movements on the translation of the investment and exchange movements net of taxation on the associated hedge transactions are recognised in the statement of total recognised gains and losses.

In line with the prudential guidance applying to all building societies and after taking account of foreign currency derivatives, the Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

### Credit risk

Credit risk is the risk that counterparties will not be able to meet their obligations as they fall due. The Credit Committee is responsible for approving and monitoring the Group's credit exposures which it does through reviewing and approving the Group's lending policy and credit scoring systems and through setting limits on credit exposures to individual counterparties and across countries and industrial sectors. The minutes of the Credit Committee are presented to the Board.

The Group has entered into a credit derivative in order to manage the credit risk of an investment portfolio. The credit derivative enables the Group to transfer a proportion of the credit risk relating to the relevant securities to a third party whilst retaining the underlying investment portfolio.

### Recognised gains and losses on hedges

As explained in the accounting policies on page 31<sup>(1)</sup>, the Group uses hedge accounting to recognise gains and losses on instruments used for hedging specific financial instruments over the residual life of the underlying instruments. The table below shows the extent of hedge accounting within the Group:

	Gains	Losses	Net Gains/ (Losses)
	£m	£m	£m
Amounts deferred in the balance sheet as at 4 April 2002 .....	28.6	(41.1)	(12.5)
Amounts recognised in the year to 4 April 2003 .....	<u>(8.9)</u>	<u>5.2</u>	<u>(3.7)</u>
Amounts not recognised in the year to 4 April 2003 .....	19.7	(35.9)	(16.2)
Amounts arising in the year to 4 April 2003 that were not recognised in that year .....	<u>(5.6)</u>	<u>17.5</u>	<u>11.9</u>
Amounts deferred in the balance sheet as at 4 April 2003 .....	14.1	(18.4)	(4.3)
Expected to be recognised in the year to 4 April 2004 .....	(7.3)	2.7	(4.6)
Expected to be recognised thereafter .....	<u>21.4</u>	<u>(21.1)</u>	<u>0.3</u>

### Unrecognised gains and losses on hedges

Gains and losses on instruments used for hedging are not recognised, as these hedges are accounted for on an accruals basis in line with the underlying instruments being hedged. The following table shows gains and losses that would occur if these instruments were carried at market value.

	Gains	Losses	Net Gains/ (Losses)
	£m	£m	£m
Unrecognised gains and losses on hedges as at 4 April 2002 .....	166.0	(338.0)	(172.0)
Of which recognised in the year to 4 April 2003 .....	<u>(33.5)</u>	<u>39.4</u>	<u>5.9</u>
Gains and losses arising not recognised in the year to 4 April 2003 .....	132.5	(298.6)	(166.1)
Gains and losses arising in the year to 4 April 2003 that were not recognised in that year .....	<u>9.6</u>	<u>(437.7)</u>	<u>(428.1)</u>
Unrecognised gains and losses on hedges as at 4 April 2003 .....	142.1	(736.3)	(594.2)
Of which expected to be recognised in the year to 4 April 2004 .....	17.7	(56.8)	(39.1)
Expected to be recognised thereafter .....	<u>124.4</u>	<u>(679.5)</u>	<u>(555.1)</u>

<sup>(1)</sup> The reference to page 31 refers to the information on page 36 of this document.

## NOTES TO THE ACCOUNTS—(Continued)

The differences between book and fair value of off balance sheet instruments do not represent absolute gains or losses expected by the Group as they will be substantially offset by corresponding losses or gains arising from on balance sheet assets and liabilities.

### 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 2003 and 4 April 2002. The fair value of a financial instrument represents the amount at which assets, liabilities and derivatives held could be sold between willing parties at the balance sheet date. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated. Option values have been calculated by using option-pricing models and other financial instruments values have been calculated by discounting cash flows at prevailing interest and exchange rates and credit spreads.

Assets/(Liabilities)	2003				2002			
	Positive		Negative		Positive		Negative	
	Book value	Fair value						
	£m							
<b>On balance sheet instruments:</b>								
• Loans and advances to credit institutions .....	882.2	882.3			918.8	918.9		
• Debt securities .....	15,661.0	15,932.0			13,661.2	13,792.3		
• Other assets .....	—	—			60.0	59.3		
• Amounts owed to credit institutions .....			(1,834.8)	(1,835.1)			(1,451.2)	(1,451.2)
• Amounts owed to other customers .....			(2,753.5)	(2,758.4)			(2,439.1)	(2,442.9)
• Debt securities in issue .....			(11,006.7)	(11,054.7)			(6,974.9)	(6,954.4)
• Subordinated liabilities .....			(588.0)	(703.7)			(143.8)	(186.9)
• Subscribed capital .....			(297.9)	(364.5)			(297.7)	(337.7)
<b>Off balance sheet instruments:</b>								
• Interest rate swaps .....	57.5	164.2	(64.2)	(750.3)	73.9	188.4	(57.7)	(309.2)
• Forward rate agreements .....	(0.2)	0.1	—	—	—	—	—	(5.3)
• Caps, collars and floors .....	7.1	0.6	—	(1.8)	6.3	4.3	—	(1.1)
• Swaptions .....	(0.2)	12.2	—	—	0.1	6.3	—	—
• Cross-currency interest rate swaps .....	(2.1)	19.8	(9.6)	(51.5)	69.9	110.6	45.0	(27.5)
• Forward foreign exchange .....	9.1	9.1	(55.1)	(55.1)	29.5	29.5	(4.7)	(4.7)
• Credit derivatives .....	1.6	2.4	—	—	—	—	—	(1.0)

The book value of off balance sheet instruments represents the equivalent value at which such instruments would be carried in the balance sheet. This primarily consists of interest accruals and unaccreted forward points.

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. It excludes mortgages, retail savings accounts and other balance sheet items whose book and fair values differ.

The book value for subordinated liabilities includes £6.0 million (2002 – £6.9 million) included within prepayments and accrued income and accruals and deferred income.

