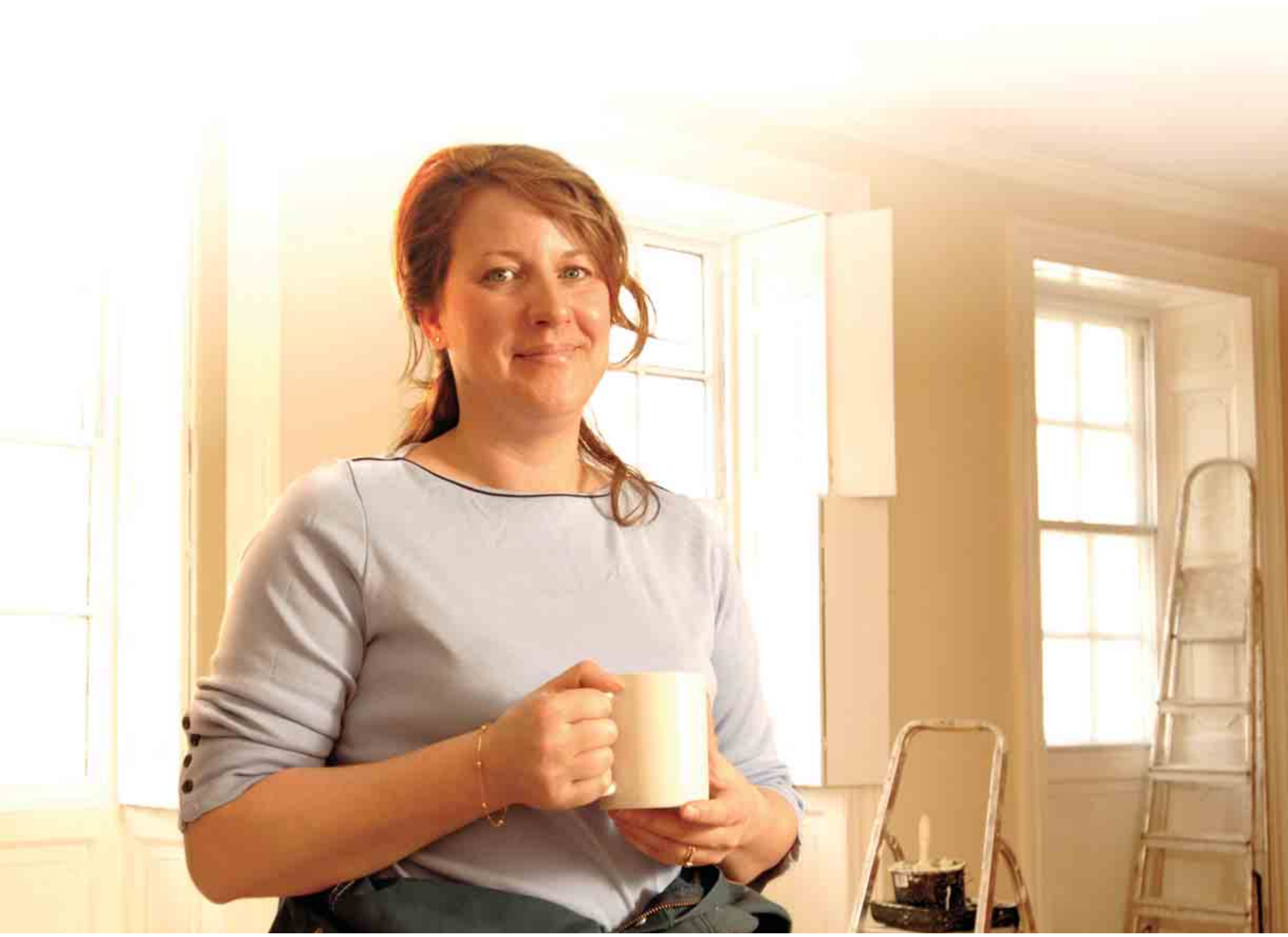
‘...helping our members move home
is just one of the things we do...’
Philip Williamson, Chief Executive

Nationwide Annual Report and Accounts 2005



Nationwide. Proud to be different

BANKING | CREDIT CARDS | INSURANCE | INVESTMENTS | LOANS | MORTGAGES | PENSIONS | SAVINGS

Proud to be different

Total assets over **£111 billion**

Profit before tax **£517.1 million**

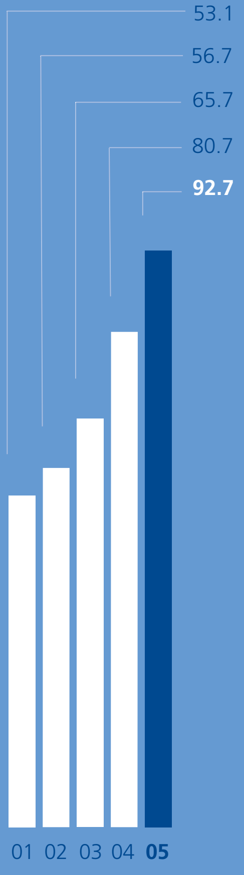
Pricing benefits estimated at **£644 million**

Efficiency improved for the **16th** consecutive year

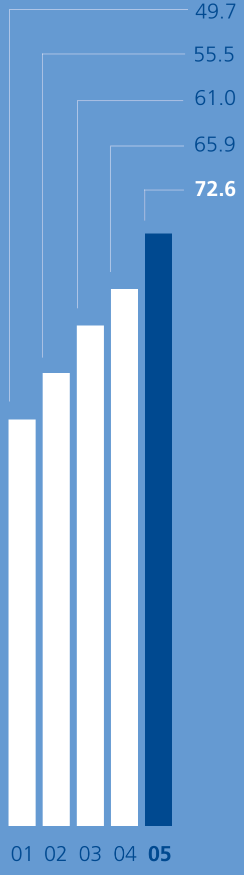
11.8% share of net residential mortgage advances

Over **3.1 million** current accounts

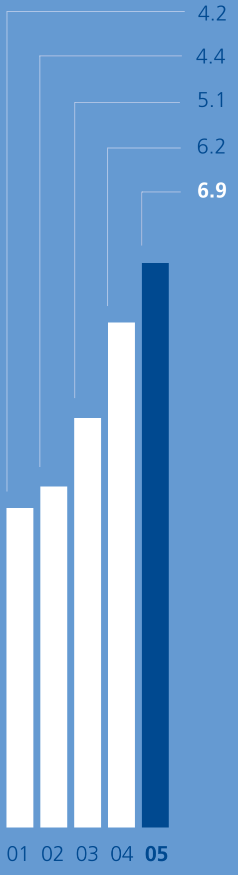
Members savings increased by **10%**



Loans and advances to customers (£billion)



Member savings balances (£billion)



Total capital (£billion)

Nationwide

We're different because we're a building society, run for the benefit of our members, unlike banks who put their shareholders first. Our principles of fairness, honesty and openness enable us to offer better rates and an excellent level of service. In fact, we have returned an estimated £3.7 billion to our members since 1996 through better deals on all the products and services we offer.

Contents

Financial Highlights

	2001	2002	2003	2004	**2005**
Profit (£million)	342.6	233.2	262.7	317.9	**365.3**
Total income (£million)	1,245.0	1,173.9	1,259.0	1,349.7	**1,527.7**
Costs as a percentage of mean total assets (%)	1.06	1.04	1.01	0.93	**0.86**
Total assets (£million)	71,075.5	74,454.9	85,417.7	101,428.4	**111,591.6**
Loans and advances to customers (£million)	53,124.4	56,664.7	65,733.4	80,706.2	**92,721.9**
Member savings balances (£million)	49,672.7	55,460.8	60,952.2	65,943.9	**72,594.1**
Total capital (£million)	4,154.8	4,377.2	5,102.2	6,186.4	**6,941.0**

Retained **£365.3 million** of profit during the year to support the growth of the business.

Total income up **13%** from £1,349.7 million to £1,527.7 million.

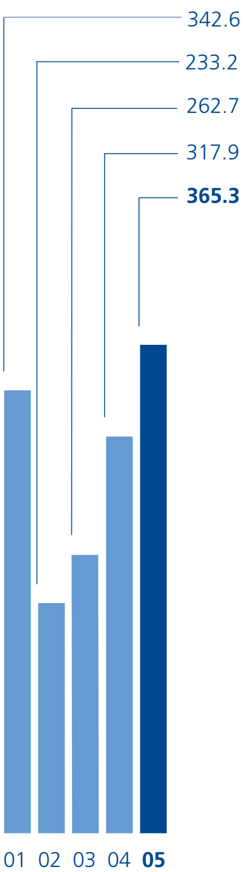
Costs as a percentage of mean total assets down for the 16th consecutive year to **0.86%**.

Total assets up **10%** from £101.4 billion to £111.6 billion.

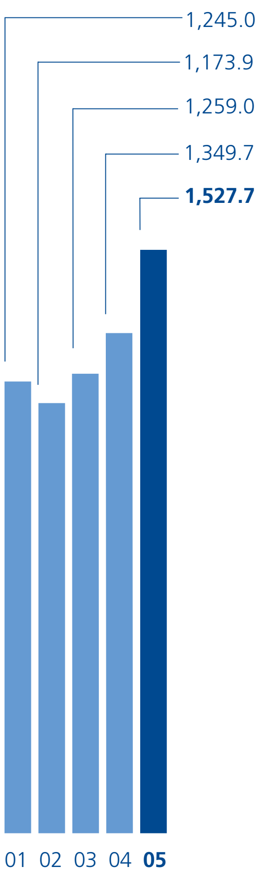
Loans and advances to customers up **15%** from £80.7 billion to £92.7 billion.

Member savings balances up **10%** from £65.9 billion to £72.6 billion.

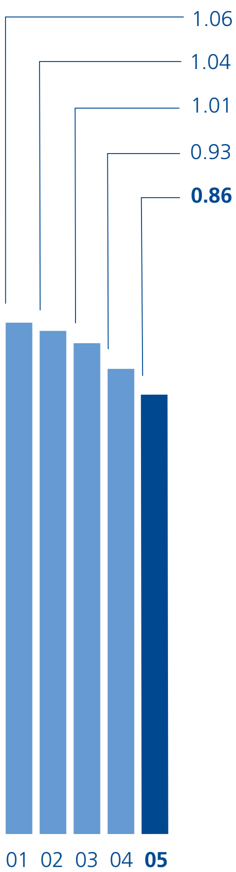
Total capital rose to **£6.9 billion** from £6.2 billion.



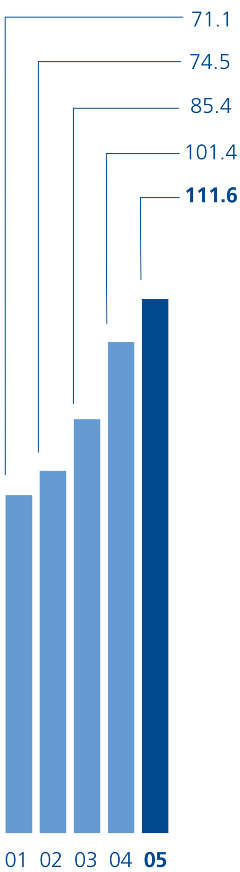
Profit (£million)



Total income (£million)



Costs as a percentage of mean total assets (%)



Total assets (£billion)

Chairman's Statement

I am very pleased to tell you that Nationwide has had another very good year. We have delivered a record £1,009 million of member value, comprising an estimated £644 million of pricing benefits and £365 million retained profit. Our total assets are now in excess of £111 billion and our solvency ratio remains strong at 11.7%. Our pre-tax profit has increased by 21% to £517.1 million and our principal efficiency measure, the ratio of costs to income, has improved from 64.1% to 59.9%. Further details of our financial performance can be found in the Operating and Financial Review on page 6.

We have continued to deliver outstanding value to our members in the form of competitive rates and outstanding service. In his Chief Executive's Review on page 3, Philip Williamson explains the benefits which our building society strategy delivers to our members enabling us to focus exclusively on servicing their needs without having to satisfy external shareholders.

The publication of the Myners report on the corporate governance of mutual life companies focused attention on the extent to which mutuals are accountable to their members. I am pleased to report that Nationwide already meets or exceeds the requirements set out in the report and has a strong track record of member consultation and involvement. Last year our member-facing employees recorded over 120,000 pieces of feedback and we invited over 30,000 members each month to comment on their recent service experience and their perceptions of Nationwide generally. We use this information to improve service at local and national level.

Many of Nationwide's Directors have hosted Member TalkBack events over the past year. For the last eight years, thousands of members have taken the opportunity at these events to express their views on the running of their Society – from the competitiveness of our products to our high-profile sponsorships. In addition, we have harnessed the power of the internet to have live debates with our members who do business with us online.

There were several changes to the Board last year. Geoffrey Howe and Derek Ross joined the Board on 1 January 2005 and 1 December 2004 respectively. Their extensive business experience will be of great value to Nationwide. Ruth Evans resigned from the Board at the end of March 2005; we thank her for her contribution.

Once again this year the dedication and professionalism of our employees have been major factors in our success. On behalf of the Board I thank them for their unstinting enthusiasm and commitment to meeting the needs of our members.

Jonathan Agnew

Jonathan Agnew
Chairman

18 May 2005

Chief Executive's Review

I am delighted to be able to comment on another excellent year for Nationwide. We have continued to put our members first by delivering outstanding value and service, while still achieving a strong set of financial results.

Difference we have made this year

Over the last twelve months, we have provided a broad range of competitively priced financial products. *The Sunday Times* regularly featured our Cash ISA and e-Savings accounts amongst those offering the most consistent return over the last three years, and our Smart Account and Fixed Rate Bonds regularly appeared in 'best buy' tables published in the national press. In fact, across our range of products, we made over 1,400 appearances in 'best buy' tables during the year.

We continued to reward the loyalty of our members by launching two fixed rate bonds, which offered exceptional value to members who have been with us for three years or more. Our Summer Bond was followed later in the year by our Christmas Bond – both of which offered market-leading rates.

The value we offer as a lender was recognised again this year by industry experts. We received several prestigious awards, including 'Best All Time Lender' and 'Best Remortgage Lender' both from *Your Mortgage* magazine. These awards are a reflection of the long-term good value of our mortgage product range. We offer flexibility as standard on all of our new mortgages, while also making them available to both new and existing customers.

Our fixed rate and tracker mortgages proved extremely popular last year, contributing to our strong lending performance. Our rates have remained competitive throughout the year, especially for remortgage customers.

We have continued to expand our range of products and services. As a government-approved provider, we launched a Child Trust Fund offering the choice between an equity stakeholder fund and a cash Child Trust Fund to help members invest for their children's future. We also launched an online fixed rate account – e-Bond – only available via the internet and offering a guaranteed rate of return.

Treating customers fairly

Our approach to offering good value products and services has been underpinned by our commitment to openness, honesty and transparency. In January, after a period of extensive research, we published our Putting Consumers First report, which highlighted some of the least acceptable practices in the financial services industry; for example, offering the best mortgage deals to new customers without making them available to existing customers. We believe that the industry should act with a greater degree of responsibility by adopting a series of consumer friendly measures, similar to our approach.

We have continued to lobby for greater transparency over cash machine charges, asserting the view that cash machines should display a clearly visible early warning if consumers will be charged for using them to withdraw money. We are pleased that from July

Across our range of products, we made over 1,400 appearances in 'best buy' tables during the year.

Chief Executive's Review (continued)

these warnings will become more obvious and inform consumers how much they may be charged. However, we remain concerned that growth in free cash machines is at a virtual standstill and that the number of free remote (non-branch) cash machines actually fell last year.

We also welcomed the government's re-assessment of their plan to reduce the level of tax free savings in ISAs. The government had proposed to reduce the amount that can be saved in a mini cash ISA from £3,000 to £1,000 from April 2006. Whilst supporting the retention of the current limits we would also like to see the ISA become a permanent feature of the UK savings market. Many of our customers use the cash ISA as a flexible and safe 'tax free' savings account, so making it a permanent feature would go a long way towards achieving the government's objective of encouraging more people to save.

Improving access for members

Last July we announced a six year £300 million investment programme designed to make the service and facilities we offer to members the best of any bank or building society in the UK – whether members choose to do business with us by phone, post, the internet, or face-to-face in our branch network. This will include a major refurbishment programme and the introduction of new technology. This year nearly 70 branches and agencies have benefited from this investment including the opening of a new branch in Redcar. We have also opened new agencies in Kirkintilloch and Hillsborough and a new call centre in Sheffield.

In September employees who are able to speak languages other than English, helped us launch an initiative in our West London branches aimed at improving the service and support offered to our ethnic minority members. As well as producing leaflets in Hindi, Gujarati and Punjabi and a poster to promote this new service, we introduced name badges for employees indicating the languages spoken by them. The feedback we received has been extremely positive and we are currently looking into testing the initiative in other areas of the UK.

Building a better society

As a large organisation with over 11 million members and a relationship with one in four households in the UK, we feel we have a duty to act in a socially responsible way – from how we relate to our members and employees to our impact on the environment. We have long been promoting car sharing, cycling and walking amongst our employees and this spring we are launching a widespread transport awareness campaign focusing on the benefits of not using the car.

We are now saving 5.7 million kilowatt hours a year from improvements made to our computing and office equipment and in the heating, cooling and lighting of our buildings. This is nearly 6% of our total energy use and means we are putting 2,520 less tonnes of carbon dioxide into the atmosphere. We also use recycled paper for member letters and statements, and 70% of our marketing material is now printed on recycled paper.

We have continued to support many good charitable causes at national and local level. Our employees and members have now raised £4 million for our flagship charity, Macmillan Cancer Relief. We are now four years into our six year road safety campaign – Cats' Eyes for Kids – and around nine million primary school children have been given their own personal safety reflectors, to make them much more visible to motorists in the winter mornings and evenings.

Last July we announced a six year £300 million investment programme designed to make the service and facilities we offer to members the best of any bank or building society in the UK.

The Nationwide Awards for Voluntary Endeavour, now in their eighth year, give volunteers from across the UK the opportunity to gain the recognition they deserve but do not always receive. Last year's finalists received their awards from Olympic gold medal winning yachtswoman Shirley Robertson, at a gala ceremony at Lord's Cricket Ground.

Pride in our people

Our people are the heart of Nationwide. Once again this year, they have risen to challenges we've faced as an organisation, in particular the introduction of two new compliance projects – mortgage regulation and general insurance regulation. To ensure that our people could continue to do their jobs properly and professionally, we delivered 20,000 man days of training so our employees could learn about their changing roles under the new regulations. It was a tremendous team performance that ensured we had all systems in place and working properly in time for the introduction of the new regulations.

The effort we put into developing our people was recognised by our position in a national survey conducted by *The Sunday Times* and the Department of Trade and Industry. In previous years, the newspaper has published an annual '100 Best Companies to Work For' list, in which we have steadily improved our position to 18th. This year, for the first time, *The Sunday Times* produced a new and separate '10 Best Big Companies to Work For' list for companies that employ over 5,000 people. I am delighted that we came top of this list, a result that's particularly satisfying because 90% of our score was determined by the views of our employees.

We have also been recognised as an Investors in People Champion. Investors in People named us as an exemplar organisation, as part of their programme that recognises organisations that excel in promoting their principles, such as sharing, learning and dissemination of good practice in pursuit of business goals.

For these achievements and the outstanding contribution they make to the success of our organisation day in, day out, I would like to add my sincere thanks to those expressed by the Chairman. It is an honour and a great source of pride to lead such a dedicated team.

Philip Williamson
Chief Executive

18 May 2005

Operating and Financial Review

Operating Review

Nationwide achieved its strategic goals of delivering value to its membership, combined with a strong profit to support continued investment in the Society and the future growth of the balance sheet. Our success in delivering a broad range of financial services products enabled us to increase total assets by 10% from £101.4 billion last year to £111.6 billion and generated a profit before tax of £517.1 million (2004 – £426.8 million). Our member base grew by 383,000 during the year to more than 11 million.

During the year we generated an estimated £644 million (2004 – £588 million) in the form of pricing benefit to our members by offering better rates and by charging lower fees and charges than our competitors. Over the medium term we aim to fund our growth through retained profits. This year we retained £365.3 million (2004 – £317.9 million), an increase of 15% on last year, to support the strong 10% growth in our assets over the year.

We are investing in our infrastructure to develop a modern business and in the summer of 2004 announced a £300 million, six year programme to ensure that our branch, telephones and other access channels are maintained at the modern standards expected by our members. The strength of Nationwide's retail franchise is key to our strategy and enabled us to continue to increase our level of retail funding.

Regulatory change is a major theme and we have successfully implemented the changes required by the introduction of mortgage and general insurance regulation. This was achieved with minimal disruption to our members and is in line with our aim to always comply fully with all relevant rules and regulations.

