Member information

Summary Financial Statement

Year ended 4 April 2009

Nationwide

Proud to be a building society

Review of the year

Nationwide has performed well in unprecedented and challenging market conditions

The past financial year has been marked by unprecedented and exceptional market conditions, with problems initially arising in the financial services industry spreading to the broader economy. We are in the middle of a global downturn with the UK economy officially in the deepest recession since the second world war. During the year a number of banks have required Government support, with some becoming nationalised or part-nationalised in the process. Nationwide has not been required to raise additional capital and, despite the market conditions, has delivered an estimated £680 million of benefits to members through competitive interest rates and lower fees and charges.

Whilst we have not been immune to the impact of the recession, we have delivered a resilient performance with an underlying profit performance for the year of £393 million (2008: £781 million). The reduction in our underlying profit performance reflects the impact of carrying higher levels of liquidity and operating within an environment of higher retail funding costs and significant margin compression and, despite our prudent lending policies, an increase in impairment charges reflecting the current recessionary conditions.

Statutory profit before tax was £212 million (2008: £686 million). Our reported profit is 53% lower than it would otherwise have been because there is an exceptional charge of £241 million relating to levies payable to the Financial Services Compensation Scheme (FSCS) following the failure of a number of banking institutions. Without this charge, our reported profit before tax would have been £453 million which, in the context of the current recessionary conditions and low interest rate environment, demonstrates the ability of our business model to withstand extremely challenging market conditions.

Reported profit also includes transformation costs of £107 million principally associated with costs in connection with restructuring and resizing the business including the integration of Portman, Cheshire and Derbyshire building societies into the Group, gains on business combinations of £157 million from Cheshire and Dunfermline, and a positive movement in the value of derivatives and hedge accounting of £10 million.

Prudent and secure business model

Nationwide, as a building society, has remained true to its core values. We have a strong and diversified funding base, with over 70% of our funding through retail deposits, which means that we are less reliant on the wholesale markets than many of our listed competitors.

We have continued to manage our business in a prudent manner throughout the year. Competition for retail funds has been strong and economic conditions, combined with the low interest rate environment, have seen a reduction in the overall size of the market. Our approach has been to offer fair and consistent pricing to our savers. Our net receipts, including offshore deposits, were £1.7 billion and our retail savings deposit growth was £4.5 billion. Lending activities have been managed to match broadly with the levels of deposit taking. Total net lending for the year was £2.1 billion (2008: £8.9 billion). Of this, Group net residential lending was £1.6 billion representing a market share of 8.2% (2008: 7.1%).

We have maintained a consistent focus on the quality of our lending, with the average indexed loan to value of new residential lending reducing from 61% to 58%. Whilst the recession has had an impact upon the level of our arrears, our increase has been less than the average increase for the Council of Mortgage Lenders (CML). For Nationwide originated loans, the proportion of mortgage accounts three months or more in arrears was 0.60% (2008: 0.40%), compared to a CML industry average of 2.39% as at 31 March 2009.

Mortgage assets acquired through mergers with Derbyshire and Cheshire and the purchase of Dunfermline's prime residential assets have been fair valued on a basis which makes allowance for anticipated losses over the remaining life of the loans. As a result of the fair valuation exercise, we have provided £203 million against total residential mortgage assets of £8.6 billion to cover our expectation of future credit losses.

The quality of the prime residential mortgage book, which accounts for approximately 86% of our residential mortgage loans, remains strong with the proportion of Nationwide originated mortgage accounts three months or more in arrears of 0.44% (4 April 2008: 0.34%). As anticipated, arrears in the specialist lending portfolios have shown a marked increase in the year and, for Nationwide originated loans, the proportion of specialist accounts in arrears increased to 2.45%, compared with 1.11% the previous year.

The current market conditions have had a significant impact upon commercial property values and we have seen a substantial increase in the level of commercial arrears and provisions through reduced tenant demand and business failures. Excluding low risk lending to social housing and Private Finance Initiatives (PFI), the commercial loan portfolio is well diversified by property type, industry sector and geography with only limited exposure to subordinated or non senior loans or speculative development.

We have experienced increases in levels of arrears and defaults, particularly over the second half of the year. There are 179 Nationwide originated commercial accounts three months or more in arrears at 4 April 2009 (4 April 2008: 66 accounts, 30 September 2008: 75 accounts) all of which have been individually assessed for impairment. Over the year, the level of balance sheet provision has increased to £194 million (4 April 2008: £30 million) bringing provision as a percentage of assets to 0.92% (4 April 2008: 0.15%).