The book value for subscribed capital includes £1.5 million (2002 – £1.5 million) included within accruals and deferred income.

### 36. Non-sterling assets and liabilities

	Group and Society	
	2003	2002
	£m	£m
The aggregate amount of assets and liabilities included in the balance sheet denominated in a currency other than Sterling was as follows:		
Assets .....	7,839.7	7,208.5
Liabilities .....	5,073.2	3,619.1

## NOTES TO THE ACCOUNTS—(Continued)

### 37. 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 £1,196,285 (2002 – £528,485) representing loans to 10 persons (2002 – 8 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 on 24 July 2003 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.

Included in fees and commissions receivable is an amount of £10.0 million (2002 – £10.1 million) receivable from the life assurance subsidiary in respect of life assurance products sold through the retail network, less associated sales force costs of £11.4 million (2002 – £10.3 million).

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 2003

### 1. Statutory percentages

	2003	Statutory limit
	%	%
Lending limit .....	13.6	25.0
Funding limit .....	22.2	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 Group Balance Sheet.

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

	2003	2002
	%	%
As a percentage of shares and borrowings:		
• Gross capital .....	6.5	6.4
• Free capital .....	5.7	5.4
• Liquid assets .....	21.7	22.0
Profit for the financial year as a percentage of mean total assets .....	0.33	0.32
Management expenses as a percentage of mean total assets .....	1.02	1.06

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, subscribed capital and subordinated liabilities.

**ANNUAL BUSINESS STATEMENT—(Continued)**

**for the year ended 4 April 2003**

- 'Free capital' represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible and intangible fixed assets.
- '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.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

**3. Information relating to directors and other officers**

**At 4 April 2003**

**Directors**

<b>Name and date of birth</b>	<b>Occupation</b>	<b>Date of appointment</b>	<b>Other directorships</b>
J G W Agnew MA Chairman 30 July 1941	Banker	1 March 1997	Beazley Group plc Beazley Furlonge Ltd Soditic Ltd Thos Agnew & Sons Ltd
B A Walsh MSc (Econ), FCMA, CIMgt (Deputy Chairman) 27 May 1944	Company Director	2 August 1999	
P F Williamson BA (Econ), FCIB 11 December 1947	Chief Executive	5 April 1996	Building Societies Association, Council Member
B K Simpson MIMIS, FRSA 29 January 1948	Deputy Chief Executive and Chief Operating Officer	4 May 1994	Nationwide Anglia Property Services Ltd Nationwide Trust Ltd NBS Fleet Services Ltd The Nationwide Foundation
A R H Dales FCA 26 May 1949	Group Finance Director	1 January 1993	First Nationwide First Nationwide Investments Ltd Foundation Insurance Ltd Nationwide Anglia Property Services Ltd Nationwide Home Loans Ltd NBS Fleet Services Ltd UCB Home Loans Corporation Ltd
S D M Bernau BSc (Econ), FCIB, MCT 15 August 1951	Commercial & Treasury Director	1 November 1996	at.home nationwide ltd Council of Mortgage Lenders, Executive Committee Member Council of the Chartered Institute of Bankers, Member Ethos Independent Financial Services Ltd Financial Services National Training Organisation, Member

**ANNUAL BUSINESS STATEMENT—(Continued)**

**for the year ended 4 April 2003**

<b>Name and date of birth</b>	<b>Occupation</b>	<b>Date of appointment</b>	<b>Other directorships</b>
S D M Bernau (continued) BSc (Econ), FCIB, MCT 15 August 1951	Commercial & Treasury Director	1 November 1996	First Nationwide First Nationwide Investments Ltd Nationwide BES Fund Managers Ltd Nationwide Housing Trust Ltd Nationwide Investments (No 1) Ltd Nationwide Lease Finance Ltd Nationwide Mortgage Corporation Ltd Nationwide Life Ltd Nationwide Syndications Ltd Nationwide Unit Trust Managers Ltd
J H Willens MBA, DMS, ACIB 7 June 1956	Retail Operations Director	1 January 2002	Institution of Financial Services Retail Faculty Board, Member Monument (Sutton) Ltd Nationwide Anglia Property Services Ltd Nationwide Home Loans Ltd Nationwide Life Ltd Nationwide Unit Trust Managers Ltd UCB Home Loans Corporation Ltd
Mrs A J Carnwath BA, ACA 18 January 1953	Company Director	31 March 1994	Friends Provident plc Gallaher Group plc Glas Cymru Cyfyngedig Isis Equity Partners Plc Man Group plc Tresises Printers Ltd Vitec Group plc
J Engestrom MBA 7 February 1942	Company Director	1 March 1997	Nationwide Life Ltd Nationwide Unit Trust Managers Ltd Wellington Underwriting Agencies Ltd Wellington Underwriting plc
Ms R E Evans MA 12 October 1957	Company Director	1 April 2002	Britain in Europe, Council Member General Medical Council, Lay Member Independent Inquiry into Drug Testing At Work, Chairman Independent Review Panel for the Advertising of Medicines for Human Use, Member

**ANNUAL BUSINESS STATEMENT—(Continued)**

**for the year ended 4 April 2003**

<b>Name and date of birth</b>	<b>Occupation</b>	<b>Date of appointment</b>	<b>Other directorships</b>
Ms R E Evans (continued) MA 12 October 1957	Company Director	1 April 2002	Panel of Independent Assessors, Office of the Commissioner for Public Appointments, Member Women in Europe, Council Member
R G Handover 13 April 1946	Company Director	1 May 2000	Adult Learning Inspectorate, Chairman Business in the Community Royal Mail Holdings plc WHSmith plc
R P Walther MA, FIA 31 July 1943	Company Director	1 July 2002	Fidelity European Values plc, Chairman The Fleming Claverhouse Investment Trust plc, Chairman

Documents may be served on any of the Directors at Burges Salmon, Solicitors, Narrow Quay House, Narrow Quay, Bristol, BS1 4AH

**Directors' Service Contracts**

Details of the Directors' service contracts are shown in the Report of the Directors in the full published Annual 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.