We have also invested in our people and we are very proud of the fact that Nationwide was recently recognised as the UK's best large employer by *The Sunday Times.*

Mortgages

We provide a comprehensive range of very competitive mortgage products both directly, through branches, over the telephone, via the internet and through intermediaries. Unlike the majority of other lenders all our mortgage products are available to both new and existing customers. We believe it is unfair to offer attractive deals to new customers which are not available to long standing existing customers.

The Nationwide Group achieved £10.9 billion of net lending (2004 – £13.2 billion), representing a market share of 11.8% (2004 – 12.8%) against a par market share of 8.6%. We maintain our position as the fourth largest lender in the UK.

- The UK experienced a slightly weaker mortgage market as equity withdrawal reduced from its peak the previous year. However, remortgaging remained strong, accounting for nearly 43% of total mortgage lending.

- Total gross lending was £23.2 billion (2004 – £24.4 billion), a market share of 8.4% (2004 – 8.5%). Nationwide was particularly successful in attracting remortgage business, gaining a share of 9.5% (2004 – 10.0%) of the remortgage market.
- We were again highly successful in retaining borrowers. This excellent performance was partly driven by our policy of charging between 0.50% to 1.00% less interest on our standard variable rate mortgage compared with our major competitors. Our policy of selling simple mortgage products available to all borrowers also helped this excellent retention. In addition, good service and an active policy of customer contact enabled us to retain borrowers with maturing fixed rate and tracker rate mortgage products. Our 6.7% market share of principal repaid in the Group was well below our mortgage par share of 8.6%. We estimate this excellent retention performance contributed £3.5 billion to our total net mortgage lending.
- UCB Home Loans Corporation Ltd ('UCBHL'), the Society's specialist mortgage lender, also recorded a good performance with gross mortgage advances of £1.7 billion (2004 – £1.9 billion) and net advances of £556 million (2004 – £718 million). UCBHL deals mainly with self certified mortgages, for borrowers who find it difficult to obtain loans from mainstream lenders, and with Buy to Let applications.
- Buy to Let gross advances for the year were £450 million (2004 – £418 million) resulting in Buy to Let balances totalling £1.1 billion at the year end (2004 – £0.7 billion). The proportion of Buy to Let balances compared to Group loans to customers at the year end was 1.16% (2004 – 0.91%).

Asset quality remains very strong. Our responsible approach to lending has ensured that our arrears levels are better than industry averages. The average loan to value ('LTV') of new residential mortgage lending was 52% (2004 – 52%), while the estimated LTV of our total book is 37% (2004 – 38%).

Residential mortgage arrears (3 months or more) reduced by 17% over the past twelve months. Nationwide continues to significantly outperform the secured lending market with the proportion of total secured lending currently more than three months in arrears being 0.31% (2004 – 0.37%) against an industry average of 0.80% (Council of Mortgage Lender's figures as at December 2004).

Savings

Nationwide is now the second largest savings provider in the UK with our savings accounts, on average, 0.45% better priced than those of our competitors. The great majority of our retail funding is in the form of UK retail member deposits. In addition, we accept offshore deposits and deposits which do not convey member status.

The competition for retail funds remained strong during the year. Despite this continued competition, we achieved a 9.0% (2004 – 6.9%) share of the overall increase in UK retail savings, representing £6.7 billion (2004 – £5.0 billion). This compared favourably with a par share of 8.0%. Total retail member deposits as at 4 April 2005 amounted to £72.6 billion (2004 – £65.9 billion).

Strong savings flows were primarily driven by our e-Savings and fixed rate bond products. We also launched a range of special bonds available only to existing members including a Summer Bond at a fixed rate of 6.0% and a Christmas Bond at a fixed rate of 6.0%. In addition, we launched our first e-Bond offering a one year fixed rate of 5.0%.

Banking & Consumer Lending – Personal Loans

Personal loans are offered through the Society's personal loans subsidiary, Nationwide Trust Limited. Gross unsecured personal loan lending increased by 23% to £1,107 million (2004 – £897 million), driven by our strategy of offering keener pricing combined in a single rate available to all borrowers irrespective of the amount borrowed. Loans are sold through our retail network, over the telephone and via the internet. Nationwide Trust has in excess of 270,000 unsecured personal loan customers.

We adopt a cautious approach to all of our lending activities, particularly unsecured lending. Last year we rejected approximately one in every two unsecured loan applications received and our credit assessment process looks at the impact of an assumed increase in interest rates to determine a borrower's ability to service their debt in more difficult economic conditions. We already have other relationships with nearly three quarters of those to whom we provide personal loans.

Banking & Consumer Lending – Credit Cards

With over 1,300 brands available in the UK, offering a variety of rates, fees, terms and conditions, the credit card market is complex. As part of our drive for greater transparency Nationwide was the first UK card provider to publish a credit card comparison table to help consumers make an informed choice and successfully lobbied for it to be adopted by all card providers.

We issued 217,000 new credit card accounts (2004 – 222,000) taking total accounts up to 796,000 (2004 – 653,000) and total cards in issue to 1,054,000 (2004 – 868,000). Balances outstanding on credit cards as at 4 April 2005 amounted to £563 million (2004 – £467 million).

Banking & Consumer Lending – Current Accounts

The Society's current account, FlexAccount, is a key product in developing and retaining customer relationships. We offer a highly competitive account with a range of good value features including up to 3% credit interest. More than 25% of FlexAccount customers now regularly use our internet banking service and over 2.1 million members are registered to use Nationwide's online banking service.

The total number of Nationwide current accounts has now passed the 3 million mark, with the number of current accounts growing by 450,000 during the year (2004 – 406,000). The Society attracted 9% of people changing their current account provider, double its par share (Source: NOP FRS – March 2005).

General Insurance

During the year over 374,000 general insurance covers were sold and our general insurance book stood at over 1.5 million covers as at 4 April 2005. The primary general insurance products we sell are:

- Buildings and contents insurance
- Travel insurance
- Payment protection policies
- Motor and personal accident insurance

We typically use leading insurers as third-party underwriters. This provides us with an important source of non-interest income and we earned £101.7 million (2004 – £75.5 million) from commission and profit share.

Nationwide's Car Insurance Price Promise was launched in October. This offer provides the guarantee that if policyholders buy car insurance from Nationwide and subsequently find a better priced quote, the difference will be refunded. The Price Promise underlines the competitiveness of the Society's car insurance product and generated a growth in the motor insurance book of over 40%.

Life Assurance and Investments

The Society, through its wholly owned subsidiaries, Nationwide Life Ltd ('NL') and Nationwide Unit Trust Managers Ltd ('NUTM'), writes a range of investment and protection products. These include two types of insurance product; term life assurance and critical illness cover. 74,000 life products were sold during the year (2004 – 96,000 products).

We also provide our customers with a range of personal investment products, including unit trusts, pension contracts, guaranteed equity bonds and equity individual savings accounts (ISAs). At 4 April 2005 our range of unit trust investment products held by our customers had a market value of approximately £2.0 billion (2004 – £1.7 billion).

We further expanded our product range during the year with the launch of two new investment products – a low risk fund (Target Return Fund) and our Child Trust Fund. Nationwide was one of only four high street providers to offer the choice of an equity or cash based Child Trust Fund, with over 65,000 applications received by the year end. NUTM also re-launched its full range of investments, abolishing initial charges and introducing a £20 minimum investment.

Our life assurance subsidiary is consolidated in the Group using the embedded value method. The change in the embedded value of the long term life assurance business is included within other operating income and has increased to £50.0 million (2004 – £44.8 million).

Commercial Lending

Commercial mortgage lending totalled £4.3 billion (2004 – £4.1 billion) representing an increase of 5% with balances outstanding of £12.7 billion (2004 – £12.1 billion). This reflects a good year in all three business units which deal with loans:

- to UK Registered Social Landlords secured on residential property
- secured on commercial property
- to support Private Finance Initiatives

Asset quality remains strong. Commercial lending arrears levels of three months or more have improved year on year from 87 to 79 cases. Arrears balances were £2.6 million (2004 – £3.8 million) representing a 32% decrease.

We remain the lender with the largest volume of funding commitments to Registered Social Landlords. Many Registered Social Landlords have seen their businesses mature, particularly those that originally received the transfer of municipal housing stock from local authorities. Whilst there have been fewer new stock transfers this year there have been several refinancings and increases in borrowing as Registered Social Landlords respond to government initiatives on efficiency and new house building especially in the South East.

Treasury

Total wholesale funding increased by £2.3 billion, mainly in support of lending growth. At 4 April 2005, wholesale balances stood at £29.1 billion (2004 – £26.8 billion) representing a funding ratio of 28.6%.

During the year the Society has enjoyed a strong appetite from wholesale funding investors and has operated successful Medium Term Note programmes in the Dollar, Euro and Sterling markets.

Increasing importance is being placed on diversifying our global investor base through our investor relations activities and during the year we established a 5.0 billion French Commercial Paper Programme.

In addition to raising wholesale funds we also raised 750 million (£513.9 million) of capital in the year through a subordinated debt programme. Investor appetite for Nationwide subordinated debt is strong and the issuance was substantially oversubscribed.

Liquidity balances totalled £15.1 billion at 4 April 2005 (2004 – £17.4 billion) representing a prudential liquidity ratio of 11.5% (2004 –15.3%). Prudential liquidity has been managed down in the year to improve the efficiency of the Group Balance Sheet.

Our short and medium term credit ratings from the major rating agencies have remained stable during the year. They are as follows:

Credit Ratings	S&P	Moody's	Fitch
Long Term	A+	Aa3	AA-
Short Term	A-1	P-1	F1+
Subordinated	A	A1	A

Pricing Benefit

The estimated pricing benefit is calculated by comparing the price of each of our products (including interest rates, fees and charges) with the equivalent products of our main competitors.

Pricing Benefit distributed to members

	2005 £m	2004 £m
Benefit to borrowers	**216**	223
Benefit to savers	**259**	236
Benefit to members with other products	**169**	129
Total	**644**	588

Regulation

As a mutual organisation our strategy and policies are designed to put our members first, to maintain our financial strength and to safeguard our assets. We aim to maintain a relatively low risk profile and to comply fully with all relevant rules and regulations.

A key theme of our regulator is "treating customers fairly". In particular, we welcomed the introduction of new regulation of mortgages and insurance during the year and we successfully implemented all the changes required by the new regulations with minimal disruption for our members.

International Financial Reporting Standards

We will be preparing our accounts under International Financial Reporting Standards ('IFRS') from the financial year ended 4 April 2006 onwards. For comparative purposes, our results for the financial year ended 4 April 2005 will be restated under IFRS and disclosed in our interim report and the Annual Report and Accounts for the financial year ending 4 April 2006.

As a first time adopter of IFRS from next year, we are required to produce an IFRS compliant opening balance sheet. Adjustments arising from the application of IFRS, except where comparative figures are not required to be restated, will be reflected in the retained reserves in the opening balance sheet. Comparative figures do not have to be restated for International Accounting Standard ('IAS') 39 (Financial Instruments) and IFRS 4 (Insurance Contracts) and the transitional adjustments for these standards will be made as at 5 April 2005.

The overall impact on our reserves at 5 April 2005 is expected to be a reduction of approximately 5% of our reserves under UK GAAP at 4 April 2005. The table below identifies the main areas of change. From 5 April 2005 the accounts will be impacted by changes in the fair values of investment securities and derivatives and volatility arising where the Group does not qualify for hedge accounting. The future impact of the changes in the treatment of fee income and costs will depend on the mix of the fees and costs and the rate of future growth.

Issue	Impact on Opening Reserves
Retirement Benefits The deficit on the Group's retirement benefit funds is now included as a liability on the Balance Sheet.	The impact will be a decrease in general reserves at 5 April 2005 equivalent to the deficit in the retirement benefit funds net of tax and prior year prepayments.
Loan Related Fees and Costs The majority of loan related fees and costs (for example, application and survey fees, introducer commission and early redemption fees) are deferred and recognised over the expected life of the loan.	We currently recognise fees and costs on an incurred basis. The impact of recognising them over the expected life of loans will result in a net credit being carried on the Balance Sheet for future recognition and a corresponding reduction in general reserves.
Loan Impairment Under IFRS, an impairment provision can only be made where there is objective evidence that a loss has occurred.	The more prescriptive requirements are expected to reduce provision levels on the Balance Sheet with a corresponding increase in general reserves.
Derivatives IFRS requires derivatives to be included on the Balance Sheet at their fair value, with changes in value being included in the Income and Expenditure Account.	The resulting income statement volatility will be mitigated by the application of hedge accounting. However some volatility will remain and a decrease in opening reserves is expected.
Investment Securities Investment (or Debt) Securities are mainly measured at fair value with changes in their values going through a separate 'Available for Sale' ('AFS') reserve.	There will be an increase in the opening reserves as, overall, the fair values of our investment securities exceed their historic cost.

The Group is planning to make a more detailed announcement on the impact of IFRS later in the year.

Life Assurance Business Disclosure

In December 2004 the UK Accounting Standards Board ('ASB') issued Financial Reporting Standard ('FRS') 27 (Life Assurance) setting out changes to the way in which life assurance business should be accounted for and requiring certain additional disclosures. This standard is effective for accounting years ended on or after 23 December 2005. Under the terms of a Memorandum of Understanding entered into between leading members of the life assurance and bancassurance sectors, the Association of British Insurers and the ASB, all insurers are encouraged to provide certain additional disclosures required by FRS 27 in their financial statements for accounting periods ending on or after 23 December 2004. The Group is providing these additional disclosures as set out below.

Regulatory capital requirements of the life business

Nationwide Life ('NL'), the Society's wholly owned subsidiary, is regulated by the Financial Services Authority ('FSA') and, as a condition of being able to transact business as a life insurer, is required to hold a minimum level of capital which is calculated in line with the mix of business written.

In calculating these capital requirements, the FSA requires certain adjustments to be made in the valuation of assets and liabilities in comparison to those used in the financial statements.

Details of NL's regulatory capital are as follows:	Total Life Business £m
Shareholder's funds outside long term business fund	212.7
Shareholder's funds inside long term business fund	67.6
Total Shareholder's funds	**280.3**
Adjustments to assets	(93.1)
Total available capital to meet regulatory requirements	**187.2**

The numbers in the above table are draft only and may differ from those filed with the regulator at 30 June 2005.

The surplus on UK shareholder funds, held within the long term business fund, is attributable to shareholders. Subject to meeting the regulatory requirements, this capital is available to meet requirements in the Group.

The relevant capital requirement is the minimum solvency requirement determined in accordance with FSA Regulations. The available capital has been calculated after deducting liabilities that include additional prudential margins. At 31 March 2005, the available capital of £187.2 million was 277% of the capital requirement of £67.5 million in comparison to management's target minimum of 200%.

The level of available capital is sensitive to certain key assumptions used in the calculation of life assurance contract liabilities.

Key assumptions impacting on the valuation of life assurance liabilities

The exposure to mortality and morbidity risks is reduced by use of re-insurance. Interest and investment risks are minimised by closely matching assets and liabilities. Assets representing the available capital are generally invested in risk-free investments. For investment contracts where the benefits payable are linked to movements in either a specific pool of assets or an equity based index, the most significant variable in the measurement of the contract liabilities is the change in the underlying assets.

The inherent nature of insurance contracts means that, for the majority of contracts, the amount and/or timing of any payments to policyholders is uncertain.

The provision for contract liabilities represents a best estimate of the present value of future cash flows, having due regard for those elements which introduce elements of risk or uncertainty. A gross premium method is used.

Assumptions for mortality and morbidity risk are based on standard industry statistics, as modified, where appropriate, for NL's actual experience.

Existing assets, and future premiums, are projected to generate future investment returns having prudent regard to NL's investment strategy and the anticipated mix of business. Allowance is made for the impact of inflation on future management expenses.

The net future cash flows are discounted at a risk-free rate.

Options and Guarantees

The Group's Life Assurance products contain certain options and guarantees.

A significant proportion of NL's business is represented by guaranteed equity bonds. These bonds, which are normally offered for a fixed period of five or six years, offer the policyholder the opportunity to invest in equity markets with the added benefit of a guarantee that, on maturity of the bond, it will return a minimum of the premium invested plus a pre-defined portion of the growth in the relevant equity index. On death of the policyholder, the contract guarantees to return the higher of the premium received or the premium plus relevant equity growth, plus a death benefit of 1%.

In order to minimise the Group's exposure to the underlying investment or liquidity risk, NL purchases bespoke structured products which are designed to deliver, at maturity, a return which exactly matches the benefits payable to the policyholder. NL further reduces its exposure to credit risk (i.e. the failure of the counterparty to deliver the appropriate funds) by use of a collateral arrangement.

NL measures its liabilities under these contracts based on the fair value of the underlying investments together with a provision in respect of margins for mortality, expenses, tax and counterparty risk.

Basel 2

We have made further investment to ensure we are compliant with the Basel 2 Capital Accord when it is introduced in 2007. Our work includes the development of risk management systems that will form the core element of our future management information systems and reporting. We believe the composition of our business and the quality of our asset base will lead to Nationwide potentially benefiting from a lower regulatory capital requirement under the new regime.

Outlook

We expect lower levels of economic growth to impact on the housing and lending markets during 2005. After five years of double digit house price inflation we expect the housing market to experience a soft landing with house prices slowing to an annual growth rate of about 2% by the end of the year. Gross mortgage lending is expected to fall slightly, but be held up by continuing high levels of remortgaging. Significantly lower levels of mortgage equity withdrawal will mean that net lending will not hold up so well compared with 2004 levels.

Lower mortgage equity withdrawal and continued strong competition from credit providers who are seeking increased levels of retail funding mean that conditions in the retail savings market are likely to be significantly more competitive in 2005.

The combined competition in the mortgage and savings markets will continue to put downward pressure on interest margins. An expectation of slower economic growth resulting from more subdued demand and weaker global conditions means that an increase in interest rates in 2005 is now less likely. Our central view is that interest rates will remain at around the 4.75% mark during 2005. However, the impact of historically high oil prices and other input prices on inflation creates upside risk. Even if the Monetary Policy Committee does increase rates this year, we do not expect this to be by more than 25 basis points.

We will work hard to deliver another set of excellent results with good growth in all of our key markets, further improvement in our efficiency and stringent control over asset quality. This should lead to the delivery of increased profits while maintaining the distribution of substantial pricing benefits to our members.

Financial Review

Consolidated Income and Expenditure Statement	2005 £m	2004 £m
Net interest receivable	**1,189.2**	1,098.7
Other income	**338.5**	251.0
Total income	**1,527.7**	1,349.7
Administrative expenses	**815.8**	756.8
Depreciation and amortisation	**99.5**	108.8
Total administration expense and depreciation	**915.3**	865.6
Operating profit before provisions	**612.4**	484.1
Provisions for bad and doubtful debts	**46.6**	43.6
Provisions for contingent liabilities and commitments	**46.7**	39.9
Amounts written off/(released) fixed asset investments	**2.0**	(26.2)
Profit on ordinary activities before tax	**517.1**	426.8
Tax on profit on ordinary activities	**151.8**	108.9
Profit for the financial year	**365.3**	317.9

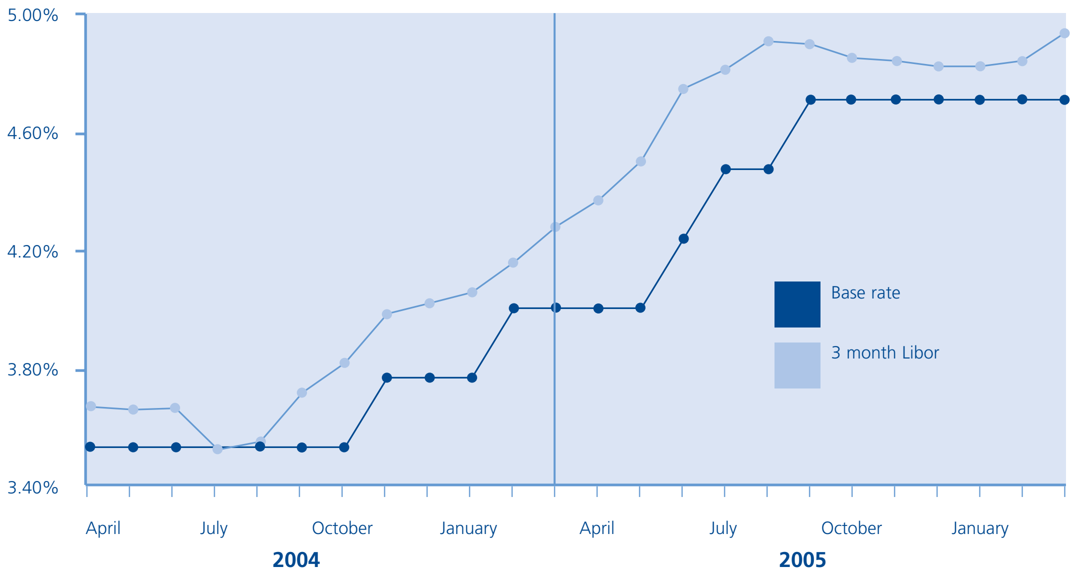
Profit

The Group has seen a strong growth in profit before tax of 21%, at £517.1 million (2004 – £426.8 million). Profit after taxation was £365.3 million (2004 – £317.9 million) an increase of 15%. The increase in profit was consistent with our strategy of moving to a level of retained earnings that supports the growth in the Balance Sheet. During the year retained earnings were supplemented with additional capital to maintain a strong Solvency Ratio of 11.7% (2004 – 11.7%).