The commercial portfolios acquired from the Derbyshire and Cheshire include £80 million of subordinated loans and £160 million of residential property development. The quality of these portfolios is not equivalent to our own originated book and they have been subject to rigorous evaluation as part of our accounting fair value exercise on acquisition. As a result, in bringing these assets onto our balance sheet, we have written them down by £179 million out of a total gross exposure of £1.2 billion to cover our expectation of future credit losses. Our current assessment of the risk inherent in these portfolios is not materially different to the view taken during our pre completion due diligence for the merger transactions.

Nationwide has always maintained a strong and robust capital position. The FSA has confirmed that Nationwide has cleared the conditions required to use its Internal Ratings Based (IRB) models to calculate capital requirements. At 4 April 2009, the Group's Core Tier 1 capital ratio, on an IRB basis, was 12.1% and Tier 1 ratio was 15.1%. These ratios are significantly higher than the ratios reported in our Half Year results announcement for the six months to 30 September 2008, which were reported on a Standardised basis and excluded the Cheshire and Derbyshire mergers and Dunfermline acquisition. The ratios are also substantially in excess of those reported by the major banks in their 2008 year end results announcements.

In view of our strong capital position, the Tripartite authorities agreed in March 2009 that Nationwide was not required to raise any additional capital.

Nationwide responded positively to market conditions

Nationwide has taken steps to support the building society sector and promote financial stability during this exceptional period. This year, Nationwide has merged with the Cheshire and the Derbyshire and acquired the prime residential mortgage book, retail liabilities and other selected assets and liabilities of Dunfermline Building Society. The mergers with the Cheshire and Derbyshire were legally completed in December 2008, within three months of announcement, whilst the acquisition of Dunfermline's assets and liabilities took place on 30 March 2009. The relatively short timescales to completion demonstrates Nationwide's ability to react quickly and positively in the interests of all stakeholders.

The transactions have provided an opportunity for Nationwide to deepen its national franchise at a local level. Derbyshire, Cheshire and Dunfermline will all retain their regional identities and operate as three new trading brands for Nationwide. Despite their separate financial difficulties, which have been prudently provided for through the fair valuation of assets as at the date of acquisition, we believe these transactions are in the long term interests of our members and will generate value over the medium term. The fair valuation exercise also ensures that Nationwide is protected from any further losses from the acquired assets provided that they perform in line with assumptions at take on.

In March 2009 we further extended our retail savings franchise by expanding into the Republic of Ireland, adding to the offshore presence the Society already has on the Isle of Man. Nationwide UK (Ireland) will not only provide the Society with an extra outlet for attracting retail savings but it will also offer the Society access for the first time to funding from the European Central Bank should it be required.

The FSCS scheme is inequitable and we have been lobbying hard for positive change

The transfer of Bradford & Bingley's retail deposit business to Abbey and the subsequent failure of other banks and deposit-taking institutions during the year triggered claims against the FSCS. Nationwide, along with other building societies, will be required to pay levies to the FSCS, primarily to fund interest payments on treasury loans to the Scheme, based upon our share of protected deposits.

We have been actively lobbying the Tripartite authorities to review the way in which FSCS levies are allocated across the industry. We believe the current allocation is unfair and has a disproportionate effect on building societies, who are required to hold a greater proportion of funding in the form of retail deposits.

Based upon the current FSCS allocation, we have recognised a charge of £241 million in our year end financial statements. This provision covers the full cost of the Group's estimated share of the levies in respect of the initial three year loan facility from HM Treasury.

Nationwide has always adopted a prudent and responsible approach to lending. We firmly believe that the allocation of levies should reflect the risk profile of the organisation and to require building society members to bear a disproportionate cost of the failures of high risk banking businesses is both unfair and wholly contrary to this principle. This view is endorsed by 173 cross party MPs supporting a need for a review of the way it is allocated.

We have also lobbied for the FSCS limit to be increased from £50,000 to at least £100,000 per individual – which would cover 99% of our members' savings. This would reassure savers of independent institutions that they have similar protection as those with Government owned, nationalised and part-nationalised banks.

The economic outlook remains challenging

The UK economy contracted very sharply at the end of 2008 and the beginning of 2009, following the intensification of the global financial crisis in September. Although there have been some encouraging indications that the rate of decline is beginning to slow, we expect the economy to remain in recession until at least the end of 2009. Any recovery in 2010 is likely to be sluggish as consumers work off excess debt and fiscal policy is tightened in order to control the public sector deficit. The labour market is expected to lag developments in the overall economy, meaning that the unemployment rate may continue rising well into 2010.

The financial crisis and the recession have already had a significant impact on the housing market, where prices have fallen considerably from their 2007 peak. In recent months, the rate of price declines has slowed somewhat, although it is too early to say that this marks a definitive turning point. Lower prices and lower interest rates could start to attract more buyers into the market as the year progresses. However, high levels of unemployment and low wage growth are likely to limit the pace of any recovery.