**At 4 April 2003  
Officers**

<b>Name</b>	<b>Occupation</b>	<b>Directorships</b>
R T Bailey DMS	Divisional Director (Branch Network)	
G J Beale BSc, ACA	Divisional Director (Commercial)	at.home nationwide ltd Nationwide BES Fund Managers Ltd Nationwide Housing Trust Ltd Nationwide Lease Finance Ltd Nationwide Mortgage Corporation Ltd Nationwide Syndications Ltd Surveyors Administration Ltd
S C Clode BSc (Econ), MA, PhD	Divisional Director (Marketing)	Lingmoor View Management Ltd Nationwide Trust Ltd

**ANNUAL BUSINESS STATEMENT—(Continued)**

**for the year ended 4 April 2003**

<b>Name</b>	<b>Occupation</b>	<b>Directorships</b>
P Feldman BSc, PhD	Divisional Director (Banking and Savings)	BACS Ltd Cheque and Credit Clearing Company Ltd Council of Association of Payment and Clearing Services (APACS), Member LINK Interchange Network Ltd Nationwide International Ltd
T L Morshead FCIM	Divisional Director (Mortgages and Insurance)	Ethos Independent Financial Services Ltd MBL Financial Services Ltd MBL Holdings Ltd Mortgage Brain Ltd Nationwide Life Ltd Nationwide Unit Trust Managers Ltd Premier Processing Services Ltd The Mortgage Trading Exchange Ltd
D G Parry ACIB, DMS	Divisional Director (Finance and Planning)	Foundation Insurance Ltd
A J del Strother BA, FCIB, FIPD	Divisional Director (Personnel and Development)	The Nationwide Foundation
J A Sutherland MA, MBA, FCIB, Dip FS	Divisional Director (Member Account Administration)	The Mortgage Code Compliance Board Ltd Prospect Foundation Ltd
W P Tonks MA, CPFA	Divisional Director (Risk Management)	
F I Walsh BSc	Divisional Director (Technology)	Nationwide International Ltd
C R L Wilson	Divisional Director (Legal Compliance)	Building Societies Ombudsman Company Ltd
J R Wood	Divisional Director (Treasury)	Aldbury Housing Association First Nationwide Nationwide Lease Finance Ltd

## **DIRECTORS' REPORT**

### **For the year ended 4 April 2003**

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 4 April 2003.

#### **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 Annual Report and Accounts.

#### **Profits and Capital**

The Group achieved a pre-tax profit of £353.3 million (2002 - £325.7 million). The profit after tax transferred to the general reserve was £262.7 million (2002 - £233.2 million).

Total Group reserves at 4 April 2003 were £4,186.1 million (2002 - £3,888.6 million) after taking into account the revaluation reserve of £165.1 million (2002 - £133.9 million) relating to freehold and long leasehold premises and investment properties.

Gross capital at 4 April 2003 amounted to £5,076.5 million (2002 - £4,335.5 million) including £594.0 million (2002 - £150.7 million) of subordinated debt and £296.4 million (2002 - £296.2 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings at 4 April 2003 was 6.5% (2002 - 6.4%) and the free capital ratio was 5.7% (2002 - 5.4%). The total solvency ratio at 4 April 2003 was 11.7% (2002 - 11.5%) and the Tier 1 solvency ratio was 9.6% (2002 - 10.4%).

#### **Assets**

The Group's total assets at 4 April 2003 were £85,417.7 million (2002 - £74,454.9 million), an increase of 14.7%.

Changes in tangible fixed assets during the year are detailed in Note 17 to the Accounts. Freehold and long leasehold premises, excluding specialised administration buildings, were revalued at 4 April 2003 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 £16,985.2 million (2002 - £15,006.1 million), representing 19.9% (2002 - 20.2 %) of total assets.

#### **Loans and Advances to Customers**

Gross advances made during the year amounted to £25,631.1 million (2002 - £16,401.6 million). The mortgage portfolio at 4 April 2003 included 798 mortgage accounts (2002 - 1,207), including those in possession, where payments were more than 12 months in arrears. The total amount of principal loans outstanding in these cases was £47.2 million (2002 - £69.4 million). The total amount of arrears in these cases was £8.9 million (2002 - £12.2 million) or 0.01% (2002 - 0.02%) of total mortgage balances.

#### **Funding**

Share net receipts in the year were £5,482.7 million (2002 - £5,788.1 million), and share balances at 4 April 2003 totalled £60,943.5 million (2002 - £55,460.8 million). Net receipts of deposits and other borrowings in the year were £4,614.8 million (2002 - net repayment of £2,569.4 million) and the balances at 4 April 2003 totalled £17,386.4 million (2002 - £12,771.6 million).

## **DIRECTORS' REPORT—(Continued)**

**For the year ended 4 April 2003**

### **Charitable and Political Donations**

The Group's expenditure in the financial year in respect of charitable donations amounted to £2,645,239 (2002 - £4,058,668) including £2,100,000 (2002 - £3,632,000) to The Nationwide Foundation. No contributions were made for political purposes.

### **Creditor Payment Policy**

The Society's policy concerning the payment of its trade creditors 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 Society's creditor days were 19 days at 4 April 2003 (2002 - 20 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, newsletters and the Society's intranet 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 regardless of their race, creed, sex, marital status, age, physical or mental disability. Should employees become disabled, it is the Society's policy to continue their employment where possible with appropriate training and redeployment where necessary.

### **Economic and Monetary Union**

Nationwide continues to plan for the possibility of UK entry into EMU and has plans which can be activated when entry is more certain.