Group Net Interest Income	2005 £m	2004 £m
Net interest income	**1,189.2**	1,098.7
Average balances:		
• Interest-earning assets	**102,662**	90,264
• Interest-bearing liabilities	**98,390**	86,231
Mean total assets	**106,510**	93,423
Average rates:	**%**	%
• Net interest margin	**1.12**	1.18
• Average yield on interest-earning assets	**4.96**	4.29
• Average rate on interest-bearing liabilities	**3.97**	3.21
• Average bank base rate	**4.15**	3.71
• Average 3-month Libor	**4.83**	3.81

Group net interest income increased by 8%, or £90.5 million to £1,189.2 million (2004 – £1,098.7 million). The net interest margin was 1.12% (2004 – 1.18%). This reduction was the consequence of continued competition causing downward pressure on the spread between savings and lending rates as evidenced by an increase in the rate on interest-earning assets of 0.67% but an increase in the rate payable on interest-bearing liabilities of 0.76%. This results from the continuing fall in the proportion of mortgage balances paying standard variable rates and an increase in the cost of funds compared with base rate. Some of this impact was offset by the higher differential between Libor and base rates enjoyed this year compared with the previous year.

Interest Rate Environment 2004 and 2005



Non-Interest Income	**2005 £m**	2004 £m
Income from investments	**0.3**	0.4
Fees and commissions receivable	**377.4**	292.8
Fees and commissions payable	**(109.1)**	(111.1)
Other operating income	**69.9**	68.9
Total income	**338.5**	251.0

Group non-interest income increased by 35%, or £87.5 million, to £338.5 million (2004 – £251.0 million). Fees and commissions receivable increased by £84.6 million to £377.4 million (2004 – £292.8 million). Non-interest income has been further enhanced by a reduction in fees and commissions payable of £2.0 million to £109.1 million (2004 – £111.1 million).

Fees receivable from lending activity increased by £34.0 million as a result of increased reservation fees for fixed rate and tracker mortgage products, in line with the market. However, we have positioned our fees to remain, on average, lower than those of our competitors. Fees from our banking business increased by £14.6 million to £110.6 million (2004 – £96.0 million) as a result of the strong growth in our FlexAccount business during the last two years. Commissions from our insurance businesses increased by £32.6 million to £164.2 million (2004 – £131.6 million) resulting from growth in our life business, the renegotiation of general insurance contracts and benign weather conditions in the UK.

The cost of securing business reduced due to lower survey fees and lower mortgage incentive costs.

Operating and Financial Review (continued)

Administration Expenses and Depreciation

	2005 £m	2004 £m
Staff related expenditure	**435.6**	388.0
Premises, equipment and other	**380.2**	368.8
Total core administrative expenses	**815.8**	756.8
Depreciation	**99.5**	108.8
Total operating expenses	**915.3**	865.6

Total administrative expenses including depreciation increased by £49.7 million, or 6%, to £915.3 million (2004 – £865.6 million). This was against a background of a strong growth in new business with total assets increasing by 10%, growth in margin income of 8% and growth in other income of 35%. As a result, the costs to income ratio, one of our principal measures of efficiency, improved from 64.1% last year to 59.9% this year. We also saw an improvement in our costs to mean total assets ratio from 0.93% to 0.86%, the 16th successive year we have seen an improvement.

The growth in administration expenses has been driven by employee costs. During the year headcount increased by 346 (Full Time Equivalent employees) but is planned to remain flat going forward. The total charge in respect of pensions increased by £38.6 million to £84.7 million (2004 – £46.1 million). As at 4 April 2005 the net retirement benefits liability was £239 million (4 April 2004 – £302 million) as measured under the assumptions contained in Financial Reporting Standard 17 (Retirement Benefits).

Provisions for Bad and Doubtful Debts

	2005 £m	2004 £m
Provisions charge/(credit) for the year:		
Specific – loans fully secured on residential property	**(0.3)**	(4.9)
– loans fully secured on land	**(1.4)**	0.5
– other loans	**48.1**	39.0
	46.4	34.6
General – loans fully secured on residential property	**–**	8.1
– loans fully secured on land	**–**	5.4
– other loans	**0.2**	(4.5)
	0.2	9.0
Total	**46.6**	43.6

The total charge for bad and doubtful debts increased by £3.0 million to £46.6 million. The combination of high quality lending, relatively low interest rates and house price inflation all contributed to a reduction in the charge on the secured loan portfolio. We have experienced an increase in the provision charge for unsecured lending products but this is broadly in line with the increased volumes of lending.

In the two principal loan portfolios, residential and commercial, the accounts three months or more in arrears fell by 17% and 9% respectively. Against this background of improved credit quality, general provisions have remained static year on year in these two portfolios.

Provisions for Contingent Liabilities and Commitments

Like many other distributors of savings and investment products, Nationwide is facing an increasing level of concern on the part of current and former members and customers about the value of some of their life assurance products and investment policies, particularly endowment policies sold principally before 1990 by the Society, intended as repayment vehicles for mortgage borrowings. Against a background of falling investment returns it is possible that the value of some investment policies will not be sufficient to fully repay mortgages on maturity. Complaints from members, who claim they did not appreciate this risk, are reviewed on an individual basis and with reference to the circumstances prevailing at the date the policies were sold. In some cases this gives rise to the payment of compensation to put the borrower in the equivalent position as if the mortgage had been written on capital repayment terms.

Provisions raised of £46.7 million (2004 – £39.9 million) include £44.6 million (2004 – £34.1 million) for the cost of customer redress relating to all current and estimated future endowment review claims based on current trends and investment performance.

Amounts Written Off/(Released) Fixed Asset Investments

	2005 £m	2004 £m
Specific	**12.1**	(16.3)
General	**(10.1)**	(9.9)
Movement in provision increase/(release)	**2.0**	(26.2)
As a % of investment assets	**0.1%**	(1.4)%

Provisions were increased by £2.0 million during the year (2004 – release of £26.2 million) against an investment asset portfolio of £2.2 billion (2004 – £1.8 billion), primarily comprising asset backed securities and corporate bonds. The charge results from an additional provision on one part of the portfolio, set against a modest improvement in the underlying market value of the assets contained in the remainder of the portfolio. This is in contrast to the dramatic improvement in the value of the assets seen in the previous year.

Taxation

The effective rate of tax was 29.4% (2004 – 25.5%), compared with the standard rate of corporation tax of 30%. Nationwide carries out its commercial activities and structures its business in a tax efficient manner and this is reflected in the Group tax charge.

Business Segment Contribution

Nationwide operates three main business segments, Retail Financial Services, Commercial and Group. The Group segment comprises Treasury, capital and items classified as being non-attributable to our core business areas.

Result by Business Segment

	2005 £m	2004 £m
Residential mortgages	**201.1**	194.1
Consumer lending	**7.3**	14.6
General insurance & life products	**88.7**	61.8
Retail Financial Services	**297.1**	270.5
Commercial	**164.5**	139.7
Group	**55.5**	16.6
Profit before tax	**517.1**	426.8

Comparative information has been restated to reflect the adoption of a funds transfer pricing approach to the measurement of business segment performance. This is consistent with the approach adopted in management reporting.

The transfer price for Retail Financial Services is determined by the prevailing base rate.

Retail Financial Services Contribution by Income and Expenditure Category

	2005 £m	2004 £m
Net interest income	**912.8**	902.3
Non-interest income	**288.5**	195.0
Total income	**1,201.3**	1,097.3
Operating expenses	**(809.5)**	(749.0)
Bad debt provisions	**(48.0)**	(37.9)
Provisions for contingent liabilities and commitments	**(46.7)**	(39.9)
Profit before tax	**297.1**	270.5

Retail Financial Services contribution has increased 9% to £297.1 million. Residential mortgage contribution has increased by 3% driven by the strong mortgage lending offset by increased funding costs as the average rate payable on interest-bearing liabilities increased by 0.76% to 3.97%. The contribution of our mortgage business was enhanced by containing the costs of securing new business and by strong retention of customers coming to the end of fixed rate and tracker deals. In addition, the high quality asset base, low arrears and low level of provisions improved contribution.

Consumer lending performance has been strong with high levels of business in the year. Contribution has fallen primarily due to a reduction in margin. We have maintained our competitive customer rate since October 2003 despite five increases in base rates in the same period. Provisions have increased in line with the growth in balances.

General insurance and life business performance was supported by the strong mortgage business, renegotiation of insurance contracts and benign weather conditions in the UK.

Commercial Contribution by Income and Expenditure Category

	2005 £m	2004 £m
Net interest margin	**162.1**	136.8
Non-interest income	**42.8**	46.0
Total income	**204.9**	182.8
Administrative expenses	**(41.8)**	(37.5)
Provisions for bad debts	**1.4**	(5.7)
Profit before tax	**164.5**	139.7

Nationwide has been active in commercial lending since the 1980s and has established a high quality portfolio of commercial and Registered Social Landlords' loans totalling in excess of £12.7 billion. The contribution from this activity is used to supplement our mutual agenda.

During the year the margin narrowed due to a combination of competitive pressures in the market place and borrowers refinancing at lower rates. However, the increased volumes of new business bolstered net income. Non-interest income includes at.home nationwide ltd (2005 – £16.6 million; 2004 – £16.8 million), a wholly owned subsidiary that specialises in high quality residential property rental. Administrative expenses include abnormal costs arising from property repair costs in at.home nationwide ltd. Improved arrears have allowed a small release in provisions for bad debts supporting an improvement in contribution from £139.7 million to £164.5 million.

Group Contribution by Income and Expenditure Category

	2005 £m	2004 £m
Net interest income	**114.3**	59.6
Non-interest income	**7.2**	10.0
Total income	**121.5**	69.6
Administrative expenses	**(64.0)**	(79.2)
Amounts (written off)/released fixed asset investments	**(2.0)**	26.2
Profit before tax	**55.5**	16.6

Capital is allocated to business streams based on an economic capital assessment. Capital in excess of this, required for regulatory purposes, is held centrally and generates contribution for the Group. Net interest income has also increased through enhanced earnings on Treasury instruments and from Group liquidity.

Non-interest income is principally rental income from excess retail space.

Administrative expenses includes costs which are not appropriate to allocate to the business segments, for example brand advertising, regulatory and compliance costs.

Capital Structure

Regulatory capital stood at £6.9 billion (2004 – £6.2 billion) with the Group's total solvency ratio remaining strong at 11.7% (2004 – 11.7%). The Tier 1 solvency ratio stood at 9.1% (2004 – 9.3%). The Tier 2 ratio stood at 2.6% (2004 – 2.4%) reflecting low levels of subordinated debt. Both ratios remain well in excess of the minimum established by the Society's regulator.

	2005 £m	2004 £m
Capital:Tier 1	**5,410.9**	4,905.8
Tier 2	**1,837.0**	1,308.5
Deductions	**(309.1)**	(27.9)
Total capital	**6,938.8**	6,186.4
Total risk weighted assets	**59,182.6**	52,765.1
Risk asset ratios:	**%**	%
Total capital	**11.7**	11.7
Tier 1	**9.1**	9.3

Group Profit Ratios	**2005**	2004
	%	%
Post tax return on capital	**6.53**	6.50
Post tax return on mean assets	**0.41**	0.39
Post tax return on mean risk weighted assets	**0.77**	0.76

We were very successful in raising Tier 2 capital (£513.9 million) during the financial year. The capital was raised to fund the strong growth in the Balance Sheet. There was, and remains, substantial appetite for our credit in the European and US markets. The work undertaken in recent years in developing these sources of funds has proved highly beneficial in enabling the Group to raise the required wholesale funding and additional capital at an attractive rate.

Risk Management and Control

Overview

Nationwide seeks to manage appropriately all the risks that arise from its activities. The principal risks inherent within the business are credit risk, market risk, liquidity risk and operational risk. In addition, insurance risk arises within our life assurance subsidiary.

We have a formal structure for managing these risks within the Group. This structure consists of three key elements.

Firstly, we have documented our approach to the management of risk in our risk appetite statement and in our detailed risk policy statements. These statements cover all of the risks mentioned above and they are reviewed annually by the Board as well as by the other management committees mentioned below.

Secondly, we have well established risk functions within the Group. These functions sit within the Risk Management Division and, in relation to market and liquidity risk, within the Treasury Division. The role of these functions is to set limits which are consistent with our risk appetite, to monitor and report on compliance with those limits and generally to provide an oversight role in relation to the management of risk. However, prime responsibility for managing risk, and for ensuring controls are put in place in respect of risk, lies with the business units within the Group, in accordance with best practice recognised within the industry and by our regulator, the FSA.

Finally, we have a committee structure which supports the management of risk within the Group. There are four key management committees with risk responsibilities:

- Credit Committee (Retail) and Credit Committee (Treasury and Commercial), which have responsibility for credit risk
- Assets and Liabilities Committee ('ALCO'), which has responsibility for market and liquidity risk
- Chief Executive's Committee, which has responsibility for operational risk

Insurance risk is managed by the board of our life assurance subsidiary. All of these committees, and the board of the life company, draw their membership from amongst the executive and divisional directors and have appropriate representation from the risk functions. In addition to these committees, oversight of risk management and control systems is provided by the Audit Committee on behalf of the Board.

Credit Risk

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to us as they become due. Credit risk arises primarily from loans and other credit based products (such as current account facilities and credit cards) available to our retail customers, loans to our commercial customers and from the liquid and investment assets held by Treasury Division.

Retail credit risk is managed centrally from within the Retail Credit Risk function in Risk Management Division. We have sought to distance the credit decision from the sales force and to make these decisions within the central team. We have accomplished this by developing and maintaining automated credit scoring systems that differentiate credit risks for residential mortgage loans and other consumer products and services. A specialist retail underwriting unit considers those loan applications which require individual underwriting, but this unit sits within Risk Management Division, not within the sales force. The policy in respect of retail credit risk is maintained by the Retail Credit Risk function and is set by the Credit Committee (Retail). This committee receives regular reports from Retail Credit Risk on the performance of all retail credit portfolios.

Commercial credit risk is managed by the Commercial Division, which is responsible for all commercial lending activities, and the Commercial Risk function within Risk Management Division. The Commercial Risk team underwrites all new loans and monitors existing loans. Loans above certain levels also require approval from the Credit Committee (Commercial and Treasury) or from the Board. The Commercial Risk team also maintains the policy and limits in respect of commercial credit risk and monitors compliance with the limits, providing reports to the Credit Committee on performance of the commercial portfolios.

Credit risk within Treasury Division arises from the investments held by Treasury in order to meet the liquidity requirements and for general business purposes. This aspect of credit risk is managed by Treasury Division and the Treasury Risk function within Risk Management Division. The Treasury Risk team underwrites all new facilities and monitors existing facilities. They also set and monitor compliance with policy and limits, reporting to the Credit Committee (Commercial and Treasury) in the same way as the Commercial Risk function does in relation to commercial credit risk.

Market Risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities change as a result of changes in interest rates or exchange rates. Market risk incorporates a range of risks, but the principal elements are interest rate risk and foreign currency risk.

Interest rate risk arises from the mortgage, savings and other financial services products that we offer. The varying interest rate features and maturities on these products, and the need to raise wholesale funds to provide these products, create interest rate risk exposures due to the imperfect matching of interest rates between different financial instruments and the timing differences on the re-pricing of assets and liabilities. This risk is managed through the use of appropriate financial instruments, including derivatives.

Foreign currency risk arises as a result of activity undertaken by the Group when raising and investing funds in currencies other than Sterling, which is done in order to manage wholesale funding costs and the returns on liquid assets and to provide diversity in funding and investment markets. Currency risk is managed primarily through the use of currency swaps and forward foreign exchange contracts. The risk is also managed, where appropriate, by foreign exchange currency liabilities being matched with assets denominated in the same foreign currency.

Treasury Division is responsible for managing our exposure to all aspects of market risk within the operational limits set out in the Group's market risk policies. Oversight is provided by ALCO, which includes representation from Risk Management Division. ALCO approves the market risk policy and receives regular reports on all aspects of market risk, including interest rate risk and foreign currency risk.

Treasury Division uses derivative instruments in managing various aspects of market risk. However, in doing so it complies with the Building Societies Act 1986 which limits our use of derivatives to the management of changes in interest rates, exchange rates or other factors defined by the Act.

Liquidity Risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. The objective of our liquidity policy is therefore to enable us to maintain sufficient liquid assets to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in our business and to enable us to meet all our financial obligations.

The day-to-day management of liquidity is the responsibility of Treasury Division, which manages our portfolio of liquid assets and our contingency funding plans. The liquidity risk policy is monitored by ALCO, which receives regular reports on the liquidity position. We also comply with regulatory guidelines which govern the scope and nature of the Group's holdings of liquid assets.

Operational Risk

Operational risk is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events. For the purposes of managing operational risk, we divide it into a number of discrete areas of risk which include, for example, change management, fraud risk, regulatory risk and business contingency planning.

We manage operational risk through the Group's business units, with senior management having responsibility for understanding how operational risk impacts on their business unit and for putting in place the appropriate controls or other mitigation actions, for example, insurance. The business units are supported by a central Operational Risk Unit within Risk Management Division, which provides support to business units and which co-ordinates activity across a network of operational risk officers who work within those units.

The Chief Executive's Committee, which is the principal management committee, has responsibility for the policy in respect of operational risk and receives a monthly report on the Group's operational risk profile.

Graham Beale

Graham Beale
Group Finance Director

18 May 2005

Board of Directors
As at 4 April 2005









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1 Jonathan Agnew
2 Philip Williamson
3 Brian Walsh
4 Bernard Simpson
5 Graham Beale
6 Stuart Bernau
7 Jim Willens
8 Stella David
9 John Engestrom
10 Robert Walther
11 Geoffrey Howe
12 Richard Handover
13 Derek Ross

Jonathan Agnew (63)
Chairman

Jonathan Agnew was appointed to the Board in 1997 and became Chairman in 2002. His experience has been in the management of financial services businesses, including investment banking, securities and treasury businesses and insurance underwriting. During his career he has been a Managing Director of Morgan Stanley, Group Chief Executive of Kleinwort Benson and Chairman of Limit and of Gerrard Group and is currently Chairman of Beazley Group.

Bernard Simpson (57)
Deputy Chief Executive and Chief Operating Officer

Bernard Simpson joined the Society in 1989. He was appointed a Director in 1994, Deputy Chief Executive in December 1999 and additionally Chief Operating Officer in 2002. During the past year his responsibilities included technology, retail and marketing as well as central administration of all savings, mortgages and insurance. From 5 April 2005 Bernard relinquished responsibility for technology and central support services and assumed additional responsibility for retail operations and personnel and development.

Jim Willens (48)
Retail Operations Director

Jim Willens joined the Society in 1978 and became a Director on 1 January 2002. During the past year he has had executive responsibility for branches, call centres, online internet services and intermediary business. He also served as a Director of the Society's life insurance and unit trust subsidiaries and its specialist lending business, UCB Home Loans Corporation Ltd. Before joining Nationwide, he worked for two major banks. From 5 April 2005 Jim was appointed Group Services Director with responsibility for technology and central support services.

Robert Walther (61)
Non-executive Director

Robert Walther joined the Board on 1 July 2002. He is also a Director of the Society's life insurance and unit trust subsidiaries. His background in investment and insurance was mainly built within a mutual organisation. He was Chief Executive of Clerical Medical from 1995 to 2001, which he joined in 1965. He is currently Chairman of the JP Morgan Fleming Claverhouse Investment Trust plc and Fidelity European Values plc, and a non-executive Director of BUPA.

Philip Williamson (57)
Chief Executive

Philip Williamson was appointed to the Board in April 1996 and was appointed Chief Executive on 1 January 2002. Prior to his appointment as Chief Executive, he held roles as Retail Operations Director and as Marketing and Commercial Director. Before joining Nationwide he held senior appointments within the banking and property industries.

Graham Beale (46)
Group Finance Director

Graham Beale joined the Society in 1985 and has worked extensively in the finance function and in other parts of the Group. He was appointed to the Board on 5 April 2003 with executive responsibility for finance and planning, risk management, legal compliance and internal audit. From 5 April 2005 Graham assumed additional responsibility for treasury operations.