### **Directors' Responsibilities in respect of the preparation of the Annual Accounts**

This statement, which should be read in conjunction with the statement of the auditors set out in the full published Annual Report and Accounts, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, the Directors' Emoluments disclosures within the Report of the Directors on Remuneration, the Annual Business Statement and the 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 and which provide details of Directors' emoluments in accordance with Part VIII of the Act and regulations made under it. 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.

## **DIRECTORS' REPORT—(Continued)**

### **For the year ended 4 April 2003**

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.

#### **Directors' Responsibilities in respect of Accounting Records and Internal Control**

The Directors are responsible for ensuring that the Society and its connected undertakings:

- keep accounting records which disclose with reasonable accuracy the financial position of the Society and the Group and which enable them to ensure that the Annual Accounts comply with the Act; and
- establish and maintain systems of control of its business and records, and of inspection and report.

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.

#### **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 Annual Accounts.

#### **Directors**

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

J G W Agnew MA (Chairman from 26 July 2002)  
B A Walsh MSc (Econ), FCMA, CIMgt (Deputy Chairman from 26 July 2002)  
P F Williamson BA (Econ), FCIB (Chief Executive)  
B K Simpson MIMIS, FRSA (Deputy Chief Executive & Chief Operating Officer)  
A R H Dales FCA (Group Finance Director)  
S D M Bernau BSc (Econ), FCIB, MCT (Dip) (Commercial & Treasury Director)  
J H Willens MBA, DMS, ACIB (Retail Operations Director)  
Mrs A J Carnwath BA, ACA  
Mrs P A Doble BSc  
J Engestrom MBA  
D J English  
Ms R E Evans MA  
R G Handover  
C K R Nunneley CA (Chairman until 25 July 2002)  
P H Twyman MSc (Econ) FBIM  
R P Walther MA, FIA

R P Walther was appointed as a non-executive Director on 1 July 2002 and P H Twyman retired on 3 July 2002. C K R Nunneley, Mrs P A Doble and D J English retired on 25 July 2002. J G W Agnew was appointed Chairman on 26 July 2002.

A R H Dales retired on 4 April 2003. G J Beale was appointed Group Finance Director on 5 April 2003 and Mrs S J David was appointed a non-executive Director on 16 April 2003.

J G W Agnew, S D M Bernau, Mrs A J Carnwath, J Engestrom, B A Walsh, R P Walther, P F Williamson, will retire at the Annual General Meeting on 24 July 2003, and with the exception of Mrs A J Carnwath all will stand for election.

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

**DIRECTORS' REPORT—(Continued)**

**For the year ended 4 April 2003**

**The Auditors**

PricewaterhouseCoopers became a Limited Liability Partnership (LLP) on 1 January 2003. PricewaterhouseCoopers resigned as the Group's Auditors on 19 March 2003 and the Board appointed its successor, PricewaterhouseCoopers LLP as auditors. PricewaterhouseCoopers LLP 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.

J G W Agnew  
Chairman  
21 May 2003

## INTERIM RESULTS

The financial information set out on pages 77 to 84 has been extracted (without material adjustment) from the unaudited half year results of the Group for the six months ended 4 October 2003.

### CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the period ended 4 October 2003

		6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
	<i>Note</i>	<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
Interest receivable and similar income .....	1	<b>1,830.5</b>	1,717.6	3,547.0
Interest payable and similar charges .....	2	<b>1,294.0</b>	1,234.4	2,515.9
Net interest receivable.....		<b>536.5</b>	483.2	1,031.1
Income from investments.....		<b>0.2</b>	0.1	0.2
Fees and commissions receivable .....		<b>141.2</b>	111.1	247.1
Fees and commissions payable .....		<b>(62.0)</b>	(42.0)	(87.4)
Other operating income.....		<b>32.4</b>	26.5	68.0
Total income .....		<b>648.3</b>	578.9	1,259.0
Administrative expenses .....	3	<b>383.5</b>	341.3	726.6
Depreciation and amortisation .....		<b>48.6</b>	45.2	91.5
Other operating charges .....		<b>8.4</b>	—	—
Operating profit before provisions .....		<b>207.8</b>	192.4	440.9
Provisions for bad and doubtful debts.....	4	<b>30.0</b>	20.0	49.4
Amounts (released)/written off fixed asset investments.....	5	<b>(10.6)</b>	18.2	38.2
Profit on ordinary activities before tax .....		<b>188.4</b>	154.2	353.3
Tax on profit on ordinary activities.....		<b>48.2</b>	44.5	90.6
Profit for the financial period.....		<b>140.2</b>	109.7	262.7
		<i>%</i>	<i>%</i>	<i>%</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net interest receivable as a % of mean total assets.....		<b>1.20</b>	1.26	1.29
Costs as a % of mean total assets.....		<b>0.96</b>	1.01	1.02
Pre tax profit as a % of mean total assets.....		<b>0.42</b>	0.40	0.44