Stella David (42)
Non-executive Director

Stella David joined the Board on 16 April 2003, bringing considerable expertise in branding, marketing and the management of fast-moving consumer goods. Until the end of 2004 she was Chief Executive Officer of Bacardi-Martini in the UK and President of the Supervisory Board of Bacardi Netherlands NV. Subsequently she has been appointed head of the Asia-Pacific region and Managing Director of Global Procurement and Manufacturing for the parent company Bacardi Ltd. Prior to joining Bacardi she held senior appointments at Golden Wonder.

Geoffrey Howe (55)
Non-executive Director

Geoffrey Howe joined the Board on 1 January 2005. He brings considerable legal, regulatory and management experience to the Board. He is currently joint Deputy Chairman of Jardine Lloyd Thompson Group plc and a director of Investec plc and the JP Morgan Fleming Overseas Investment Trust plc. He is also an adviser to a number of leading professional and financial services organisations. He was formerly Chairman of Railtrack Group plc, a Director and Group General Counsel of Robert Fleming Holdings Ltd and managing partner of Clifford Chance.

Brian Walsh (60)
Deputy Chairman

Brian Walsh joined the Board in 1999 and became Deputy Chairman in 2002. He is also Chairman of the Society's Audit Committee. His career has spanned over 30 years in industry and finance, most recently as Vice-Chairman and Finance Director of TI Group plc. He has particular strengths in the financial management of major companies. Previous positions include Finance Director, GKN plc and executive Director, Credit Suisse First Boston.

Stuart Bernau (53)
Commercial and Treasury Director

Stuart Bernau joined the Society in 1990 and was appointed a Director in 1996. His current responsibilities include commercial lending, communications, Nationwide Investment Group, general insurance and UCB Home Loans Corporation Ltd, having relinquished his responsibility for treasury operations on 5 April 2005. He was appointed Chairman of the Council of Mortgage Lenders on 27 January 2005.

John Engestrom (63)
Non-executive Director

John Engestrom was appointed a Director in 1997. He is also a Director of the Society's life insurance and unit trust subsidiaries and brings expertise in the insurance sector to the Board. He is Chairman of the Society's Remuneration Committee. His extensive experience included Group Chief Executive of Mercantile & General Reinsurance, Chief Executive of Liberty Re and ACE Tempest Reinsurance Ltd. He is currently a Director of Wellington Underwriting plc.

Richard Handover (58)
Non-executive Director

Richard Handover has extensive knowledge of and experience in the management of businesses within the retail sector and was appointed to the Board in 2000. He is also Chairman of the Adult Learning Inspectorate and a non-executive Director of Royal Mail and was Vice-Chairman of Business in the Community. From the end of January 2005 he retired from the chairmanship of WHSmith plc.

Derek Ross (54)
Non-executive Director

Derek Ross joined the Board on 1 December 2004. He has extensive experience in audit and financial advisory services particularly in areas of treasury and risk management. Prior to his appointment he was a senior partner of Deloitte & Touche LLP for 18 years and previously for 7 years a corporate treasurer and tax manager with Black & Decker.

Directors’ Report
For the year ended 4 April 2005

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 4 April 2005.

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 on pages 2 to 5 and in the Operating and Financial Review on pages 6 to 21.

Profits and capital

Profit before tax was £517.1 million (2004 – £426.8 million). The profit after tax transferred to the general reserve was £365.3 million (2004 – £317.9 million).

Total Group reserves at 4 April 2005 were £4,938.9 million (2004 – £4,553.0 million) after taking into account the revaluation reserve of £228.0 million (2004 – £211.9 million).

Gross capital at 4 April 2005 was £7,070.9 million (2004 – £6,170.3 million) including £1,439.8 million (2004 – £925.6 million) of subordinated debt and £692.2 million (2004 – £691.7 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings at 4 April 2005 was 7.0% (2004 – 6.7%) and the free capital ratio was 6.2% (2004 – 5.9%). The total solvency ratio at 4 April 2005 was 11.7% (2004 – 11.7%) and the Tier 1 solvency ratio was 9.1% (2004 – 9.3%).

Mortgage arrears

The mortgage portfolio at 4 April 2005 included 519 mortgage accounts (2004 – 571), including those in possession, where payments were more than 12 months in arrears. The total amount of principal loans outstanding in these cases was £33.6 million (2004 – £32.1 million). The total amount of arrears in these cases was £5.2 million (2004 – £5.4 million) or 0.01% (2004 – 0.01%) of total mortgage balances.

Charitable and political donations

During the year the Group made charitable donations of £1,343,009 (2004 – £1,296,965) including £1,000,000 (2004 – £1,000,000) to The Nationwide Foundation. No contributions were made for political purposes. However, as a result of the Political Parties, Elections and Referendums Act 2000 time allowed to employees to carry out civic duties can amount to a donation. The Group supports a very small number of employees in this way.

Creditor payment policy

The Group’s policy is to agree the terms of payment with suppliers at the start of trading, ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations. The Group’s policy is to settle 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.

The Society’s creditor days were 27 days at 4 April 2005 (2004 – 24 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.

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 on page 33 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.

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)

B A Walsh MSc (Econ), FCMA, CIMgt (Deputy Chairman)

P F Williamson BA (Econ), FCIB, FRSA, (Chief Executive)

B K Simpson MIMIS, FRSA (Deputy Chief Executive and Chief Operating Officer)

G J Beale BSc, ACA (Group Finance Director)

S D M Bernau BSc (Econ), FCIB, MCT (Commercial and Treasury Director)

J H Willens MBA, DMS, ACIB (Retail Operations Director)

Mrs S J David MA (Cantab)

J Engestrom MBA

Ms R E Evans MA

R G Handover

G M T Howe MA (Cantab)

D A Ross BSc, LLB, FCA, ACMA, CTA (Fellow), FCT

R P Walther MA, FIA

D A Ross and G M T Howe were appointed as non-executive Directors on 1 December 2004 and 1 January 2005 respectively.

Ms R E Evans retired on 31 March 2005.

G M T Howe, D A Ross and J H Willens will retire at the Annual General Meeting on 21 July 2005, and they will all stand for election.

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

The auditors

A resolution to re–appoint PricewaterhouseCoopers LLP as auditors will be proposed at the Annual General Meeting.

J G W Agnew
Chairman

18 May 2005

Report of the Directors on Corporate Governance
For the year ended 4 April 2005

The Board of Directors (the 'Board') is committed to best practice in corporate governance. This Report on Corporate Governance explains how the Society applies the principles in the Combined Code on Corporate Governance (the 'Code') issued by the Financial Reporting Council as well as meeting guidance for building societies issued by the Financial Services Authority (the 'FSA'). The Board considers that the Society complies with all the Code provisions unless the contrary is stated.

Directors

The Board

Code Principle: Every company should be headed by an effective Board, which is collectively responsible for the success of the company.

Board comment: The Board's terms of reference are published on the Society's website. The principal functions of the Board are to determine the strategy and policies of the Group, to set out the guidelines within which the business is managed and to review business performance. The Board has a general duty to ensure that the Group operates within the Society's constitution and relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited. The Board's terms of reference include a list of specific matters reserved to the Board and a High Level Business Control Manual sets out the structure of delegation of authority by the Board to management.

The Board has three main committees. These are the Audit Committee, the Nomination Committee and the Remuneration Committee. Each committee comprises only non-executive Directors and each committee has a different Chairman. The Assets and Liabilities Committee also has a non-executive Director as a member. The terms of reference of each committee are published on the Society's website. The composition of the committees is shown on page 29. The Deputy Chairman is the Senior Independent Director.

The Board meets as often as necessary for the proper conduct of business, and there are usually ten formal Board meetings each year. In addition the non-executive Directors meet without executive Directors present, at least once a year. Other non-executive Directors meet without the Chairman once a year. The attendance record during the year of members at formal meetings of the Board and its committees is shown on page 29.

All Board members have the benefit of appropriate liability insurance at the Society's expense. All Board members have access to independent legal advice if required.

Chairman and Chief Executive

Code Principle: There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Board comment: The offices of Chairman and Chief Executive are distinct and held by different people. The role of each is set out in their terms of appointment or contract respectively and in their individual performance agreement. The Chairman is responsible for leading the Board and communicating with the Society's members on behalf of the Board. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board.

Board Balance and Independence

Code Principle: The Board should include a balance of executive and non-executive Directors (and in particular independent non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking.

Board comment: The Board currently comprises five executives and eight non-executives (including the Chairman). Apart from the Chairman, for whom the test of independence is considered inappropriate, all non-executive Directors are considered by the Board to be independent in character and judgement and free of any relationship or circumstances which could materially interfere with the exercise of their judgement.

Appointment to the Board

Code Principle: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Board comment: The Nomination Committee considers the balance of skills and experience on the Board and the requirements of the business. The Board has an agreed Board Composition and Succession Plan which is published on the Society's website. Appointments to the Board are made on merit and against objective criteria. Candidates for non-executive Directorship are identified in a variety of ways, including the use of external search consultants by the Board, and in addition members of the Society have the right under the Society's Rules to nominate candidates for election to the Board. All Directors must meet the tests of fitness and propriety laid down by the FSA and all Directors are required to be registered with the FSA as an Approved Person in order to fulfil their Controlled Function as a Director.

The service contracts of executive Directors and the letters of appointment of non-executive Directors are available for inspection on request from the Secretary.

Information and Professional Development

Code Principle: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Board comment: The Chairman ensures that the Board receives information sufficient to enable it to fulfil its responsibilities. All new Directors undergo formal induction and any training or development needs are identified during this process and in the course of subsequent annual evaluations of the Board's and individual Director's performance and effectiveness.

Performance Evaluation

Code Principle: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.

Board comment: The Board has adopted a methodology to evaluate the performance and effectiveness of individual Directors and of the Board as a whole and its committees. Each Director has a Performance Agreement and (as needed) a Personal Development Plan tailored to their individual circumstances (e.g. as Chairman, other non-executive Director, or executive Director). The non-executive Directors are evaluated by the Chairman, taking into account the views of other Directors; the Chairman is evaluated by the non-executive Directors facilitated by the Senior Independent Director and taking into account the views of the executive Directors; and the Board evaluates its own overall performance. Executive Directors are evaluated within the performance evaluation framework for employees generally and by the Remuneration Committee in context of their remuneration.

Re-election

Code Principle: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

Board comment: The Society's Rules require that all Directors are submitted for election at the Annual General Meeting (the 'AGM') following their first appointment to the Board, except where their appointment occurs in the period between the end of the Society's financial year and the AGM itself, in which case they must seek election at the AGM in the following year, and all Directors are required to seek re-election every three years after first being elected.

The Board's general policy is that non-executive Directors should not expect to serve more than two full three-year terms. The Nomination Committee considers and recommends to the Board whether a non-executive Director should be submitted for re-election. Any term lasting beyond the normal six years will be subject to particularly rigorous review and any term lasting beyond nine years will be approved by the Board only in exceptional circumstances and then only on the basis of annual re-election. Currently, two non-executive Directors have served more than two full three-year terms; they are Jonathan Agnew (Chairman) and John Engestrom (Chairman of the Remuneration Committee). Mr Engestrom does not expect to stand for re-election for a further term. Mr Agnew expects to retire about the time of the AGM in 2007 by which time he will have served for five years as Chairman as envisaged at the time of his appointment by the Board as Chairman.

Remuneration

The Report of the Directors on Remuneration (on pages 30 to 32) explains how the Society applies the Code principles and its compliance with the Code provisions relating to remuneration.

Accountability and audit

Financial Reporting

Code Principle: The Board should present a balanced and understandable assessment of the company's position and prospects.

Board comment: The responsibilities of the Directors in relation to the preparation of the Society's accounts and a statement that the Society's business is a going concern are to be found within the Directors' Report (on pages 24 and 25).

Internal Control

Code Principle: The Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

Board comment: The Board is responsible for determining strategies for risk management and control. Senior management are responsible for designing, operating and monitoring risk management and internal control processes, and the Audit Committee, on behalf of the Board, is responsible for reviewing the adequacy of these processes. The Society has a strong compliance culture. The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile, not to eliminate risk. The Risk Management Division ensures that appropriate risk management systems exist across the spectrum of the Group's operations, and that in particular there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group. This process has operated throughout the year and the process is regularly reviewed at Board level. The Group Internal Audit function provides independent and objective assurance that these processes are appropriate and effectively applied.

The Board has approved a Group Risk Appetite Statement and both the Board and the Audit Committee regularly review the Group Operational Risk Profile in the context of the Group's risk appetite. The Group Operational Risk Profile is compiled by the Risk Management Division based on risk assessment submissions from divisional directors and other senior executives throughout the Group in relation to the areas of the Group's business for which they are responsible. The key risk categories are identified together with the ongoing status in relation to each risk and any actions deemed necessary being taken or planned to mitigate such risks. The principal categories of financial risk inherent in the Group's business are described in greater detail in the Operating and Financial Review under the heading Risk Management and Control (on pages 20 and 21) together with an explanation of the structure adopted within the Group for managing financial risk (including the roles of the Credit Committees and the Assets and Liabilities Committee). The Chief Executive's Committee, which comprises all executive Directors and all divisional directors, is the principal risk management committee. It reviews the Group Operational Risk Profile on a regular monthly basis and facilitates an integrated approach to risk management across the business as a whole.

The Board has ultimate responsibility for ensuring the maintenance of sound systems of risk management and internal control, and following review by the Audit Committee it is satisfied that the Society's systems are appropriate and meet the requirements of the Code and the supplementary Turnbull guidance.

Audit Committee and auditors

Code Principle: The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Board comment: The Board has an Audit Committee comprising five non-executive Directors chaired by the Deputy Chairman, all of whom are independent. The Chairman of the Board is not a member of the Committee although he is usually invited to attend meetings of the Committee. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The Chairman and all members of the Committee receive supplementary fees in recognition of their additional responsibilities. The terms of reference of the Audit Committee are available on request from the Secretary and are published on the Society's website.

The role of the Audit Committee is to review the integrity of the financial statements, to review the effectiveness of internal controls and risk management systems, to monitor and review the effectiveness of the internal audit function, to consider and recommend to the Board (for approval by the members) the appointment or re–appointment of the external auditors and to oversee the relationship with the external auditors, including the development of policy on the engagement of the external auditors for non-audit services.

The policy developed by the Committee on the engagement of the external auditors for non-audit work includes a requirement that the engagement of the auditors for non-audit services requires prior approval of the Committee where the level of fees payable for non-audit services would exceed set threshold proportions of the audit fee, differentiating between non-discretionary services (i.e. those required by external rules to be carried out by the auditors) and discretionary services (i.e. any other services). The Committee is unlikely to sanction any engagement of the auditors for non-audit services where the aggregate fees for all non-audit services would exceed a limit set from time to time as a proportion of the audit fee.

The Committee is also responsible for ensuring that there are effective whistleblowing arrangements to enable employees to raise, in confidence, any concerns about possible improprieties in matters of financial reporting or other matters and effective arrangements for investigation of any such concerns raised.

The Audit Committee usually meets six times a year. The Committee usually excludes all executives from part of its meetings and the Committee annually meets with only the external auditors. By invitation of the Committee, executives and others regularly attending part of its meetings include the Head of Group Internal Audit, the Deputy Chief Executive and Chief Operating Officer, the Group Finance Director, the Divisional Director Risk Management, the Divisional Director Legal Compliance and the external auditors. Minutes of the Committee's meetings are routinely distributed to all Board members and the Chairman of the Committee reports to the Board at each regular meeting of the Board following a meeting of the Committee.

The Audit Committee has adopted a methodology to evaluate annually the performance and effectiveness of the Committee and its compliance with the requirements of the Code and the supplementary Smith guidance. The evaluation process includes the completion of a standard review proforma by members of the Committee and by the Head of Group Internal Audit and a report for agreement by the Committee and submission to the Board.

Relations with shareholders

Dialogue with Institutional Shareholders

Code Principle: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Board comment: As a mutual body, the Society has a membership composed almost exclusively of (currently over 11 million) individuals (rather than institutions), all of whom are the Society's customers. The Society proactively seeks the views of members in a variety of ways. Every month the Society invites 30,000 members to complete a Member Perception Questionnaire and comment on the service they receive. Member TalkBack events (both face-to-face and via the internet) give members an opportunity to put questions or points to a Director or senior executive. The Member Suggestion Scheme enables members to express their views on an ongoing basis, and a Feedback Log allows employees to record immediately any ad hoc comments from members on any aspect of its business.

The Society conducts market research on a regular basis via telephone surveys, group discussions and conversations, in order to elicit feedback on a wide range of issues. In addition, members' participation in its Usability Centre enables the Society to obtain members' comments on a range of practical measures and initiatives.

Constructive use of the AGM

Code Principle: The Board should use the AGM to communicate with investors and to encourage their participation.

Board comment: Each year the Society sends details of the AGM and the Postal Ballot for the election of Directors to (currently over 6 million) members who are eligible to vote. Members are sent Voting Forms and are encouraged to vote in the Postal Ballot and to appoint a proxy to vote for them at the AGM if they cannot, or choose not to, attend the AGM. All postal ballot votes and all proxy votes are counted under independent scrutiny. At the AGM the Chief Executive gives a presentation on the main developments in the business and members present have the opportunity to raise questions and put forward their views. A poll is called in relation to each resolution at the AGM and all proxy votes cast are included in the published results of voting.

All members of the Board are present at the AGM each year (unless exceptionally their absence is unavoidable) and the Chairmen of the Audit and the Remuneration Committees are therefore available to answer questions.

Board and committee membership attendance record

Against each Director's name is shown the number of meetings of the Board and its committees at which the Director was present as a member and in brackets the number of such meetings that the Director was eligible as a member of the Board or committee to attend during the year.

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
J G W Agnew, Chairman of Board and the Nomination Committee	10(10)	–	6(6)	1(1)
G J Beale	10(10)	–	–	–
S D M Bernau	10(10)	–	–	–
Mrs S J David	9(10)	–	5(6)	3(4)
J Engestrom, Chairman of the Remuneration Committee	10(10)	6(6)	6(6)	4(4)
Ms R E Evans	8(10)	–	–	2(4)
R G Handover	10(10)	5(6)	–	4(4)
G M T Howe	2(2)	–	–	2(2)
D A Ross	3(3)	2(2)	–	–
B K Simpson	10(10)	–	–	–
B A Walsh Deputy Chairman, Chairman of the Audit Committee and Senior Independent Director	10(10)	6(6)	6(6)	4(4)
R P Walther	8(10)	5(6)	–	4(4)
J H Willens	10(10)	–	–	–
P F Williamson	10(10)	–	–	–

J G W Agnew
Chairman

18 May 2005

Report of the Directors on Remuneration
For the year ended 4 April 2005

The Board is committed to best practice in its remuneration policy for Directors. This Report of the Directors on Remuneration explains how the Society applies the principles in the Combined Code on Corporate Governance (the 'Code') relating to remuneration. The Society complies with all the Code provisions unless the contrary is stated. In addition, insofar as it is possible for the Society as a mutual organisation without equity share capital to comply with such requirements, this Report addresses the statutory disclosure requirements for listed companies in relation to Directors' remuneration.

The Level and Make-up of Remuneration

Code Principle: Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Board comment: The Society's remuneration policy is to reward Directors through salaries which are regularly compared with salaries for jobs carrying similar responsibilities in comparable organisations, and through other benefits including a bonus scheme designed to recognise corporate and personal performance on an annual basis and an additional incentive plan designed to recognise medium-term corporate performance.

Executive Directors' Emoluments

- The remuneration arrangements for executive Directors, in force during the period covered by the Annual Report and Accounts, are as described in this Report (and where any change in arrangements is envisaged this is stated). Details of executive Directors' emoluments for the year are set out in Table 1 on page 32.
- Remuneration is assessed by reference to jobs carrying similar responsibilities in comparable organisations. The principal comparator group consists of financial organisations with a similar level of complexity and diversity to the Society. A secondary comparator group including organisations outside financial services is also taken into account.
- Rewards are in three parts and are based on market data from comparator groups. These are basic salary, an annual bonus scheme to reward success at the end of the financial year and a medium-term incentive plan by which reward for business success is paid over rolling three-year periods. Payments made as a result of the annual bonus scheme or the medium-term incentive plan are not pensionable. The Society has no share option scheme and none of the Directors has any beneficial interest in, or any rights to subscribe for, shares in or debentures of any connected undertaking of the Society.
- Basic salaries are normally reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations and in the light of market conditions generally.
- The annual bonus scheme is based on achievement of specific financial and operational targets which are the same as those adopted for the all employee bonus scheme.

  The scheme is designed to deliver a basic bonus award of 20% of basic salary for executive Directors (24% in the case of the Chief Executive) for on-target performance, with a possible maximum of 40% (48% in the case of the Chief Executive), and a possible further payment of up to 25% (30% in the case of the Chief Executive) based on personal performance.
- The purpose of the medium-term incentive plan is to reward success in achieving corporate performance targets over a longer time scale.

  The plan is designed so that, with effect from 2003/04 onwards, performance is rewarded according to the cumulative increase in total member value, comprising retained post-tax profit and aggregate pricing benefits delivered to members, and also (as a result of a change with effect from 2004/05 onwards) improvement in the Society's cost:income ratio, over rolling three-year periods. The target bonus for the first three-year period (2003/06) is 30% of basic salary (36% in the case of the Chief Executive) with a maximum for exceptional performance of 50% (60% in the case of the Chief Executive). The target bonus for subsequent three-year periods has been increased to 35% of basic salary (40% in the case of the Chief Executive) with a maximum for exceptional performance of 60% (70% in the case of the Chief Executive).

  During the three-year transitional period any bonus awards payable under the plan will be based on the previous deferred bonus formula. For the final year of the transitional period (2004/05) the bonus payable is 44.91% for all Directors.
- Executive Directors are members of the Nationwide Pension Fund, details of which are set out in the Notes to the Accounts, and the Nationwide Executive Pension Scheme (the 'Executive Scheme'). The Executive Scheme is a funded approved scheme, the purpose of which is to provide an accelerated pension accrual, subject to a maximum of two-thirds of basic salary. The Society's contribution rate to the Executive Scheme is 15%. The Group also has a funded unapproved pension scheme for executive Directors, the purpose of which is to provide that part (if any) of an executive Director's pension which cannot be provided by approved pension arrangements due to Inland Revenue restrictions. The contributions to this scheme are recommended by the scheme's independent actuaries. Table 2 shows the value of executive Directors' pension benefits, including those arising from unapproved schemes. Directors' pension arrangements are currently under review in the light of legislative proposals for the simplification of tax treatment of pensions.
- Executive Directors receive other taxable benefits including a car or car allowance, healthcare provision and a mortgage allowance. The aggregate amount of these benefits is included in Table 1.

Executive Directors' Contractual Terms

- The standard terms for new executive Director appointments include a contractual notice period of 12 months. Four executive Directors have contracts on this basis; they are (with the date of their contract) P F Williamson (5 April 1996), S D M Bernau (1 November 1996), J H Willens (1 January 2002) and G J Beale (3 March 2003). Any contractual termination payment will not exceed 12 months' salary and accrued benefits. One executive Director, B K Simpson, has a contract which was entered into on 16 April 1992, before the current standard terms were introduced, which is terminable by him on three months' notice or by the Society on payment of an amount equivalent to two years' basic salary.

Non-executive Directors

- The level of fees payable to non-executive Directors is assessed using a range of data including benchmarks from a comparator group comprising converted and continuing building societies and a secondary group of public limited companies providing comparable services to the Society, including banks and retailers. Details of non-executive Directors' emoluments are set out in Table 1.
- There are no bonus schemes for the Chairman and other non-executive Directors and non-executive Directors do not qualify for pension entitlement or for other benefits.

The Procedure for Determining Remuneration

Code Principle: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

Board comment: The Board has established a Remuneration Committee (the 'RemCo'), currently comprising Mr Engestrom (Chairman), Mrs David, Mr Handover, Mr Howe, Mr Walsh and Mr Walther. The terms of reference of the RemCo are available on request from the Secretary and are published on the Society's website.

The RemCo is responsible for the Society's policy on the remuneration of Directors and the top layer of management beneath the Board. By invitation of the Committee, executives and others regularly attending all or part of its meetings include the Chief Executive, the Divisional Director Personnel and Development and an adviser from the Committee's external remuneration consultant Hay Group Ltd (which also advises the Society's management in relation to remuneration matters generally). Minutes of the Committee's meetings are routinely distributed to all Board members and the Chairman of the Committee reports at each Board meeting following a meeting of the Committee.

The RemCo is responsible for setting the remuneration of the executive Directors, the Chairman and the divisional directors (who principally comprise the top layer of management below the Board). Reviews with Hay Group Ltd take place annually to consider the results of recent surveys of comparator groups of financial organisations and public limited companies providing similar services to the Society and the process is reviewed every two years.

The RemCo is not responsible for the remuneration of non-executive Directors (other than the Chairman). A panel comprising executive Directors and the Chairman determines the level of fees for non-executive Directors, with advice from Hay Group Ltd. The panel uses benchmarks from similar comparator groups as used by the RemCo.

Table 1 Directors' emoluments

Non-executive Directors	**2005**			2004		
	Society fees £000	**Subsidiary fees £000**	**Total £000**	Society fees £000	Subsidiary fees £000	Total £000
J G W Agnew (Chairman)	**160**	**–**	**160**	160	–	160
Mrs A J Carnwath (Retired 24 July 2003)	**–**	**–**	**–**	14	–	14
Mrs S J David (Appointed 16 April 2003)	**36**	**–**	**36**	34	–	34
J Engestrom	**45**	**14**	**59**	41	14	55
Ms R E Evans (Retired 31 March 2005)	**35**	**–**	**35**	35	–	35
R G Handover	**40**	**–**	**40**	37	–	37
G M T Howe (Appointed 1 January 2005)	**9**	**–**	**9**	–	–	–
D A Ross (Appointed 1 December 2004)	**15**	**–**	**15**	–	–	–
B A Walsh (Deputy Chairman)	**70**	**–**	**70**	70	–	70
R P Walther	**42**	**14**	**56**	45	–	45
Total	**452**	**28**	**480**	436	14	450
Pension payments to past Directors in respect of services as Directors			**476**			456

Subsidiary fees relate to fees payable as a Director of Nationwide Life Ltd and Nationwide Unit Trust Managers Ltd.

Table 1 Directors' emoluments (continued)

Executive Directors	Salary £000	Annual bonus £000	Benefits £000	3-year medium term bonus £000	Sub-total £000	Increase in accrued pension £000	Total £000
2005							
P F Williamson (Chief Executive)	**540**	**353**	**33**	**243**	**1,169**	**45**	**1,214**
B K Simpson	**410**	**223**	**26**	**184**	**843**	**28**	**871**
G J Beale	**300**	**162**	**26**	**135**	**623**	**33**	**656**
S D M Bernau	**338**	**183**	**25**	**152**	**698**	**22**	**720**
J H Willens	**280**	**153**	**24**	**126**	**583**	**28**	**611**
	1,868	**1,074**	**134**	**840**	**3,916**	**156**	**4,072**
2004							
P F Williamson (Chief Executive)	476	267	28	188	959	34	993
B K Simpson	394	187	26	152	759	22	781
G J Beale	245	117	24	96	482	56	538
S D M Bernau	317	154	25	126	622	18	640
J H Willens	245	118	24	97	484	15	499
	1,677	843	127	659	3,306	145	3,451

Directors' emoluments are audited information

Table 2 Directors' pension benefits

Executive Directors	Accrued pension at 4.4.05 £000 (a)	Accrued pension at 4.4.04 £000 (b)	Transfer value at 4.4.05 £000 (c)	Transfer value at 4.4.04 £000 (d)	Change in transfer value £000 (c)-(d)	Additional pension earned in a year £000 (e)	Transfer value of the increase £000 (f)	Directors' contributions in a year £000 (g)
P F Williamson (Chief Executive)	**239**	194	**3,805**	2,948	**857**	**38**	**612**	**15**
B K Simpson	**239**	211	**3,788**	3,185	**603**	**21**	**339**	**15**
G J Beale	**133**	100	**1,320**	952	**368**	**29**	**291**	**18**
S D M Bernau	**189**	167	**2,602**	2,195	**407**	**17**	**236**	**15**
J H Willens	**144**	116	**1,613**	1,246	**367**	**24**	**267**	**17**

Notes:

(a) and (b) show deferred pension entitlements at 4 April 2005 and 2004 respectively.

(c) is the transfer value of the deferred pension in (a) calculated at 4 April 2005.

(d) is the equivalent transfer value at 4 April 2004 of the deferred pension in (b) on the assumption that the Director left service at that date.

(e) is the increase in pension built up during the year recognising the additional service completed and the effect of pay changes in 'real' (inflation adjusted) terms on the pension already earned at the start of the year.

(f) is the capital value of the pension in (e).

(g) contributions are inclusive of salary sacrifice contributions.

J Engestrom
Chairman of the Remuneration Committee
18 May 2005

Independent Auditors' Report
To the members of Nationwide Building Society

We have audited the Annual Accounts which comprise the income and expenditure accounts, the balance sheets, the cash flow statement, the statements of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets and investment properties and the valuation of the long term life assurance business), and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it contained in the Report of the Directors on Remuneration ('the auditable part').

In addition we have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for the preparation of the Annual Report include responsibilities for the Annual Accounts, the Report of the Directors on Remuneration, the Annual Business Statement and the Directors' Report and are set out in the Directors' Report on pages 24 to 25.

Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Annual Accounts give a true and fair view, whether the Annual Accounts and the auditable part of the Report of the Directors on Remuneration have been properly prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it, on certain information included within the Annual Business Statement, and on whether the Directors' Report is consistent with the accounting records and the Annual Accounts. We also report to you if in our opinion we have not received all the information and explanations we require for our audit, or if the Annual Accounts are not in agreement with the accounting records.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, the Annual Business Statement or the Directors' Report. The other information contained in the Annual Report comprises Financial Highlights, the Chairman's Statement, the Chief Executive's Review, the Operating and Financial Review, the remainder of the Report of the Directors on Remuneration and the Report of the Directors on Corporate Governance.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Annual Accounts give a true and fair view of the state of affairs of the Society and of the Group as at 4 April 2005 and of the income and expenditure of the Society and the income and expenditure and cash flows of the Group for the year then ended;
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- the Annual Accounts, the Annual Business Statement, the Directors' Report and the auditable part of the Report of the Directors on Remuneration have each been prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

18 May 2005

Income and Expenditure Accounts
For the year ended 4 April 2005

		Group		Society	
	Notes	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Interest receivable and similar income	1	**5,094.8**	3,870.8	**4,905.6**	3,722.2
Interest payable and similar charges	2	**3,905.6**	2,772.1	**3,901.9**	2,761.9
Net interest receivable		**1,189.2**	1,098.7	**1,003.7**	960.3
Income from investments	3	**0.3**	0.4	**33.6**	69.8
Fees and commissions receivable		**377.4**	292.8	**325.0**	245.0
Fees and commissions payable		**(109.1)**	(111.1)	**(92.9)**	(99.4)
Other operating income	4	**69.9**	68.9	**3.9**	6.6
Total income		**1,527.7**	1,349.7	**1,273.3**	1,182.3
Administrative expenses	5	**815.8**	756.8	**782.4**	729.7
Depreciation and amortisation	17	**99.5**	108.8	**96.9**	106.2
Operating profit before provisions		**612.4**	484.1	**394.0**	346.4
Provisions for bad and doubtful debts	15	**46.6**	43.6	**32.1**	36.7
Provisions for contingent liabilities and commitments	27	**46.7**	39.9	**44.6**	34.1
Amounts written off/(released) fixed asset investments	13	**2.0**	(26.2)	**2.0**	(26.2)
Profit on ordinary activities before tax		**517.1**	426.8	**315.3**	301.8
Tax on profit on ordinary activities	9	**151.8**	108.9	**100.4**	83.8
Profit for the financial year	31	**365.3**	317.9	**214.9**	218.0

All profits arise from continuing operations.

The accounting policies and notes on pages 39 to 75 form part of these Accounts.

Statements of Total Recognised Gains and Losses
For the year ended 4 April 2005

	Notes	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Profit for the financial year		**365.3**	317.9	**214.9**	218.0
Unrealised surplus on revaluation of properties	30	**20.6**	49.0	**24.6**	24.4
		385.9	366.9	**239.5**	242.4
Translation difference on foreign currency investment		**–**	(7.9)	**–**	–
Translation difference on foreign currency hedge		**–**	11.3	**–**	–
Taxation on translation difference on foreign currency hedge		**–**	(3.4)	**–**	–
Total gains and losses recognised relating to the year		**385.9**	366.9	**239.5**	242.4

Note of Historical Cost Profits and Losses
For the year ended 4 April 2005

	Notes	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Reported profit on ordinary activities before tax		**517.1**	426.8	**315.3**	301.8
Unrealised decrease/(increase) in valuation of long term life assurance business		**5.0**	(34.7)	**–**	–
Realisation of net property revaluation gains of previous years	31	**4.5**	2.2	**1.0**	–
Historical cost profit on ordinary activities before tax		**526.6**	394.3	**316.3**	301.8
Historical cost profit for the financial year		**374.8**	285.4	**215.9**	218.0

The accounting policies and notes on pages 39 to 75 form part of these Accounts.

Group Balance Sheet
At 4 April 2005

	Notes	2005 £m	2004 £m
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England		**362.5**	310.5
Loans and advances to credit institutions	11	**635.6**	1,464.1
Debt securities	12	**14,145.0**	15,650.8
Loans and advances to customers			
Loans fully secured on residential property	14	**82,303.2**	70,762.2
Other loans	14	**10,418.7**	9,944.0
Investments			
Equity shares	16	**14.9**	9.0
Tangible fixed assets	17	**894.2**	857.6
Other assets	18	**436.6**	409.9
Prepayments and accrued income	19	**463.6**	237.4
		109,674.3	99,645.5
Long term life assurance business assets	20	**1,917.3**	1,782.9
Total assets		**111,591.6**	101,428.4
Liabilities			
Shares	21	**72,594.1**	65,943.9
Amounts owed to credit institutions	22	**1,650.6**	2,229.3
Amounts owed to other customers	23	**5,076.5**	4,836.5
Debt securities in issue	24	**22,377.6**	19,706.5
Other liabilities	25	**490.4**	419.0
Accruals and deferred income	26	**353.5**	284.6
Provisions for liabilities and charges	27	**60.7**	55.4
Subordinated liabilities	28	**1,439.8**	925.6
Subscribed capital	29	**692.2**	691.7
		104,735.4	95,092.5
Revaluation reserve	30	**228.0**	211.9
General reserve	31	**4,710.9**	4,341.1
		109,674.3	99,645.5
Long term life assurance business liabilities	20	**1,917.3**	1,782.9
Total liabilities		**111,591.6**	101,428.4
Memorandum items			
Commitments	32	**2,811.3**	2,930.6

Other loans include £719.4 million (2004 – £849.8 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 39 to 75 form part of these Accounts.

Approved by the Board of Directors on 18 May 2005.

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

Society Balance Sheet
At 4 April 2005

	Notes	2005 £m	2004 £m
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England		**362.1**	306.8
Loans and advances to credit institutions	11	**481.3**	1,332.9
Debt securities	12	**12,859.8**	14,969.1
Loans and advances to customers			
Loans fully secured on residential property	14	**76,172.3**	64,996.2
Other loans	14	**8,474.5**	8,169.7
Investments			
Equity shares	16	**1.9**	1.7
Investments in subsidiary undertakings	16	**8,374.8**	7,884.4
Tangible fixed assets	17	**643.1**	602.5
Other assets	18	**108.3**	110.5
Prepayments and accrued income	19	**559.1**	354.5
Total assets		**108,037.2**	98,728.3
Liabilities			
Shares	21	**72,594.1**	65,943.9
Amounts owed to credit institutions	22	**1,647.3**	2,181.6
Amounts owed to other customers	23	**5,525.8**	5,271.0
Debt securities in issue	24	**21,422.8**	19,399.8
Other liabilities	25	**394.4**	307.1
Accruals and deferred income	26	**346.6**	276.4
Provisions for liabilities and charges	27	**52.9**	49.5
Subordinated liabilities	28	**1,439.8**	925.6
Subscribed capital	29	**692.2**	691.7
		104,115.9	95,046.6
Revaluation reserve	30	**134.4**	110.7
General reserve	31	**3,786.9**	3,571.0
Total liabilities		**108,037.2**	98,728.3
Memorandum items			
Commitments	32	**2,398.8**	2,288.0

Other loans include £238.9 million (2004 – £260.0 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 39 to 75 form part of these Accounts.

Approved by the Board of Directors on 18 May 2005.

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

Consolidated Cash Flow Statement
For the year ended 4 April 2005

	Notes	2005 £m	2004 £m
Net cash (outflow) from operating activities	34	**(1,836.3)**	(177.1)
Returns on investments and servicing of finance			
Interest paid on subordinated liabilities		**(46.7)**	(35.2)
Interest paid on subscribed capital		**(46.9)**	(23.8)
		(93.6)	(59.0)
Taxation		**(91.1)**	(95.2)
Capital expenditure and financial investment			
Purchase of investment securities		**(27,557.0)**	(27,249.5)
Sale and maturity of investment securities		**29,216.4**	26,943.9
Purchase of tangible fixed assets		**(126.0)**	(126.8)
Sale of tangible fixed assets		**12.0**	13.8
		1,545.4	(418.6)
		(475.6)	(749.9)
Financing			
Issue of subscribed capital	29	**–**	400.0
Issue of subordinated liabilities	28	**513.9**	341.9
Increase/(decrease) in cash	34	**38.3**	(8.0)

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, 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.

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.

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 assets, liabilities and results of the Society, its subsidiary and associate undertakings. Companies that do not meet the legal definition of a subsidiary but which give rise to benefits that are in substance no different from those that would arise from subsidiaries are considered to be quasi-subsidiaries and are also consolidated. 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. Adjustment is made for any individually significant transactions arising between 31 March and the Society's year end. Certain quasi-subsidiaries have year ends other than 31 March and are consolidated using internal management accounts prepared to that date.

As the consolidated accounts include partnerships where a Group member is a partner, advantage has been taken of the exemption given by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 with regard to the preparation and filing of individual partnership accounts.

In order to aid comparability certain comparatives have been re-classified.

Income recognition

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.

Fees received by the Group relating to the risk borne for a customer are offset against loans to customers on the Balance Sheet and are then taken 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.

Mortgage incentives

The costs of mortgage cashbacks and discounts are charged as incurred to the Income and Expenditure Account.

Tangible fixed assets and depreciation

Freehold and long leasehold premises (excluding specialised administration buildings) are revalued at open market valuation for existing use. 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.

The directly attributable costs of additions, major alterations and refurbishments to premises and directly attributable borrowing costs incurred in the construction of qualifying assets are added to fixed assets.

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.

Other fixed assets are included at cost less depreciation. Depreciation, where applicable, is provided against cost or valuation to write down the assets to their residual values by equal annual instalments over the following estimated useful lives:

Specialised administration buildings	25 to 43 years
Short leasehold premises	the period of the lease
Fixtures and fittings	7 to10 years
Plant and machinery	5 to10 years
Office equipment	5 to 7 years
Computer equipment	3 to 5 years
Motor vehicles	3 to 5 years

Estimated useful lives are reviewed regularly in the light of technological developments, usage and other relevant factors.

Leases

Operating lease costs are charged to the Income and Expenditure Account in equal annual instalments over the life of the lease.

Statement of Accounting Policies (continued)

Debt securities and other eligible bills

Debt securities and other eligible bills are stated at cost adjusted over the period to maturity to allow for the amortisation of premiums or discounts arising on acquisition, which are amortised from purchase to maturity less provision for any impairment in value.

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 are recorded as a deposit. Securities acquired in reverse sale and repurchase transactions are not recognised on 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 taken to the Income and Expenditure Account as interest payable and similar charges, or interest receivable and similar income as appropriate.

Derivatives

In accordance with the Building Societies Act 1986, derivatives are used purely to hedge risk exposure and are not used for speculative purposes. Derivatives are taken out to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk.

Derivatives are initially recorded at cost and are accounted for on an accruals basis in the same way as the underlying items which they are hedging. Interest receipts and payments on hedging instruments are included as net income or expense on financial instruments within interest receivable and similar income or interest payable and similar charges. In order to achieve a consistent timing of income recognition on the items being hedged, deferred gains and losses are included in the Balance Sheet within accruals and deferred income or prepayments and accrued income.

Where a hedge is terminated early, the resulting gain or loss is amortised over the remaining life of the item being hedged. If the underlying item is redeemed, the unamortised amounts are recognised immediately in the Income and Expenditure Account.

Foreign currency translation

Foreign currency income and expenditure are included in the Income and Expenditure Account at the rate of exchange current at the date the transaction took place, unless the transaction is hedged, when it is translated at the underlying rate of exchange inherent in the associated hedge contract. Amounts due or receivable under foreign currency swap contracts are translated at the exchange rate inherent in those contracts and are included within accruals and deferred income or prepayments and accrued income. All other non-Sterling assets and liabilities are translated at the rates of exchange ruling at the Balance Sheet date.

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 to interest payable and similar charges over the term of the instrument.

Deferred taxation

Full provision is made for deferred tax on all timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation. Deferred taxation is provided at tax rates expected to be applicable when a liability or asset crystallises, on a non-discounted basis. Deferred tax assets are recognised to the extent that it is regarded that there will be sufficient taxable profits available against which they can be offset in the future.