## CONSOLIDATED BALANCE SHEET

At 4 October 2003

	Note	At 4 October 2003 <i>(Unaudited)</i> £m	At 4 October 2002 <i>(Unaudited)</i> £m	At 4 April 2003 <i>(Audited)</i> £m
<b>ASSETS</b>				
Liquid assets				
Cash in hand and balances with the Bank of England .....		317.7	295.1	348.4
Loans and advances to credit institutions .....		1,454.8	925.8	975.8
Debt securities .....		15,265.1	14,458.7	15,661.0
Loans and advances to customers				
Loans fully secured on residential property .....	7	64,650.7	52,226.9	57,212.4
Loans fully secured on land .....		6,931.7	6,516.7	6,561.3
Other loans .....		2,199.7	1,821.0	1,959.7
Investments				
Equity shares .....		6.9	4.0	6.6
Tangible fixed assets .....		799.3	748.0	798.4
Other assets .....		607.6	523.9	422.4
		<u>92,233.5</u>	77,520.1	83,946.0
Long term life assurance business assets .....		1,629.0	1,402.7	1,471.7
Total assets .....		<u>93,862.5</u>	<u>78,922.8</u>	<u>85,417.7</u>
<b>LIABILITIES</b>				
Shares .....		63,008.3	58,583.4	60,943.5
Amounts owed to credit institutions .....		2,055.9	1,747.2	1,758.8
Amounts owed to other customers .....		5,819.5	4,573.4	4,539.5
Debt securities in issue .....		15,017.0	7,669.0	11,088.1
Other liabilities .....		873.0	528.8	539.6
Subordinated liabilities .....		836.9	123.6	594.0
Subscribed capital .....		296.6	296.4	296.4
		<u>87,907.2</u>	73,521.8	79,759.9
Revaluation reserve .....	8	164.0	132.4	165.1
General reserves .....	9	4,162.3	3,865.9	4,021.0
		<u>92,233.5</u>	77,520.1	83,946.0
Long term life assurance business liabilities .....		1,629.0	1,402.7	1,471.7
Total liabilities .....		<u>93,862.5</u>	<u>78,922.8</u>	<u>85,417.7</u>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Liquid assets as a % of total assets .....		18.2	19.9	19.9
Balance sheet growth .....		9.9	6.0	14.7
(Six months to 4 October 2003 and 4 October 2002 and year to 4 April 2003 respectively)				
Solvency ratios:				
Tier 1 .....		9.0	10.0	9.6
Tier 2 .....		2.4	1.0	2.1
Total .....		<u>11.4</u>	<u>11.0</u>	<u>11.7</u>

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the period ended 4 October 2003

	6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
	<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
Profit for the financial period.....	140.2	109.7	262.7
Unrealised surplus on revaluation of properties .....	—	—	34.8
	<b>140.2</b>	109.7	297.5
Translation difference on foreign currency investment.....	3.5	(0.8)	2.7
Translation difference on foreign currency hedge.....	(5.0)	1.1	(3.8)
Taxation on translation difference on foreign currency hedge.....	1.5	(0.3)	1.1
Total gains and losses recognised since the last Annual Accounts .....	<b>140.2</b>	109.7	297.5

## CONSOLIDATED CASH FLOW STATEMENT

For the period ended 4 October 2003

	Note	6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
		<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
Net cash (outflow)/inflow from operating activities .....	10	(777.0)	1,026.0	1,753.0
Returns on investments and servicing of finance				
Interest paid on subordinated liabilities.....		(3.7)	(2.8)	(16.0)
Interest paid on subscribed capital .....		(12.0)	(11.9)	(23.8)
Taxation.....		(54.3)	(22.6)	(59.2)
Capital expenditure and financial investment				
Purchase of investment securities.....		(15,181.5)	(12,348.8)	(27,372.9)
Sale and maturity of investment securities.....		15,724.0	11,287.9	25,363.1
Purchase of tangible fixed assets.....		(61.6)	(45.7)	(110.9)
Sale of tangible fixed assets .....		7.4	6.1	13.4
		<b>488.3</b>	(1,100.5)	(2,107.3)
		<b>(358.7)</b>	(111.8)	(453.3)
Financing .....				
Issue of subordinated liabilities .....		239.8	—	473.8
Maturity of subordinated liabilities .....		—	(27.1)	(27.1)
(Decrease) in cash.....		<b>(118.9)</b>	(138.9)	(6.6)

## NOTES TO THE INTERIM RESULTS

### 1 Interest receivable and similar income

	6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
	<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
On loans fully secured on residential property.....	1,466.7	1,269.0	2,641.5
On other loans.....	269.4	277.1	555.3
On debt securities .....	270.0	304.0	628.3
On other liquid assets .....	10.6	7.6	19.8
Net expense on financial instruments hedging assets.....	(186.2)	(140.1)	(297.9)
	<u>1,830.5</u>	<u>1,717.6</u>	<u>3,547.0</u>

### 2 Interest payable and similar charges

	6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
	<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
On shares .....	977.4	992.0	1,994.1
On subscribed capital .....	12.1	12.0	24.0
On deposits and other borrowings			
• subordinated liabilities .....	17.4	6.3	13.6
• other.....	305.6	256.7	536.8
Net income on financial instruments hedging liabilities .....	(18.5)	(32.6)	(52.6)
	<u>1,294.0</u>	<u>1,234.4</u>	<u>2,515.9</u>

### 3 Administrative expenses

	6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
	<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
Employee costs			
• wages and salaries .....	159.3	136.9	288.9
• social security costs.....	14.8	11.6	23.5
• other pension costs .....	24.5	17.2	47.0
	<u>198.6</u>	<u>165.7</u>	<u>359.4</u>
Other administrative expenses.....	184.9	175.6	367.2
	<u>383.5</u>	<u>341.3</u>	<u>726.6</u>

NOTES TO THE INTERIM RESULTS – (Continued)

4 Provisions for bad and doubtful debts

	6 months to 4 October 2003 <i>(Unaudited)</i> £m	6 months to 4 October 2002 <i>(Unaudited)</i> £m	Year ended 4 April 2003 <i>(Audited)</i> £m
Provisions charge/(credit) for the period:			
Specific			
• loans fully secured on residential property .....	(1.6)	(1.7)	(4.2)
• loans fully secured on land.....	(1.0)	(1.4)	6.4
• other loans .....	<u>18.0</u>	<u>15.0</u>	<u>29.4</u>
	15.4	11.9	31.6
General			
• loans fully secured on residential property.....	12.3	4.6	13.9
• loans fully secured on land.....	3.1	3.8	3.6
• other loans .....	<u>(0.8)</u>	<u>(0.3)</u>	<u>0.3</u>
	<u>14.6</u>	<u>8.1</u>	<u>17.8</u>
	<u>30.0</u>	<u>20.0</u>	<u>49.4</u>
Provisions balances at end of period:			
Specific			
• loans fully secured on residential property .....	7.4	12.6	8.7
• loans fully secured on land.....	11.4	7.7	12.7
• other loans .....	<u>41.1</u>	<u>47.6</u>	<u>38.2</u>
	59.9	67.9	59.6
General			
• loans fully secured on residential property.....	104.4	82.5	91.8
• loans fully secured on land.....	57.6	54.8	54.6
• other loans .....	<u>7.6</u>	<u>8.1</u>	<u>8.7</u>
	<u>169.6</u>	<u>145.4</u>	<u>155.1</u>
	<u>229.5</u>	<u>213.3</u>	<u>214.7</u>