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 non-retail 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.

Loans on which interest is being placed in suspense

When the collection of interest is in doubt it is credited to a suspense account, excluded from interest income and netted off loans and advances. However, interest continues to be charged to the customer's account. This interest is subsequently written off if there is deemed to be no realistic prospect of recovery.

Investment properties

Investment properties, which comprise properties held for rental, are revalued annually to open market value. The changes in market value are reflected in the revaluation reserve except where any impairment is deemed permanent, when it is taken to the Income and Expenditure Account. No provision is made for depreciation of investment properties. This is a departure from the requirements of accounting legislation which requires all properties to be depreciated. The Directors consider that these properties are held for investment and that to depreciate them would not give a true and fair view. The depreciation charge is only one of the factors reflected in the annual valuation and therefore the amount of depreciation which might otherwise have been charged 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

Nationwide uses the embedded value method of accounting to measure its interest in the long term life assurance business. In order to reflect the different nature of the shareholder's and policyholders' interests in the long term life assurance business, the value of the long term life assurance business attributable to the shareholder and the assets and liabilities attributable to policyholders are disclosed separately in the Group Balance Sheet.

The value of the shareholder's interest in the long term life assurance business (the 'embedded value') is included in other assets in the Balance Sheet. This represents the present value of future earnings of in-force business, together with the net tangible assets and the surplus retained within the long term life assurance fund. The value of in-force business is determined annually 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.

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.

Notes to the Accounts

1 Interest receivable and similar income

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
On loans fully secured on residential property	**3,988.5**	3,065.3	**3,640.4**	2,751.2
On other loans				
• Connected undertakings	**–**	–	**356.5**	300.7
• Other	**672.9**	575.8	**548.2**	464.9
On debt securities				
• Interest and other income	**574.4**	534.4	**500.8**	499.7
• Net gains arising on realisation	**0.1**	–	**0.1**	–
On other liquid assets				
• Interest and other income	**48.4**	14.5	**48.9**	25.9
Other interest receivable	**7.0**	1.0	**5.9**	–
Net expense on financial instruments hedging assets	**(196.5)**	(320.2)	**(195.2)**	(320.2)
	5,094.8	3,870.8	**4,905.6**	3,722.2
Interest receivable on loans fully secured on residential property includes:				
Discounts provided to customers charged to interest receivable	**23.1**	23.3	**20.6**	17.5

Interest receivable on 'other loans' includes Group £43.8 million (2004 – £48.9 million) and Society £15.5 million (2004 – £19.1 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 £109.4 million (2004 – £107.9 million) of income from fixed income securities. The interest rate risk arising from the fixed income securities has been mitigated through the use of interest rate swaps.

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	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Balance brought forward	**8.5**	9.1	**4.5**	6.3
Interest written off during the year	**(3.3)**	(2.2)	**(1.3)**	(2.4)
Interest suspended in the year	**1.4**	1.6	**0.2**	0.6
Balance carried forward	**6.6**	8.5	**3.4**	4.5

2 Interest payable and similar charges

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
On shares held by individuals	**2,769.0**	2,031.3	**2,769.0**	2,031.3
On other shares	**0.7**	0.5	**0.7**	0.5
On subscribed capital	**47.3**	27.8	**47.3**	27.8
On deposits and other borrowings				
• Subordinated liabilities	**48.9**	40.0	**48.9**	40.0
• Connected undertakings	**–**	–	**68.2**	32.5
• Other	**1,010.3**	684.4	**938.4**	641.7
Net expense/(income) on financial instruments hedging liabilities	**29.4**	(11.9)	**29.4**	(11.9)
	3,905.6	2,772.1	**3,901.9**	2,761.9

3 Income from investments

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Income from equity shares	**0.3**	0.4	**0.3**	0.4
Income from shares in subsidiary undertakings	**–**	–	**33.3**	69.4
	0.3	0.4	**33.6**	69.8

4 Other operating income

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Other operating income includes:				
Movement in value of long term life assurance business	**50.0**	44.8	**–**	–

5 Administrative expenses

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Employee costs				
• Wages and salaries	**321.1**	312.4	**300.9**	294.4
• Social security costs	**29.8**	29.5	**28.0**	27.9
• Other pension costs	**84.7**	46.1	**81.5**	43.6
	435.6	388.0	**410.4**	365.9
Other administrative expenses	**380.2**	368.8	**372.0**	363.8
	815.8	756.8	**782.4**	729.7
Other administrative expenses include:				
Property rentals under operating leases	**27.2**	26.8	**26.6**	26.1
Auditors' remuneration and expenses				
• Statutory audit fees	**0.8**	0.9	**0.6**	0.6
• Audit related and regulatory fees	**0.1**	0.1	**–**	0.1
	0.9	1.0	**0.6**	0.7
• Further assurance services	**0.3**	0.3	**0.3**	0.3
• Tax advisory	**–**	0.1	**–**	0.1
• Other	**0.1**	–	**0.1**	–
	1.3	1.4	**1.0**	1.1

The Group adopted its current policy in relation to the use of its auditors on non-audit engagements during 2003. This policy sets out the types of services they are precluded from performing which includes all management consultancy services. All non-audit fees where the fee is expected to exceed a de minimis limit, are subject to pre-approval by the Audit Committee.

6 Employees

	Group 2005	Group 2004	Society 2005	Society 2004
The average number of persons employed during the year was:				
• Full-time	**10,693**	10,676	**9,844**	9,809
• Part-time	**5,066**	4,885	**4,875**	4,712
	15,759	15,561	**14,719**	14,521
Building society				
• Central administration	**6,469**	6,268	**6,469**	6,268
• Branches	**8,250**	8,253	**8,250**	8,253
Subsidiaries	**1,040**	1,040	**–**	–
	15,759	15,561	**14,719**	14,521

Employee numbers include 462 (2004 – 464) 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.

7 Directors' emoluments

Directors' emoluments are shown as part of the Report of the Directors on Remuneration in accordance with Schedule 5, paragraphs 4 and 5 to the Building Societies (Accounts and Related Provisions) Regulations 1998.

8 Pension arrangements

The Group operates several pension arrangements. The majority of the Group's employees are members of the Nationwide Pension Fund (the 'Fund'). The Group also operates other arrangements for certain current and former Directors and Officers, as well as for one subsidiary company.

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 2004. 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. The assumptions, which are based on the latest full actuarial valuation under SSAP 24 as at 31 March 2004, and the resulting pension charge are summarised below:

	2005	2004
Rate of return on investments	**6.7% (before retirement)** **5.7% (after retirement)**	6.8% (before retirement) 5.8% (after retirement)
Rate of increase in salaries	**4.9% – 5.9% per annum**	4.3% – 5.3% per annum
Rate of increase in pensions	**2.9% per annum**	2.4% per annum
Market value of the Fund's assets, excluding money purchase additional voluntary contributions	**£951.0 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	**79%**	98%
Long term regular cost	**19.2%**	17.3%
Employer's cash contribution rate	**23.8%**	19.1%
Employees' contribution rate	**5 – 6%**	5 – 6%

8 Pension arrangements (continued)

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Pension charge for the year (Note 5)	**84.7**	46.1	**81.5**	43.6
The pension charge is calculated after taking account of:				
• Amortisation of pension fund deficit	**31.4**	1.0	**31.4**	1.0
Cumulative excess of cash contributions, paid to the Fund over the SSAP 24 pension charge, included in:				
• Prepayments and accrued income (Note 19)	**(95.9)**	(108.3)	**(95.9)**	(108.3)
• Provisions for liabilities and charges including charge for contribution to unfunded Directors' pension obligations (Note 27)	**5.6**	5.6	**5.6**	5.6
Provision for part-time employee pension rights included in provisions for liabilities and charges (Note 27)	**–**	0.5	**–**	0.5

On 11 April 2005, an additional £50 million was paid into the Fund to reduce the deficit.

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 employees' contribution rate is 5%, compared to 6% for final salary employees. In November 2004 pension arrangements were changed. From that date for most employees the Group paid additional contributions in place of contributions previously paid by employees, in return for an equivalent reduction in salary paid to the employees in the Fund ('salary sacrifice').

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. The transitional arrangements of Financial Reporting Standard 17 ('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 2004 and has been updated, to take account of the requirements of FRS 17, to 4 April 2005 by qualified independent actuaries.

Main Financial Assumptions

The major assumptions used for the FRS 17 disclosures are:

	4 April 2005 (%pa)	4 April 2004 (%pa)	4 April 2003 (%pa)
Inflation	**2.7**	3.0	2.6
Rate of general long term increase in salaries	**4.7***	5.0	4.6
Rate of increase to pensions in payment	**2.6**	2.8	2.6
Discount rate for scheme liabilities	**5.5**	5.5	5.5

*plus an additional 1% p.a. until 4 April 2007

8 Pension arrangements (continued)

Scheme assets and liabilities and expected return	**Long term rate of return expected at 4 April 2005**	**Value at 4 April 2005 £m**	Long term rate of return expected at 4 April 2004	Value at 4 April 2004 £m	Long term rate of return expected at 4 April 2003	Value at 4 April 2003 £m
Equities	**8.2%**	**830**	7.9%	729	7.7%	490
Bonds (gilts)	**5.0%**	**276**	5.1%	224	4.9%	146
Other	**4.7%**	**12**	4.9%	10	4.3%	28
Total market value of assets	**7.4%**	**1,118**	7.2%	963	6.9%	664
Present value of scheme liabilities		**(1,459)**		(1,394)		(1,152)
Deficit in the scheme		**(341)**		(431)		(488)
Related deferred tax asset		**102**		129		146
Net pension liability		**(239)**		(302)		(342)

The assets of the Fund are mainly invested with Fidelity Pensions Management, Barclays Global Investors Limited and UBS Global Asset Management UK Ltd.

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

The decrease in the net pension liability of £63 million primarily arises from changes in actuarial assumptions relating to the long-term outlook for inflation as well as a better than expected investment return in the year.

The position shown represents the funded status of the Fund based on the market conditions at 4 April 2005. 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.

8 Pension arrangements (continued)

If the requirements of FRS 17 were fully adopted in the Annual Accounts in the year to 4 April 2005 the impact would be:

	2005 £m	2004 £m
Amount charged to operating profit:		
Current service cost	**(73)**	(55)
Past service cost	**(2)**	(2)
Total operating charge	**(75)**	(57)
Amount charged to other finance income:		
Expected return on pension scheme assets	**72**	47
Interest on pension scheme liabilities	**(78)**	(65)
Net amount charged to other finance income	**(6)**	(18)
Analysis of amount in the statement of total recognised gains and losses:		
Actual return less expected return on pension scheme assets	**25**	108
Experience gains and losses arising on scheme liabilities	**23**	(2)
Changes in assumptions underlying the present value of scheme liabilities	**50**	(120)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**98**	(14)
Analysis of movement in deficit during the year:		
Deficit in scheme at beginning of the year	**(431)**	(488)
Current service cost	**(73)**	(55)
Other finance charge	**(6)**	(18)
Contributions	**73**	146
Past service charge	**(2)**	(2)
Actuarial gain/(loss)	**98**	(14)
Deficit in scheme at the end of the year	**(341)**	(431)

If the pension liability, net of tax relief, had been recognised in the Annual Accounts, the Group's liabilities would increase by £239 million (2004 – £302 million) and the Group's general reserve at 4 April 2005 would be as follows:

	2005 £m	2004 £m
General reserve excluding net pension liability	**4,710.9**	4,341.1
SSAP 24 prepayment (net of deferred tax)	**(67.1)**	(75.8)
Pension liability (net of deferred tax)	**(239.0)**	(302.0)
	4,404.8	3,963.3

Details of experience gains and losses for the year to 4 April 2005:	**2005 £m**	2004 £m	2003 £m
Difference between expected and actual return on scheme assets:			
• Amount (£ million)	**25**	108	(197)
• Percentage of scheme assets	**2.2%**	11.2%	29.7%
Experience gain/(losses) on scheme liabilities:			
• Amount (£ million)	**23**	(2)	(3)
• Percentage of the present value of the scheme liabilities	**1.6%**	0.1%	0.3%
Total amount recognised in the statement of total recognised gains and losses:			
• Amount (£ million)	**98**	(14)	(286)
• Percentage of the present value of the scheme liabilities	**6.7%**	1.0%	24.8%

9 Tax on profit on ordinary activities

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Current tax:				
UK corporation tax at 30% (2004 – 30%)	**136.5**	113.6	**100.9**	104.9
Corporation tax – adjustment in respect of prior periods	**(0.6)**	1.5	**2.2**	1.2
	135.9	115.1	**103.1**	106.1
Double taxation relief	**–**	(7.6)	**–**	(7.6)
	135.9	107.5	**103.1**	98.5
Isle of Man income tax	**0.3**	0.2	**–**	–
Taxation relating to change in value of long term life assurance business	**15.0**	13.4	**–**	–
Total current tax	**151.2**	121.1	**103.1**	98.5
Deferred tax (Note 18):				
Current year	**(1.1)**	(6.2)	**(2.1)**	(7.5)
Adjustment in respect of prior periods	**1.7**	(6.0)	**(0.6)**	(7.2)
	151.8	108.9	**100.4**	83.8

The Society's tax charge includes receipts in consideration for the surrender of tax losses to subsidiary undertakings totalling £0.4 million (2004 – payments for the surrender of tax losses by subsidiary undertakings totalling £16.7 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	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Profit on ordinary activities before tax	**517.1**	426.8	**315.3**	301.8
Profit on ordinary activities before tax at the standard rate of UK corporation tax of 30% (2004 – 30%)	**155.1**	128.0	**94.6**	90.5
Effects of:				
Specifically allowable and non deductible items	**(3.6)**	(14.0)	**5.0**	(1.2)
Depreciation for the period in excess of capital allowances	**2.8**	6.3	**3.0**	7.7
Effect of change in non allowable bad debt provisions	**(1.4)**	3.3	**(0.4)**	3.7
Effect of changes in other provisions	**(0.3)**	(3.4)	**(0.5)**	(2.8)
Gains exempted or covered by capital losses	**(0.8)**	(0.6)	**(0.8)**	(0.6)
Adjustment to current tax charge in respect of previous periods	**(0.6)**	1.5	**2.2**	1.2
Current tax charge for the year	**151.2**	121.1	**103.1**	98.5

10 Segmental reporting

	Group 2005			Group 2004		
	Profit before Tax £m	**Total assets £m**	**Net assets £m**	Profit before Tax £m	Total assets £m	Net assets £m
Analysis of class of business:						
Retail Financial Services	**297.1**	**82,810.9**	**3,498.0**	270.5	71,255.3	3,039.9
Commercial	**164.5**	**12,997.5**	**844.0**	139.7	12,322.5	800.2
Group	**55.5**	**15,783.2**	**596.9**	16.6	17,850.6	712.9
Total	**517.1**	**111,591.6**	**4,938.9**	426.8	101,428.4	4,553.0

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

Retail Financial Services represents the provision of retail mortgages, unsecured and secured personal lending, credit card, insurance products and current account. This segment is managed to deliver pricing benefits to our members with a consequential reduction in contribution.

Commercial includes all 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.

Group 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.

Income has been attributed to the business segments in which it is generated. Funding costs have been calculated using a funds transfer pricing methodology which reflects the nature of the interest received or paid. This revised methodology has been used to re-classify the 2004 business segment results.

Administrative expenses and depreciation have been allocated to segments based on the resources consumed, except where they cannot be meaningfully allocated in which case they are included within Group items. Group items include rental income and associated property costs plus the core Group administrative expenses that have not been allocated to business segments.

Capital is allocated to each business segment for investment purposes and is based on economic capital principles. No charge has been made for capital.

11 Loans and advances to credit institutions

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Loans and advances to credit institutions have remaining maturities as follows:				
Accrued interest	**1.2**	3.6	**1.2**	3.2
Repayable on demand	**125.7**	139.4	**76.7**	117.6
Other loans and advances by residual maturity repayable:				
• In not more than three months	**403.6**	1,212.2	**403.4**	1,212.1
• In more than three months but not more than one year	**105.1**	108.9	**–**	–
	635.6	1,464.1	**481.3**	1,332.9

12 Debt securities

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Government debt securities	**769.0**	430.1	**605.7**	243.8
Other public sector debt securities	**3.7**	–	**–**	–
Issued by public bodies	**772.7**	430.1	**605.7**	243.8
Private sector debt securities	**13,372.3**	15,220.7	**12,254.1**	14,725.3
	14,145.0	15,650.8	**12,859.8**	14,969.1

The amount of bank and building society certificates of deposit included in the above was £3,026.0 million (2004 – £5,282.6 million).

Debt securities have remaining maturities as follows:

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
• Accrued interest	**73.1**	109.9	**67.7**	106.1
• In not more than one year	**5,963.1**	8,928.3	**5,918.0**	8,806.0
• In more than one year	**8,108.8**	6,612.6	**6,874.1**	6,057.0
	14,145.0	15,650.8	**12,859.8**	14,969.1
Transferable debt securities comprise:				
• Listed	**9,522.0**	9,115.5	**8,236.8**	8,433.8
• Unlisted	**4,623.0**	6,535.3	**4,623.0**	6,535.3
	14,145.0	15,650.8	**12,859.8**	14,969.1
Market value of transferable debt securities:				
• Government debt securities	**774.8**	446.8	**611.5**	257.2
• Other public sector securities	**3.7**	–	**–**	–
• Private sector debt securities	**13,420.7**	15,244.9	**12,293.8**	14,757.2
	14,199.2	15,691.7	**12,905.3**	15,014.4

The market value of bank and building society certificates of deposit included in the above was £3,026.3 million (2004 – £5,279.4 million).

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Market value of listed transferable debt securities	**9,575.9**	9,223.7	**8,282.0**	8,546.4
Included in debt securities are:				
• Unamortised premiums	**15.0**	18.8	**8.0**	5.6
• Unamortised discounts	**(105.2)**	(130.6)	**(104.6)**	(130.6)

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.

12 Debt securities (continued)

The carrying value of debt securities is net of a specific provision of £14.1 million (2004 – £1.9 million) and a general provision of £15.7 million (2004 – £25.8 million) recognising impairment within a portfolio of assets held for their long term investment potential (Note 13). The credit risk on £604.4 million (Sterling equivalent at 4 April 2005; 2004 – £716.6 million) 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 £28.8 million (Sterling equivalent at 4 April 2005). At 4 April 2004 the Society retained the risk of credit losses on the assets up to a maximum of £76.1 million which was divided into two distinct tranches. Under the first tranche, the Society bore the first tier of credit losses up to an amount of £27.9 million of which £8.7 million was already reflected in the provisions against debt securities. Beyond this level, the Society's second tranche of exposure to credit losses of £48.2 million was impacted once £23.5 million of loss protection had 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.

£101.9 million (2004 – £177.9 million) of debt securities are subject to sale and repurchase agreements.

Debt securities include asset backed securities of £876.6 million (2004 – £273.5 million) owned by a bankruptcy remote special purpose vehicle. The acquisitions of the asset backed securities have been funded primarily through the issue of commercial paper reported in debt securities in issue (Note 24). The vehicle is owned by a charitable trust and therefore is not a legal subsidiary of the Group. However, it has been included in the accounts as a quasi-subsidiary (see Note 16) and the assets and liabilities have been fully consolidated because the vehicle gives rise to risks and rewards that are in substance no different than if it were a subsidiary.

Movements during the year of debt securities all of which are 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 2004	15,540.9	14,863.0
Additions	**27,557.0**	**26,582.5**
Disposals/maturities	**(29,216.4)**	**(28,827.2)**
Other movements	**190.4**	**173.8**
At 4 April 2005	**14,071.9**	**12,792.1**

13 Amounts released and provisions against fixed asset investments

	Specific £m	General £m	Total £m
Group and Society			
Provisions at 5 April 2004	1.9	25.8	27.7
Charge/(release) for the year	**12.1**	**(10.1)**	**2.0**
Amounts written off	**0.1**	**–**	**0.1**
Provisions at 4 April 2005	**14.1**	**15.7**	**29.8**

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	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Loans fully secured on residential property	**82,303.2**	70,762.2	**76,172.3**	64,996.2
Other loans:				
• Loans fully secured on land	**7,300.5**	7,433.5	**6,819.7**	6,837.3
• Other loans	**3,118.2**	2,510.5	**1,654.8**	1,332.4
	92,721.9	80,706.2	**84,646.8**	73,165.9

The Group formally adopted The Building Societies Act 1997 on 2 January 1998. Under the Act, loans to corporate bodies & Registered Social Landlords already existing at the date of adoption may not be reported as loans fully secured on residential property. Accordingly, the reported other loans fully secured on land include Group £719.4 million (2004 – £849.8 million) and Society £238.9 million (2004 – £260.0 million) of loans which are fully secured on residential property.

Maturity analysis

Loans and advances to customers have remaining maturities as follows:	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Repayable on demand	**723.7**	604.0	**757.9**	597.1
Other loans and advances by residual maturity repayable:				
• In not more than three months	**554.0**	512.7	**552.5**	511.0
• In more than three months but not more than one year	**2,331.0**	1,855.6	**1,911.4**	1,503.4
• In more than one year but not more than five years	**11,804.1**	10,415.6	**10,724.4**	9,532.6
• In more than five years	**77,549.3**	67,566.4	**70,910.8**	61,243.0
	92,962.1	80,954.3	**84,857.0**	73,387.1
Less				
• Provisions for bad and doubtful debts (Note 15)	**227.3**	221.8	**197.3**	194.9
• Deferred mortgage guarantee income	**12.9**	26.3	**12.9**	26.3
	92,721.9	80,706.2	**84,646.8**	73,165.9

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.

The maturity analysis is based on contractual maturity not actual redemption levels experienced by the Society.

15 Provisions for bad and doubtful debts

	Loans fully secured on residential property		Other loans fully secured on land		Other loans		Total	
	Specific £m	General £m	Specific £m	General £m	Specific £m	General £m	Specific £m	General £m
Group								
At 5 April 2004	5.9	99.9	9.9	60.0	41.9	4.2	57.7	164.1
Amounts written off	**(1.4)**	**–**	**(2.0)**	**–**	**(46.0)**	**–**	**(49.4)**	**–**
Recoveries of amounts previously written off	**1.7**	**–**	**0.6**	**–**	**6.0**	**–**	**8.3**	**–**
Charge/(credit) for the year	**(0.3)**	**–**	**(1.4)**	**–**	**48.1**	**0.2**	**46.4**	**0.2**
At 4 April 2005	**5.9**	**99.9**	**7.1**	**60.0**	**50.0**	**4.4**	**63.0**	**164.3**
Society								
At 5 April 2004	5.3	93.0	9.9	59.9	24.7	2.1	39.9	155.0
Amounts written off	**(1.3)**	**–**	**(2.0)**	**–**	**(30.1)**	**–**	**(33.4)**	**–**
Recoveries of amounts previously written off	**1.3**	**–**	**0.6**	**–**	**1.8**	**–**	**3.7**	**–**
Charge/(credit) for the year	**(0.4)**	**–**	**(1.4)**	**–**	**34.1**	**(0.2)**	**32.3**	**(0.2)**
At 4 April 2005	**4.9**	**93.0**	**7.1**	**59.9**	**30.5**	**1.9**	**42.5**	**154.8**

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:

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Non performing loans before provisions	**81.3**	65.9	**48.9**	38.3
Non performing loans after provisions	**59.1**	42.8	**42.4**	28.1

16 Investments

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

Group and Society

Investments in equity shares	Group £m	Society £m
Cost and net book value		
At 5 April 2004	9.0	1.7
Additions	**5.9**	**0.2**
At 4 April 2005	**14.9**	**1.9**

16 Investments (continued)

Society

Investments in associated undertakings

The Society has an interest in the ordinary share capital of the following undertakings:

Associated undertakings	% Shareholding	Nature of business
Affinity (Reading) Limited	33.3%	Development and Management of PFI Social Housing
Grove Village Holdings Limited	25.5%	Development and Management of PFI Social Housing

These are limited liability companies, registered in England and operating in the UK.

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
At 5 April 2004	693.7	7,190.7	7,884.4
Additions	–	**746.6**	**746.6**
Redemptions/repayments	–	**(256.2)**	**(256.2)**
At 4 April 2005	**693.7**	**7,681.1**	**8,374.8**

The interests of the Society in its principal subsidiary undertakings, all of which are consolidated, as at 4 April 2005 are set out below:

Directly held subsidiary undertakings	Nature of business
First Nationwide	Investment company
Monument (Sutton) Limited	Property rental
Nationwide International Limited	Offshore deposit taker
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 the above subsidiary undertakings are limited liability companies except First Nationwide which is an unlimited liability company with share capital.

16 Investments (continued)

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 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.

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

	Investment Companies 2005 £m	Securitisation Companies 2005 £m	Total 2005 £m	Total 2004 £m
Profit & loss account				
• Interest receivable	**30.5**	**3.4**	**33.9**	39.3
• Interest payable	**(29.9)**	**(3.4)**	**(33.3)**	(39.1)
• Administrative expenses	**(0.5)**	–	**(0.5)**	(0.2)
Profit for the period	**0.1**	–	**0.1**	–
Balance sheet				
Assets				
• Loans and advances to credit institutions	**114.2**	–	**114.2**	121.6
• Loans and advances to customers	–	–	–	78.4
• Debt securities	**1,124.3**	–	**1,124.3**	569.7
• Other assets	–	–	–	2.3
• Investments	**13.0**	–	**13.0**	7.4
Total assets	**1,251.5**	–	**1,251.5**	779.4
Liabilities				
• Amounts owed to credit institutions	**20.6**	–	**20.6**	146.9
• Debt securities in issue	**983.0**	–	**983.0**	383.2
• Other liabilities	**247.9**	–	**247.9**	249.3
Total liabilities	**1,251.5**	–	**1,251.5**	779.4
Cash flow statement				
• Net cash inflow from operating activities	**552.4**	–	**552.4**	325.2
• Capital expenditure and financial investment	**(552.4)**	–	**(552.4)**	(325.2)
Increase/(decrease) in cash	–	–	–	–

Notes to the Accounts (continued)

17 Tangible fixed assets

Group	Branches and non-specialised buildings £m	Specialised administration buildings £m	Short leasehold buildings £m	Investment properties £m	Total land and buildings £m	Plant and machinery £m	Equipment fixtures, fittings and vehicles £m	Total £m
Cost or valuation								
At 5 April 2004	260.2	102.9	36.0	236.6	635.7	95.2	785.2	1,516.1
Additions	**8.7**	**0.1**	**1.8**	**8.7**	**19.3**	**9.2**	**96.9**	**125.4**
Adjustment on revaluation	**24.3**	**–**	**–**	**(3.7)**	**20.6**	**–**	**–**	**20.6**
Disposals	**(1.4)**	**–**	**(0.3)**	**(8.3)**	**(10.0)**	**(0.5)**	**(1.0)**	**(11.5)**
At 4 April 2005	**291.8**	**103.0**	**37.5**	**233.3**	**665.6**	**103.9**	**881.1**	**1,650.6**
Depreciation								
At 5 April 2004	–	37.9	27.8	–	65.7	71.7	521.1	658.5
Charge for the year	**–**	**3.5**	**1.6**	**–**	**5.1**	**7.2**	**87.2**	**99.5**
Disposals	**–**	**–**	**(0.3)**	**–**	**(0.3)**	**(0.5)**	**(0.8)**	**(1.6)**
At 4 April 2005	**–**	**41.4**	**29.1**	**–**	**70.5**	**78.4**	**607.5**	**756.4**
Net book value								
At 4 April 2005	**291.8**	**61.6**	**8.4**	**233.3**	**595.1**	**25.5**	**273.6**	**894.2**
At 4 April 2004	260.2	65.0	8.2	236.6	570.0	23.5	264.1	857.6
Cost or valuation at 4 April 2005 is represented by:								
• Valuation	**291.7**	**–**	**–**	**233.3**	**525.0**	**–**	**–**	**525.0**
• Cost	**0.1**	**103.0**	**37.5**	**–**	**140.6**	**103.9**	**881.1**	**1,125.6**
	291.8	**103.0**	**37.5**	**233.3**	**665.6**	**103.9**	**881.1**	**1,650.6**

Cost or valuation of land and buildings includes £540.5 million (2004 – £512.4 million) in respect of freehold and long leasehold land and buildings which are not depreciated.

Branches and non-specialised buildings were valued at 4 April 2005 on the basis of a market valuation for existing use. Specialised administration buildings and short leasehold buildings are included at depreciated cost. Investment properties are included at open market valuation. Valuations consist of a mixture of full and interim valuations and were performed by members of the Royal Institution of Chartered Surveyors who are either independent or employed by the Group.

17 Tangible fixed assets (continued)

Society	Branches and non-specialised buildings £m	Specialised administration buildings £m	Short leasehold buildings £m	Total land and buildings £m	Plant and machinery £m	Equipment fixtures, fittings and vehicles £m	Total £m
Cost or valuation							
At 5 April 2004	248.7	102.9	35.4	387.0	93.5	756.1	1,236.6
Additions	**8.6**	**0.1**	**1.9**	**10.6**	**9.0**	**95.0**	**114.6**
Adjustment on revaluation	**24.7**	**–**	**–**	**24.7**	**–**	**–**	**24.7**
Disposals	**(1.5)**	**–**	**(0.3)**	**(1.8)**	**(0.1)**	**(0.2)**	**(2.1)**
At 4 April 2005	**280.5**	**103.0**	**37.0**	**420.5**	**102.4**	**850.9**	**1,373.8**
Depreciation							
At 5 April 2004	–	37.9	27.4	65.3	70.4	498.4	634.1
Charge for the year	**–**	**3.5**	**1.6**	**5.1**	**7.0**	**84.8**	**96.9**
Disposals	**–**	**–**	**(0.3)**	**(0.3)**	**–**	**–**	**(0.3)**
At 4 April 2005	**–**	**41.4**	**28.7**	**70.1**	**77.4**	**583.2**	**730.7**
Net book value							
At 4 April 2005	**280.5**	**61.6**	**8.3**	**350.4**	**25.0**	**267.7**	**643.1**
At 4 April 2004	248.7	65.0	8.0	321.7	23.1	257.7	602.5
Cost or valuation at 4 April 2005 is represented by:							
• Valuation	**280.5**	**–**	**–**	**280.5**	**–**	**–**	**280.5**
• Cost	**–**	**103.0**	**37.0**	**140.0**	**102.4**	**850.9**	**1,093.3**
	280.5	**103.0**	**37.0**	**420.5**	**102.4**	**850.9**	**1,373.8**

Cost or valuation of land and buildings includes £296.0 million (2004 – £264.2 million) in respect of freehold and long leasehold land and buildings which are not depreciated.

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Net book value of land and buildings is represented by:				
• Freehold	**533.9**	507.9	**323.2**	295.4
• Long leasehold	**52.8**	53.9	**18.9**	18.2
• Short leasehold	**8.4**	8.2	**8.3**	8.1
	595.1	570.0	**350.4**	321.7
Net book value of land and buildings occupied by the Group/Society for its own activities	**299.3**	277.3	**283.9**	265.0
Net book value of land and buildings based on historical cost is:				
• Cost	**462.6**	448.7	**295.2**	285.3
• Aggregate depreciation	**(79.6)**	(74.7)	**(79.2)**	(74.3)
Net book value	**383.0**	374.0	**216.0**	211.0

18 Other assets

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Value of long term life assurance business	**280.3**	245.3	**–**	–
Deferred taxation	**39.9**	40.5	**35.4**	32.7
Other	**116.4**	124.1	**72.9**	77.8
	436.6	409.9	**108.3**	110.5

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 8.0% (2004 – 9.0%) per annum.
- Future investment returns of 4.75% (2004 – 5.0%) gross per annum for fixed interest investments and 6.75% (2004 – 7.0%) for equity investments. The investment return for guaranteed return products is linked to the matching assets.
- Expense inflation rate of 3.5% (2004 – 3.5%) gross.
- Mortality and morbidity 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.

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Deferred Taxation				
At 5 April 2004	**40.5**	28.3	**32.7**	18.0
Deferred tax (charge)/credit in Income and Expenditure Account (Note 9)	**(0.6)**	12.2	**2.7**	14.7
At 4 April 2005	**39.9**	40.5	**35.4**	32.7
The amounts provided for deferred taxation, which represent the full potential deferred assets/(liabilities), are set out below:				
Excess of capital allowances over depreciation	**2.5**	(0.3)	**3.2**	0.2
Interest adjustments	**(9.1)**	(9.1)	**(9.1)**	(9.1)
Other timing differences	**46.5**	49.9	**41.3**	41.6
	39.9	40.5	**35.4**	32.7

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

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Accruals relating to off balance sheet instruments	**221.8**	14.3	**221.8**	14.3
Due from subsidiary undertakings	**–**	–	**140.4**	151.3
Prepayments related to pension fund (Note 8)	**95.9**	108.3	**95.9**	108.3
Other	**145.9**	114.8	**101.0**	80.6
	463.6	237.4	**559.1**	354.5

20 Assets and liabilities relating to long term life assurance business

	Group 2005 £m	Group 2004 £m
The assets and liabilities of the long term life assurance business of the Group are:		
Investments	**1,790.0**	1,769.4
Current assets	**127.3**	13.5
Long term life assurance business assets	**1,917.3**	1,782.9
Creditors	**779.2**	774.6
Long term life assurance fund	**1,138.1**	1,008.3
Long term life assurance business liabilities	**1,917.3**	1,782.9

The above investments are stated at market value.

21 Shares

	Group and Society 2005 £m	Group and Society 2004 £m
Held by individuals	**72,575.5**	65,927.7
Other shares	**18.6**	16.2
	72,594.1	65,943.9
Shares are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**574.8**	470.6
Repayable on demand	**69,315.3**	62,412.7
Other shares with residual maturity repayable:		
• In not more than three months	**392.3**	435.1
• In more than three months but not more than one year	**1,908.3**	1,889.3
• In more than one year but not more than five years	**403.4**	736.2
	72,594.1	65,943.9

22 Amounts owed to credit institutions

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**18.4**	13.0	**18.4**	13.0
Repayable on demand	**292.0**	337.8	**292.0**	337.8
Other amounts owed to credit institutions with residual maturity repayable:				
• In not more than three months	**952.0**	1,569.2	**948.7**	1,567.4
• In more than three months but not more than one year	**344.1**	193.4	**344.1**	147.5
• In more than one year but not more than five years	**34.1**	115.9	**34.1**	115.9
• In more than five years	**10.0**	–	**10.0**	–
	1,650.6	2,229.3	**1,647.3**	2,181.6

Amounts owed to credit institutions include £101.9 million (2004 – £177.9 million) in respect of sale and repurchase agreements.

23 Amounts owed to other customers

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Amounts owed to subsidiary undertakings	**–**	–	**1,788.0**	1,213.4
Other	**5,076.5**	4,836.5	**3,737.8**	4,057.6
	5,076.5	4,836.5	**5,525.8**	5,271.0
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**41.0**	21.6	**42.4**	21.1
Repayable on demand	**1,731.8**	1,253.6	**2,539.6**	2,120.9
Other amounts owed to other customers with residual maturity repayable:				
• In not more than three months	**2,130.3**	2,883.4	**1,780.0**	2,471.8
• In more than three months but not more than one year	**1,024.9**	515.5	**1,015.9**	512.6
• In more than one year but not more than five years	**148.5**	162.4	**147.9**	144.6
• In more than five years	**–**	–	**–**	–
	5,076.5	4,836.5	**5,525.8**	5,271.0

24 Debt securities in issue

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Certificates of deposit	**7,802.4**	10,844.5	**7,725.6**	10,537.8
Fixed and floating rate notes	**13,479.1**	8,647.7	**13,479.1**	8,647.7
Other debt securities	**1,096.1**	214.3	**218.1**	214.3
	22,377.6	19,706.5	**21,422.8**	19,399.8
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**177.5**	75.1	**177.5**	75.1
Other debt securities in issue with residual maturity repayable:				
• In not more than one year	**10,277.9**	11,877.0	**9,400.0**	11,602.7
• In more than one year	**11,922.2**	7,754.4	**11,845.3**	7,722.0
	22,377.6	19,706.5	**21,422.8**	19,399.8

25 Other liabilities

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Amounts falling due within one year:				
Income tax	**179.3**	160.5	**179.3**	160.4
Corporation tax	**100.3**	57.5	**85.4**	46.7
Other creditors	**210.8**	201.0	**129.7**	100.0
	490.4	419.0	**394.4**	307.1
Other creditors include:				
Amounts due to subsidiary undertakings	**–**	–	**1.8**	–

26 Accruals and deferred income

	Group 2005 £m	Group 2004 £m	Society 2005 £m	Society 2004 £m
Accruals relating to off balance sheet instruments	**159.1**	145.0	**159.1**	145.0
Interest accrued on subordinated liabilities	**9.0**	7.4	**9.0**	7.4
Interest accrued on subscribed capital	**5.2**	5.2	**5.2**	5.2
Other	**180.2**	127.0	**173.3**	118.8
	353.5	284.6	**346.6**	276.4

27 Provisions for liabilities and charges

Group

	Pension obligations (Note 8) £m	Vacant premises and property rectification £m	Customer redress £m	Other provisions £m	Total £m
At 5 April 2004	6.1	2.7	42.8	3.8	55.4
Provisions utilised	**(0.5)**	**(0.8)**	**(40.5)**	**–**	**(41.8)**
Charge for the year	**–**	**0.4**	**46.7**	**–**	**47.1**
At 4 April 2005	**5.6**	**2.3**	**49.0**	**3.8**	**60.7**

Society

	Pension obligations (Note 8) £m	Vacant premises and property rectification £m	Customer redress £m	Other provisions £m	Total £m
At 5 April 2004	6.1	2.6	37.0	3.8	49.5
Provisions utilised	**(0.5)**	**(0.7)**	**(40.5)**	**0.1**	**(41.6)**
Charge for the year	**–**	**0.4**	**44.6**	**–**	**45.0**
At 4 April 2005	**5.6**	**2.3**	**41.1**	**3.9**	**52.9**

Pension obligations

This provision represents unfunded Directors' pension obligations of £5.6 million (2004 – £5.6 million) for Group and Society.

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.

Customer redress

Provisions have been made in respect of various customer claims including potential claims on endowment policies as described in Note 32 and discussed in the Operating and Financial Review on page 16.

28 Subordinated liabilities

	Group and Society 2005 £m	2004 £m
3 3/8% Subordinated Notes due 2015 (750m)	**513.9**	–
Subordinated Floating Rate Notes due 2013 (400m)	**274.1**	265.5
5 1/4% Subordinated Notes due 2014 ($225m)	**120.2**	123.1
5% Subordinated Notes due 2015 ($400m)	**213.7**	218.9
5 1/4% Subordinated Notes due 2018 (£)	**200.0**	200.0
8 5/8% Subordinated Notes due 2018 (£)	**125.0**	125.0
	1,446.9	932.5
Unamortised premiums and issue costs	**(7.1)**	(6.9)
	1,439.8	925.6

All of the Society's subordinated liabilities are unsecured. The Society may, with the prior consent of the Financial Services Authority redeem some of the subordinated notes early as follows:-

- All (but not some only) of the Floating Rate Notes due 2013 at par (100%) on 11 April 2008, by 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 the 11 April 2008 the initial interest margin of 0.6% over Euribor will increase by a further 0.5%.
- The 5 1/4% Notes due 2014 issued in US$ in December 2003 cannot be redeemed prior to their stated maturity.

28 Subordinated liabilities (continued)

- The 5% Notes due 2015 issued in US$ in July 2003 cannot be redeemed prior to their stated maturity.
- All (but not some only) of the 3³/₈% Notes due 2015 at par (100%) on 17 August 2010 (or each subsequent interest payment date), by giving not less than 15 nor more than 30 days notice to the holders. In the event the Society does not redeem the notes early the interest rate will convert to a floating rate equal to the aggregate of 3 month Euribor and 0.76%.
- All (but not some only) of the 5¹/₄% Notes due 2018 at par (100%) on 12 February 2013, by 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.
- All or some of the 8⁵/₈% Notes at the higher of par (100%) or the benchmark 8³/₄% 2017 Gilt, by 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.

The interest rate risk arising from the issuance of fixed rate subordinated debt has been mitigated through the use of interest rate swaps.

29 Subscribed capital

	Group and Society	
	2005 £m	2004 £m
7.971% Permanent Interest Bearing Shares	**200.0**	200.0
7.859% Permanent Interest Bearing Shares	**100.0**	100.0
5.769% Permanent Interest Bearing Shares	**400.0**	400.0
	700.0	700.0
Unamortised issue costs	**(7.8)**	(8.3)
	692.2	691.7

All Permanent Interest Bearing Shares ('PIBS') are unsecured and denominated in Sterling. The first two tranches above were issued on 13 March 2000. Total net proceeds of the issue were £295.7 million. The third issue of £400 million was issued on 6 February 2004. The net proceeds of the issue were £395 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. The 5.769% PIBS are repayable at the option of the Society, in whole in February 2026 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 5 year benchmark Gilt rate.