5 Amounts (released)/written off fixed asset investments

	6 months to 4 October 2003 <i>(Unaudited)</i> £m	6 months to 4 October 2002 <i>(Unaudited)</i> £m	Year ended 4 April 2003 <i>(Audited)</i> £m
Provision (release)/charge for the period:			
Specific .....	(9.0)	—	29.1
General.....	<u>(1.6)</u>	<u>18.2</u>	<u>9.1</u>
	<u>(10.6)</u>	<u>18.2</u>	<u>38.2</u>
Provision balances at end of period:			
Specific .....	9.4	—	21.5
General.....	<u>34.1</u>	<u>44.8</u>	<u>35.7</u>
	<u>43.5</u>	<u>44.8</u>	<u>57.2</u>

NOTES TO THE INTERIM RESULTS – (Continued)

6 Segmental Reporting

	6 months to 4 October 2003			6 months to 4 October 2002		
	<i>(Unaudited)</i>			<i>(Unaudited)</i>		
	Profit/(Loss) before tax	Total assets	Net assets	Profit/(Loss) before tax	Total assets	Net assets
	£m	£m	£m	£m	£m	£m
Retail .....	103.8	65,266.8	2,940.4	73.7	53,032.0	2,516.0
Commercial .....	93.4	11,066.7	995.7	68.6	10,009.2	840.4
Treasury .....	5.3	17,529.0	390.2	22.4	15,881.6	641.8
Central items .....	(14.1)	—	—	(10.5)	—	—
Group .....	<u>188.4</u>	<u>93,862.5</u>	<u>4,326.3</u>	<u>154.2</u>	<u>78,922.8</u>	<u>3,998.2</u>

  

	Year ended 4 April 2003		
	<i>(Audited)</i>		
	Profit/(Loss) before tax	Total assets	Net assets
	£m	£m	£m
Retail .....	196.6	57,431.2	2,627.2
Commercial .....	144.3	10,550.1	889.6
Treasury .....	34.4	17,436.4	669.3
Central items .....	(22.0)	—	—
Group .....	<u>353.3</u>	<u>85,417.7</u>	<u>4,186.1</u>

Retail represents the provision of personal financial services including all the attributable income and expenditure relating to retail mortgages, unsecured and secured personal lending, credit card, insurance products and FlexAccount. Natiowide's strategy of better pricing means that retail profit contribution is intentionally reduced.

Commercial includes all of the costs and income associated with the Group's lending to Registered Social Landlords and other loans to support investment in commercial properties and residential housing.

Treasury includes the costs and income associated with managing the Group's capital position, fixed asset investment portfolio, wholesale funding and the liquid asset management of the Group.

Administrative expenses and depreciation have been allocated to segments based on resources consumed except where they cannot be meaningfully allocated in which case they are included within Central items.

Capital is allocated to each business segment for investment purposes and is based upon the regulatory capital framework. No charge has been made for capital.

Central items include rental income and associated property costs plus the core Group administrative expenses that have not been allocated to business segments.

7 Loans and advances to customers

Loans fully secured on land include £897.3 million (4 October 2002—£1,016.8 million, 4 April 2003—£932.6 million) of loans which are fully secured on residential property but are classified as 'loans fully secured on land' in accordance with the requirements of the Building Societies Act 1997.

NOTES TO THE INTERIM RESULTS – (Continued)

8 Revaluation reserve

	6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
	<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
At start of period.....	<b>165.1</b>	133.9	133.9
Surplus on revaluation:.....	—	—	15.7
• Fixed assets .....	—	—	19.1
• Properties held for rental.....	—	—	—
Transfer between reserves .....	<b>(1.1)</b>	(1.5)	(3.6)
At end of period.....	<b><u>164.0</u></b>	<u>132.4</u>	<u>165.1</u>

Valuations of fixed assets and properties held for rental have been brought forward, without amendment, from 4 April 2003.

9 General reserves

	6 months to 4 October 2003	6 months to 4 October 2002	Year ended 4 April 2003
	<i>(Unaudited)</i> £m	<i>(Unaudited)</i> £m	<i>(Audited)</i> £m
At start of period.....	<b>4,021.0</b>	3,754.7	3,754.7
Profit for the financial period .....	<b>140.2</b>	109.7	262.7
Transfer between reserves .....	<b>1.1</b>	1.5	3.6
At end of period.....	<b><u>4,162.3</u></b>	<u>3,865.9</u>	<u>4,021.0</u>

The general reserves include £75.5 million (4 October 2002—£67.8 million, 4 April 2003—£72.3 million) of unrealised profit in respect of the increase in the value of the Group's long term life assurance business.

**NOTES TO THE INTERIM RESULTS – (Continued)**

**10 Reconciliation of operating profit to net operating cash inflow**

	<b>6 months to 4 October 2003</b>	<b>6 months to 4 October 2002</b>	<b>Year ended 4 April 2003</b>
	<i>(Unaudited) £m</i>	<i>(Unaudited) £m</i>	<i>(Audited) £m</i>
Operating profit .....	<b>188.4</b>	154.2	353.3
Provisions for bad and doubtful debts .....	<b>30.0</b>	20.0	49.4
Loans and advances written off, net of recoveries .....	<b>(15.2)</b>	(13.4)	(41.4)
Amounts (released)/written off fixed asset investments .....	<b>(10.6)</b>	18.2	38.2
Depreciation and amortisation.....	<b>48.6</b>	45.2	91.5
Interest on subordinated liabilities .....	<b>17.4</b>	6.3	13.6
Interest on subscribed capital .....	<b>12.1</b>	12.0	24.0
Profit/(loss) on sale of tangible fixed assets.....	<b>(0.8)</b>	(0.7)	(1.3)
Increase in value of long term life assurance business.....	<b>(18.6)</b>	(12.9)	(43.7)
Non-cash movements .....	<b>(133.4)</b>	319.7	(171.0)
Net (increase) in loans and advances to customers .....	<b>(8,063.5)</b>	(3,906.5)	(9,076.7)
Net increase in shares .....	<b>2,064.8</b>	3,122.6	5,482.7
Net increase in amounts owed to credit institutions and other customers .....	<b>1,577.1</b>	449.3	501.6
Net increase in debt securities in issue.....	<b>3,928.9</b>	694.1	4,113.2
Net (increase)/decrease in loans and advances to credit institutions .....	<b>(567.2)</b>	(14.9)	14.1
Net (increase)/decrease in other assets.....	<b>(168.8)</b>	99.7	366.9
Net increase in other liabilities.....	<b>333.8</b>	33.1	38.6
Net cash (outflow)/inflow from operating activities .....	<b><u>(777.0)</u></b>	<u>1,026.0</u>	<u>1,753.0</u>

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

Cash in hand and balances with the Bank of England .....	<b>317.7</b>	295.1	348.4
Loans and advances to credit institutions repayable on demand .....	<b>21.3</b>	30.5	109.5
	<b><u>339.0</u></b>	<u>325.6</u>	<u>457.9</u>
Balance at start of period.....	<b>457.9</b>	464.5	464.5
Flow in the period.....	<b><u>(118.9)</u></b>	<u>(138.9)</u>	<u>(6.6)</u>
Balance at end of period .....	<b><u>339.0</u></b>	<u>325.6</u>	<u>457.9</u>

**11 Basis of Preparation**

The accounting policies used in preparing these Interim Results are consistent with those set out in the Annual Accounts to 4 April 2003.

**12 Other Information**

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

The financial information for the year ended 4 April 2003 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 4 April 2003 have been filed with the Financial Services Authority and Registry of Friendly Societies in England and Wales. The Auditors' Report on these Annual Accounts was unqualified.

## THE 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 Fifth Floor, 100 Wood Street, London EC2V 7EX.

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, depository 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 two years ended 31 December 2000 and 31 December 2001 have been audited in accordance with United Kingdom auditing standards by PricewaterhouseCoopers, independent auditors.

The accounts of the Trustee for the year ended 31 December 2002 have been audited in accordance with United Kingdom auditing standards by PKF Registered Auditors, New Garden House, Hatton Garden, London EC1N 8JA. The audit reports for each of the three years ended 31 December 2002, 2001, and 2000 were unqualified.

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

<b>Name</b>	<b>Business Occupation</b>	<b>Outside Directorships and Partnerships held within the last 5 years</b>
Denyse Monique Anderson	Company Director	None
Caroline Janet Banzsky	Company Director	Neweconomy Securities Limited Not2late Limited The British Neurological Research Trust Excel Group Share Scheme Trustee Limited Signet Group Quest Limited P.I. Direct Limited* CLM A Limited* CLM B Limited* CLM C Limited* CLM D Limited* CLM E Limited* CLM F Limited* CLM G Limited* CLM H Limited* CLM J Limited* CLM K Limited* Mayheld Limited* Syndicate Capital (No. 1) Limited* Syndicate Capital (No. 2) Limited* Syndicate Capital (No. 3) Limited* Syndicate Capital (No. 4) Limited* Syndicate Capital (No. 5) Limited* Brokers Direct Limited* Cargoinsure Limited* D & O Direct Limited* Direct Corporate Limited* Direct D & O Limited* Direct P.I. Limited* Directors and Officers Direct Limited* E Insurance Services Limited* Executive Risks Direct Limited*

Name	Business Occupation	Outside Directorships and Partnerships held within the last 5 years
Ian Kenneth Bowden	Company Director	Healthcare Risks Direct Limited* High Networth Direct Limited* High Value Direct Limited* High Value Protection Direct Limited* Householders Direct Limited* Lawyer Direct Limited* Med Mal Direct Limited* Nanny Protect Limited* Nanny Sure Limited* P I Insurance Services Limited* Professional Liability Direct Limited* Solicitor Direct Limited* SVB Direct Limited* SVB Homeowners Limited* SVB Insurance Agencies Limited* SVB Insurance Services Limited* SVB Medical Direct Limited* SVB Protection Direct Limited* SVB Schools Limited* Trustee Protection Direct Limited* Trustees Direct Limited* Vision Underwriting Agency Limited* Alphabet Limited* Alternative Risk Transfer Limited* CLM Re Limited* CLM Business Development Limited* CLM Financial Services Ltd* CLM Group Holdings Limited* CLM Insurance Fund plc* Corporate Lloyds Membership Limited* Fusion Insurance Holdings plc* Fusion Insurance Services Limited* Fusion Underwriting Services Limited* SCT Investments plc* Shelcroft Holdings Limited* SVB Advisory Services Limited* SVB Asset Protection Limited* SVB Continuation Limited* SVB Finance Limited* SVB Holdings Aesop Trustee Company Limited* SVB Holdings plc* SVB Insurance Holdings Limited* SVB Syndicates Limited* SVB Underwriting Limited* SVB Underwriting Services Limited* Syndicate Capital Underwriting Limited* Caladborg Lease Limited (incorporated in the Republic of Ireland)

<b>Name</b>	<b>Business Occupation</b>	<b>Outside Directorships and Partnerships held within the last 5 years</b>
		Virgil Lease Limited (incorporated in the Republic of Ireland)
Julian Robert Mason-Jebb	Company Director	None
Clive Laurence Charles Rakestrow	Company Director	None
Richard David Rance	Company Director	None
Richard Forbes Thomas	Company Director	Glaxo Trustees Limited TACT Services 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 Fledging 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) Sportingbet 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 Fifth Floor, 100 Wood Street, London EC2V 7EX.