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.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

30 Revaluation reserve

	Group fixed assets £m	Group investment properties £m	Group total £m	Society fixed assets £m
At 5 April 2004	107.4	104.5	211.9	110.7
Surplus on revaluation	**24.3**	**(3.7)**	**20.6**	**24.7**
Transfer to general reserve	**(1.0)**	**(3.5)**	**(4.5)**	**(1.0)**
At 4 April 2005	**130.7**	**97.3**	**228.0**	**134.4**

31 General reserve

	Group £m	Society £m
At 5 April 2004	4,341.1	3,571.0
Profit for the year	**365.3**	**214.9**
Transfer from revaluation reserve	**4.5**	**1.0**
At 4 April 2005	**4,710.9**	**3,786.9**

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

The general reserve includes £93.1 million (2004 – £96.6 million) of unrealised profit in respect of the increase in the value of the Group's long term life assurance business.

During 2004, translation gains arising from foreign currency borrowings, used to hedge investments in overseas subsidiary undertakings, of £11.3 million, together with the related tax charge of £3.4 million, giving net gains of £7.9 million, were taken to the Group reserves. These translation movements are matched by corresponding translation movements on the net assets of overseas subsidiary undertakings in the Group financial statements.

32 Memorandum items

	Group		Society	
	Contract amount £m	Credit risk weighted amount £m	Contract amount £m	Credit risk weighted amount £m
a) Commitments				
2005				
Irrevocable undrawn loan facilities	**2,762.3**	**750.5**	**2,321.5**	**640.3**
Unpaid share capital of subsidiary company	**–**	**–**	**28.3**	**28.3**
Undrawn formal standby facilities, credit lines and other commitments to lend greater than one year	**49.0**	**4.9**	**49.0**	**4.9**
	2,811.3	**755.4**	**2,398.8**	**673.5**
2004				
Irrevocable undrawn loan facilities	2,871.6	872.6	2,200.7	673.8
Unpaid share capital of subsidiary company	–	–	28.3	28.3
Undrawn formal standby facilities, credit lines and other commitments to lend greater than one year	59.0	5.9	59.0	5.9
	2,930.6	878.5	2,288.0	708.0

32 Memorandum items (continued)

b) Contingent liabilities

The Society 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 the risk attached to this type of policy.

The Society has decided to make a provision in relation to its estimate of liability for such claims or potential claims against policies sold as detailed in Note 27.

33 Financial commitments

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Capital commitments				
Capital expenditure contracted for but not provided for in the Accounts	**24.8**	11.4	**15.9**	10.9

	Group		Society	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Leasing commitments				
Land and Buildings				
At the balance sheet date, annual commitments under operating leases relating to land, buildings and equipment were as follows:				
Leases which expire:				
• Within one year	**4.8**	7.6	**4.7**	7.6
• Between one and five years	**11.5**	8.4	**11.4**	8.1
• After five years	**10.9**	10.8	**10.3**	10.4
	27.2	26.8	**26.4**	26.1

34 Consolidated cash flow statement

	2005 £m	2004 £m
Reconciliation of operating profit to net cash (outflow) from operating activities		
Operating profit	**517.1**	426.8
(Increase) in prepayments and accrued income	**(189.4)**	(115.3)
Increase in accruals and deferred income	**68.0**	13.7
Provisions for bad and doubtful debts	**46.6**	43.6
Loans and advances written off, net of recoveries	**(41.2)**	(36.5)
Amounts written off/(released) fixed asset investments	**2.0**	(26.2)
Depreciation and amortisation	**99.5**	108.8
Interest on subordinated liabilities	**48.9**	40.0
Interest on subscribed capital	**47.3**	27.8
Profit on sale of tangible fixed assets	**(2.1)**	(2.1)
Increase in provisions for liabilities and charges	**5.3**	33.5
(Increase) in value of long term life assurance business	**(50.0)**	(44.8)
Amortisation of debt securities	**(192.6)**	325.1
Net cash inflow from trading activities	**359.4**	794.4
Net (increase) in loans and advances to customers	**(12,021.2)**	(14,979.9)
Net increase in shares	**6,650.2**	4,991.7
Net (decrease)/increase in amounts owed to credit institutions and other customers	**(338.7)**	767.5
Net increase in debt securities in issue	**2,671.1**	8,618.4
Net (increase) in equity securities	**(5.9)**	(2.4)
Net decrease/(increase) in loans and advances to credit institutions	**814.8**	(458.4)
Net decrease/(increase) in other assets	**7.4**	(64.7)
Net increase in other liabilities	**26.6**	156.3
Net cash (outflow) from operating activities	**(1,836.3)**	(177.1)

Analysis of changes in financing during the year	Subscribed capital £m	Subordinated liabilities £m
At 5 April 2004	691.7	925.6
Cash inflow from financing	**–**	**513.9**
Amortisation of premiums and issue costs	**0.5**	**0.3**
At 4 April 2005	**692.2**	**1,439.8**

Analysis of the balances of cash as shown in the balance sheet	2005 £m	Flows £m	2004 £m
Cash in hand and balances with the Bank of England	**362.5**	**52.0**	310.5
Loans and advances to credit institutions repayable on demand	**125.7**	**(13.7)**	139.4
	488.2	**38.3**	449.9

The Group is required to maintain balances with the Bank of England which, at 4 April 2005, amounted to £125.9 million (2004 – £105.8 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.

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.

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

35 Financial instruments (continued)

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

Limits over the use of derivative products are the responsibility of ALCO with the exception of the Group Credit Commitee 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 Statement of Accounting Policies.

The tables below analyse derivatives by type of contract and maturity and show the contract or underlying principal amounts, and positive and negative fair values of contracts. Contract amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. 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.

Group	**Contract amount 2005 £m**	**Positive fair value 2005 £m**	**Negative fair value 2005 £m**	Contract amount 2004 £m	Positive fair value 2004 £m	Negative fair value 2004 £m
Exchange rate contracts:						
• Cross – currency interest rate swaps	**4,197.3**	**28.3**	**(117.4)**	579.6	3.1	(101.1)
• Forward foreign exchange	**3,889.4**	**46.5**	**(11.9)**	6,429.6	54.7	(85.9)
	8,086.7	**74.8**	**(129.3)**	7,009.2	57.8	(187.0)
Interest rate contracts:						
• Interest rate swaps	**58,725.2**	**347.5**	**(384.5)**	43,372.8	364.8	(440.5)
• Swaptions	**102.3**	**2.8**	**–**	121.4	3.5	–
• Forward rate agreements	**19,372.4**	**1.0**	**(0.4)**	8,069.5	–	(0.9)
• Caps, collars and floors	**2,157.0**	**0.5**	**–**	7,819.3	0.9	–
	80,356.9	**351.8**	**(384.9)**	59,383.0	369.2	(441.4)
Credit contracts	**839.5**	**–**	**(8.5)**	829.5	–	(25.5)

35 Financial instruments (continued)

Analysis of derivatives by remaining maturity	Contract amount 2005 £m	Replacement cost 2005 £m	Contract amount 2004 £m	Replacement cost 2004 £m
Exchange rate contracts:				
• Under one year	**3,901.7**	**47.2**	6,647.8	55.4
• Between one and five years	**3,660.8**	**24.5**	256.1	2.4
• Over five years	**524.2**	**3.1**	105.3	–
	8,086.7	**74.8**	7,009.2	57.8
Interest rate contracts:				
• Under one year	**38,046.5**	**153.0**	26,964.0	39.9
• Between one and five years	**35,948.7**	**111.3**	26,481.6	230.1
• Over five years	**6,361.7**	**87.5**	5,937.4	99.2
	80,356.9	**351.8**	59,383.0	369.2
Credit contracts:				
• Under one year	**–**	**–**	–	–
• Between one and five years	**839.5**	**–**	829.5	–
• Over five years	**–**	**–**	–	–
	839.5	**–**	829.5	–

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 2005, the Group maintained £1.8 billion of committed standby facilities (2004 – £1.6 billion), of which £0.9 billion (2004 – £1.0 billion) are due to mature within one year.

35 Financial instruments (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 2005 – Repricing date

	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
Assets							
Liquid assets	12,120.2	210.0	128.0	1,950.0	202.0	532.9	15,143.1
Loans and advances to customers	51,282.1	4,535.0	3,943.0	28,647.0	4,555.0	(240.2)	92,721.9
Fixed assets	–	–	–	–	–	894.2	894.2
Other assets	–	–	–	–	–	2,832.4	2,832.4
Total assets	63,402.3	4,745.0	4,071.0	30,597.0	4,757.0	4,019.3	111,591.6
Liabilities							
Shares	66,289.1	1,542.0	1,746.0	2,983.0	34.0	–	72,594.1
Amounts owed to credit institutions and other customers and debt securities in issue	21,804.8	1,719.0	2,087.0	2,818.0	439.0	236.9	29,104.7
Other liabilities	–	–	–	–	–	2,821.9	2,821.9
Subordinated liabilities	273.0	–	–	–	1,166.8	–	1,439.8
Subscribed capital	–	–	–	–	692.2	–	692.2
Reserves	–	–	–	–	–	4,938.9	4,938.9
Total liabilities	88,366.9	3,261.0	3,833.0	5,801.0	2,332.0	7,997.7	111,591.6
Off balance sheet items	26,437.0	(4,304.0)	3,261.0	(22,508.0)	(2,886.0)	–	–
Interest rate sensitivity gap	1,472.4	(2,820.0)	3,499.0	2,288.0	(461.0)	(3,978.4)	–
Cumulative interest rate sensitivity gap	1,472.4	(1,347.6)	2,151.4	4,439.4	3,978.4	–	

35 Financial instruments (continued)

At 4 April 2004 – Repricing date

	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
Assets							
Liquid assets	12,736.5	1,828.0	576.4	1,362.6	419.7	502.2	17,425.4
Loans and advances to customers	45,944.8	1,061.1	5,058.6	24,903.3	3,986.5	(248.1)	80,706.2
Fixed assets	–	–	–	–	–	857.6	857.6
Other assets	–	–	–	–	–	2,439.2	2,439.2
Total assets	58,681.3	2,889.1	5,635.0	26,265.9	4,406.2	3,550.9	101,428.4
Liabilities							
Shares	61,414.7	249.0	310.6	3,920.4	49.2	–	65,943.9
Amounts owed to credit institutions and other customers and debt securities in issue	21,887.2	2,929.7	562.5	1,072.5	210.7	109.7	26,772.3
Other liabilities	–	–	–	–	–	2,541.9	2,541.9
Subordinated liabilities	252.1	–	–	–	673.5	–	925.6
Subscribed capital	–	–	–	–	691.7	–	691.7
Reserves	–	–	–	–	–	4,553.0	4,553.0
Total liabilities	83,554.0	3,178.7	873.1	4,992.9	1,625.1	7,204.6	101,428.4
Off balance sheet items	24,528.5	1,368.1	(4,101.7)	(19,003.5)	(2,791.4)	–	–
Interest rate sensitivity gap	(344.2)	1,078.5	660.2	2,269.5	(10.3)	(3,653.7)	–
Cumulative interest rate sensitivity gap	(344.2)	734.3	1,394.5	3,664.0	3,653.7	–	

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 69.

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.

35 Financial instruments (continued)

During the year the Group introduced three new metrics to monitor market price risk. These metrics replaced the previous use of a single stress test measure figure, Immediate Risk, which measured the change in the Group's net worth following a rise in interest rates of 3% for short maturities tapering to 2% for maturities over 5 years:

- Value at Risk (VaR) figure is used to determine the maximum movement in prices over a given duration (10 days), with a given confidence (99%)
- sensitivity analysis (PV01 sensitivity) is used to assess the change in value of the Group's current net worth against a one basis point (0.01%) rise in rates
- stress testing is used to assess the change in value of the Group's current net worth against a 2% rise in rates.

The new limits represent a direct translation of the previously stated risk appetite and consequently there has been no increase in the market risk of the Group (other than that associated with an increase in the Group's consolidated reserves). The limits around these three metrics have been set by the Board and reflect the Group's risk appetite.

Risk Metric	Limit	Average Exposure
VaR	£25m	£16m
PV01	£0.9m	£0.8m
Stress Test	£260m	£195m

The average stress test number for the financial year was £195 million (for each quarter the numbers were: £190 million, £191 million, £196 million and £203 million; all still based on the former stress test measure).

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 Statement of Accounting Policies, 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 £m	Losses £m	Net Losses £m
Amounts deferred in the balance sheet as at 4 April 2004	6.8	(15.2)	(8.4)
Amounts recognised in the year to 4 April 2005	**(3.8)**	**1.4**	**(2.4)**
Amounts not recognised during the year and deferred in the balance sheet as at 4 April 2005	**3.0**	**(13.8)**	**(10.8)**
Expected to be recognised in the year to 4 April 2006	**1.5**	**(1.0)**	**0.5**
Expected to be recognised thereafter	**1.5**	**(12.8)**	**(11.3)**

35 Financial instruments (continued)

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 £m	Losses £m	Net Gains/ (Losses) £m
Unrecognised gains and losses on hedges as at 4 April 2004	304.4	(476.3)	(171.9)
Of which recognised in the year to 4 April 2005	**(56.7)**	**(16.4)**	**(73.1)**
Gains and losses arising not recognised in the year to 4 April 2005	**247.7**	**(492.7)**	**(245.0)**
Gains and losses arising in the year to 4 April 2005 that were not recognised in that year	**(54.0)**	**78.1**	**24.1**
Unrecognised gains and losses on hedges as at 4 April 2005	**193.7**	**(414.6)**	**(220.9)**
Of which expected to be recognised in the year to 4 April 2006	**16.7**	**(3.9)**	**12.8**
Expected to be recognised thereafter	**177.0**	**(410.7)**	**(233.7)**

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 2005 and 4 April 2004. 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 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 for options 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.

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 book value for subordinated liabilities includes £2.5 million (2004 – £1.8 million) included within prepayments and accrued income and accruals and deferred income.

The book value for subscribed capital includes £5.2million (2004 – £5.2 million) included within accruals and deferred income.

35 Financial instruments (continued)

	2005		2004	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Assets/(Liabilities)				
On balance sheet				
• Liquid assets	**14,654.7**	**14,665.4**	17,009.1	17,057.9
• Wholesale liabilities	**(26,830.3)**	**(26,777.9)**	(25,000.1)	(25,337.7)
• Subordinated liabilities	**(1,442.3)**	**(1,497.5)**	(926.1)	(995.9)
• Subscribed capital	**(697.4)**	**(727.3)**	(697.0)	(811.8)
Off balance sheet	**124.8**	**(96.1)**	(55.0)	(226.9)

36 Non-Sterling assets and liabilities

	Group and Society	
	2005 £m	2004 £m
The aggregate amount of assets and liabilities included in the balance sheet denominated in a currency other than Sterling was as follows:		
Assets	**8,675.9**	8,347.8
Liabilities	**15,713.2**	12,519.2

The aggregate amount of assets denominated in a currency other than Sterling include US Dollars equivalent to £3,027.0 million (2004 – £2,924.8 million) and Euros equivalent to £5,521.2 million (2004 – £5,163.7 million). The aggregate amount of liabilities denominated in a currency other than Sterling include US Dollars equivalent to £8,420.4 million (2004 – £8,314.9 million) and Euros equivalent to £6,284.3 million (2004 – £3,880.0 million).

The Group's non-Sterling assets and liabilities are hedged on balance sheet or by using derivatives to eliminate material currency exposures.

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 £1,718,798 (2004 – £1,859,573) representing loans to 11 persons (2004 – 9 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 21 July 2005 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 £13.5 million (2004 – £15.0 million) receivable from the life assurance subsidiary in respect of life assurance products sold through the retail network, less associated sales force costs of £11.8 million (2004 – £13.4 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 2005

1 Statutory percentages

	2005 %	Statutory limit %
Lending limit	**12.2**	25.0
Funding limit	**28.6**	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, 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.

Annual Business Statement (continued)

2 Other percentages	**2005** **%**	2004 %
As a percentage of shares and borrowings:		
• Gross capital	**7.0**	6.7
• Free capital	**6.2**	5.9
• Liquid assets	**14.9**	18.8
Profit for the financial year as a percentage of mean total assets	**0.34**	0.34
Management expenses as a percentage of mean total assets	**0.86**	0.93

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.
- '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 2005

Directors

Name and date of birth	Occupation	Date of appointment	Other directorships
J G W Agnew MA Chairman 30 July 1941	Banker	1 March 1997	Beazley Group plc, Chairman Beazley Furlonge Ltd, Chairman 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, FRSA 11 December 1947	Chief Executive	5 April 1996	Building Societies Association, Deputy Chairman European Mortgage Federation, President Corporate Forum for International Service, Chairman Royal Society of Arts, Fellow Swindon Initiative, Chairman
B K Simpson MIMIS, FRSA 29 January 1948	Deputy Chief Executive and Chief Operating Officer	2 May 1994	Nationwide Anglia Property Services Ltd Nationwide Trust Ltd NBS Fleet Services Ltd The Nationwide Foundation
G J Beale BSc, ACA 19 October 1958	Group Finance Director	5 April 2003	First Nationwide Nationwide Anglia Property Services Ltd NBS Fleet Services Ltd

3 Information relating to directors and other officers (continued)

At 4 April 2005

Directors

Name and date of birth	Occupation	Date of appointment	Other directorships
S D M Bernau BSc (Econ), FCIB, MCT 15 August 1951	Commercial and Treasury Director	1 November 1996	at.home nationwide ltd Council of Mortgage Lenders, Chairman Ethos Independent Financial Services Ltd Financial Services Skills Council, Member First Nationwide 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 The Minchinhampton Golf Club 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 S J David MA (Cantab) 20 November 1962	Company Director	16 April 2003	Bacardi-Martini Asia Pacific Ltd, Hong Kong Bacardi-Martini (Monaco) S.A.M., Monaco Bacardi-Martini b.v., Netherlands
J Engestrom MBA 7 February 1942	Company Director	1 March 1997	EJS Partners Ltd Nationwide Life Ltd Nationwide Unit Trust Managers Ltd Wellington Underwriting Agencies Ltd Wellington Underwriting plc

3 Information relating to directors and other officers (continued)

At 4 April 2005

Directors

Name and date of birth	Occupation	Date of appointment	Other directorships
R G Handover 13 April 1946	Company Director	1 May 2000	Adult Learning Inspectorate, Chairman Royal Mail Holdings plc
G M T Howe MA (Cantab) 3 November 1949	Company Director	1 January 2005	Gateway Electronics Components Ltd Investec Ltd, South Africa Investec plc JP Morgan Fleming Overseas Investment Trust plc Jardine Lloyd Thompson Group plc, Joint Deputy Chairman
D A Ross BSc, LLB, FCA, ACMA, CTA (Fellow), FCT 1 August 1950	Company Director	1 December 2004	
R P Walther MA, FIA 31 July 1943	Company Director	1 July 2002	British United Provident Association Ltd BUPA Health Assurance Ltd BUPA Insurance Ltd Fidelity European Values plc, Chairman JP Morgan Fleming Claverhouse Investment Trust plc, Chairman Nationwide Life Ltd Nationwide Unit Trust Managers Ltd

Documents may be served on any of the Directors at Burges Salmon LLP, 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 on Remuneration.

Directors' Share Options

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

3 Information relating to directors and other officers (continued)

At 4 April 2005

Officers

Name	Occupation	Directorships
R T Bailey DMS	Divisional Director (Insurance)	Nationwide Life Ltd Nationwide Unit Trust Managers Ltd
S C Clode BSc (Econ), MA, PhD	Divisional Director (Marketing)	Lingmoor View Management Ltd Nationwide Trust Ltd
A J del Strother BA, FCIB, FCIPD	Divisional Director (Personnel and Development)	
P Feldman BSc (Hons), PhD	Divisional Director (Banking and Mortgages)	BACS Ltd Cheque and Credit Clearing Company Ltd Council of Association of Payment and Clearing Services (APACS), Member Foundation Insurance Ltd, Isle of Man LINK Interchange Network Ltd Nationwide International Ltd, Isle of Man
M R Jenkins BA (Hons), FCA, DIPL	Divisional Director (Commercial)	at.home nationwide ltd Longwide Ltd Nationwide BES Fund Managers Ltd Nationwide Housing Trust Ltd Nationwide Lease Finance Ltd Nationwide Mortgage Corporation Ltd Nationwide Syndications Ltd
Mrs M R Mason	Divisional Director (Member Account Administration)	
S G Nowell	Divisional Director (Risk Management)	
D J Rigney ACMA, MBA	Divisional Director (Central Retail Operations)	
J A Sutherland MA, MBA, FCIB, Dip FS	Divisional Director (Branch Network)	Prospect Foundation Ltd
F I Walsh BSc	Divisional Director (Technology)	Nationwide International Ltd, Isle of Man
C R L Wilson	Divisional Director (Legal Compliance)	
J R Wood	Divisional Director (Treasury)	Aldbury Housing Association First Nationwide Nationwide Lease Finance Ltd The Nationwide Foundation Northamptonshire Grammar School Charitable Trust, Member

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