## **USE OF PROCEEDS**

The net proceeds of the issue of the PIBS Receipts (estimated to be approximately £395,000,000 in respect of the PIBS Receipts) will be used by the Trustee to subscribe for the PIBS. The net proceeds of the issue of the PIBS (estimated to be approximately £395,000,000) will be used by the Society to strengthen further its capital base.

## CERTAIN PROVISIONS OF THE ACT

### **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 Financial Services Authority. The Act provides that on the date specified by the Financial Services Authority 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 Financial Services Authority consents to the transfer being approved by a resolution of its board of directors only. The transfer must be confirmed by the Financial Services Authority. The Act provides that on the date specified by the Financial Services Authority 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 and the Existing PIBS) of the liabilities of the Society, the PIBS and the Existing 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 Financial Services Authority to the transfer and its terms. If the Financial Services Authority 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 Financial Services Authority is required before any such change can take place.

The Financial Services Authority 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 Financial Services Authority 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).

## 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 and 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.

### **United Kingdom Withholding Tax on United Kingdom Source Interest**

While the PIBS are and continue to be listed on a recognised stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988, payments of interest on the PIBS and the PIBS Receipts may be made without withholding or deduction for or on account of United Kingdom income tax. The Luxembourg Stock Exchange is a recognised stock exchange for these purposes.

If the PIBS cease to be listed on a recognised stock exchange, interest on the PIBS will generally be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to the availability of other reliefs or to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. Payments of interest on the PIBS Receipts will generally not be subject to further United Kingdom withholding tax.

### **Corporation Tax Payers**

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 statutory accounting treatment. It is expected that the same tax treatment will apply to any other profit or loss arising to a PIBS Receiptholder subject to United Kingdom corporation tax from the PIBS Receipts.

### **Stamp Duty and Stamp Duty Reserve Tax**

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

## MARKETING ARRANGEMENTS

Barclays Bank PLC and UBS Limited (the “Managers”) have, pursuant to a subscription agreement dated 4 February 2004 (the “Subscription Agreement”), agreed with the Trustee and the Society, subject to the satisfaction of certain conditions to subscribe for, or procure subscribers for, the PIBS Receipts at the issue price of 100 per cent. of their principal amount. The Society has agreed to pay the Managers 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 Managers. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Managers 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

Each 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.

Each Manager represents that (1) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the PIBS Receipts, it will not offer or sell any PIBS Receipts to persons in the United Kingdom 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) (2) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 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 communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 received by it in connection with the issue or sale of the PIBS Receipts in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 would not, if it was not an authorised person, apply to the Society.

No action has been or will be taken by the Society or the Trustee or any of the Managers 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 any of the Managers represent 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

### Listing

In connection with the application to list the PIBS and the PIBS Receipts on the Luxembourg Stock Exchange a legal notice relating to the issue of the PIBS and the PIBS Receipts and copies of the constitutional documents of the Society and the Trustee will be deposited with the Luxembourg Trade and Companies Register ("*Registre de Commerce et des Sociétés à Luxembourg*") where such documents may be examined and copies obtained.

### 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 2003, being the date to which the latest published audited accounts were made up.

### Litigation

Save as disclosed in this document, neither the Society nor the Group is or has been involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the PIBS and the PIBS Receipts nor so far as the Society or the Group is aware is any such litigation or arbitration pending or threatened.

The Trustee is not involved and has not been involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the PIBS Receipts and so far as the Trustee is aware no such litigation or arbitration is pending or threatened.

### Accounts

The consolidated accounts of the Society for the two years ended 4 April 2002 have been audited by PricewaterhouseCoopers, independent auditors. The consolidated accounts of the Society for the year ended 4 April 2003 have been audited by PricewaterhouseCoopers LLP, independent auditors. The audit reports for each of the three years ended 4 April 2003, 2002 and 2001 were unqualified.

### Authorisation

The issue of the PIBS Receipts was authorised by resolution of the Board of Directors of the Trustee passed on 2 February 2004.

The issue of the PIBS was authorised by a resolution of the Board of Directors of the Society dated 19 December 2001 and a minute of delegation of the Commercial & Treasury Director of the Society dated 18 February 2003.

### PIBS Certificates and the PIBS Receipts Certificates

The PIBS and the PIBS Receipts have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 018451883 and 018451913, respectively and the International Securities Identification Number of XS0184518834 and XS0184519139, respectively.

### Documents

Copies of the following documents may be obtained at the offices of Dexia Banque Internationale à Luxembourg, société anonyme during normal business hours on any weekday (Saturdays and public holidays excepted):

- (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 2001, 2002 and 2003, the unaudited consolidated half year results of the Society for the six months ended 4 October 2003 and all the future annual and unaudited interim consolidated accounts of the Society and the audited accounts of the Trustee for each of the three years ended 31 December 2000, 2001 and 2002 and all the future annual accounts of the Trustee; and
- (iii) the Trust Deed and Registrar and Agency Agreement.

The Society does not publish non-consolidated accounts other than the Society balance sheet included in the annual audited consolidated accounts of the Society.

**THE SOCIETY**

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Swindon SN38 1NW

**TRUSTEE**

**The Law Debenture Intermediary Corporation p.l.c.**

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100 Wood Street  
London EC2V 7EX

**REGISTRAR AND AGENT BANK**

**Citibank, N.A.**

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Canada Square  
London E14 5LB

**TRANSFER AGENT**

**Citibank International plc**

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L-1330  
Luxembourg

**LISTING AGENT**

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*To the Managers and to the Trustee*

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