The savings market also faces another challenging year, as deteriorating employment conditions make it difficult for households to save, and the very low level of interest rates currently prevailing is leading many households to prioritise debt reduction over deposit accumulation. Consequently we expect both the UK Household savings market and UK mortgage market to contract in 2009/10, taking the net mortgage market into negative growth.

Nationwide remains well positioned

Current economic, market and interest rate conditions are leading to a reduction in the Group's profitability and it is clear that 2009 and 2010 will continue to present a very difficult trading environment. We remain committed to mutuality and will continue to run our business in a manner which responds to market conditions but maintains long term good value for our members.

We expect both the mortgage and savings market to contract in 2009 which will lead to intensive competition for high quality mortgages and retail deposits. The cost of retail and wholesale funding and our prudent approach to liquidity management will continue to exert downward pressure on margins and this trend will be compounded by the full year impact of the low interest rate environment. We expect the level of impairments to increase during 2009 as an inevitable consequence of prevailing economic conditions. As a result, we expect the significantly reduced level of underlying profit in the second half of 2008/09 to continue throughout 2009/10 with scope for further reduction dependent upon the level of competition for retail funds and the performance of the wider economy.

As a sector, mutuals are well placed to tolerate lower levels of profitability without the burden of having to pay a dividend to shareholders. We do expect further consolidation in the financial services sector and Nationwide will continue to act in a responsible manner to support the mutual sector and provide market stability. However, we will not be a lender of last resort and will only consider transactions which are in the interests of our members.

Nationwide's balance sheet is well capitalised with a high level of liquidity and a strong retail funding base. The outlook is challenging, but we remain well positioned to trade through these difficult conditions and remain a real and attractive alternative to the banks.

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement for the year ended 4 April 2009, all of which will be available to members and depositors free of charge on demand at every office of Nationwide Building Society from 15 June 2009 and on the internet at www.nationwide.co.uk

Approved by the Board of Directors on 26 May 2009 and signed on its behalf by:

Geoffrey Howe	**Derek Ross**	**Graham Beale**
CHAIRMAN	CHAIRMAN OF AUDIT COMMITTEE	DIRECTOR & CHIEF EXECUTIVE

Financial Results
Year ended 4 April 2009

Results for the year	2009 £m	2008 £m
Net interest receivable	**1,758**	1,796
Other income and charges	**516**	411
Fair value gains and losses	**10**	(31)
Administrative expenses	**(1,378)**	(1,292)
Impairment losses and other provisions	**(453)**	(198)
FSCS levies	**(241)**	-
Profit for the year before taxation	**212**	686
Taxation	**(50)**	(191)
Profit for the year	**162**	495

Underlying results for the year (unaudited)	2009 £m	2008 £m
Net interest receivable	**1,758**	1,796
Other income and charges	**359**	416
Administrative expenses	**(1,271)**	(1,233)
Impairment losses and other provisions	**(453)**	(198)
Underlying profit	**393**	781

Reconciliation of reported profit to underlying profit (unaudited)	2009 £m	2008 £m
Profit for the year before taxation - as reported	**212**	686
Fair value gains and losses (Note 1)	**(10)**	31
Policyholder tax (Note 2)	**-**	15
Business combinations and similar costs (Note 3)	**(50)**	49
FSCS levies (Note 4)	**241**	-
Underlying profit	**393**	781

NOTES

1 All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any fair value movements being taken to the income statement. Derivatives are used exclusively to hedge risk exposures and are not used for speculative purposes. The impact of derivatives can be volatile, especially so in current market conditions, but will trend to zero over time and has therefore been excluded in reporting the Group's underlying performance.

2 As a result of the requirement to consolidate the Group's life business on a line by line basis, the income statement for the prior year included amounts attributable to policyholders which affect profit before tax, the most significant of which was policyholder tax. Tax on policyholder investment returns was included in the Group's tax charge rather than being offset against the related income. In order to provide a clearer representation of the performance of the Group, these items were removed from underlying results. The Group's life insurance, investment and pensions business was sold to Legal & General in January 2008 and therefore these adjustments are no longer relevant for the current year.

3 Business combinations and similar costs include £107 million (2008 - £52 million) of transformation costs and £157 million of gains on the transfer of engagements from The Derbyshire and The Cheshire Building Societies and the acquisition of Dunfermline Building Society activities. 2008 included £7 million of costs relating to the setting up of a distribution agreement with Legal & General and £10 million profit, relating to the disposal of Nationwide's life, investment and pensions subsidiaries, net of disposal costs.

4 Levies to the Financial Services Compensation Scheme (FSCS) of £241 million, covering the Group's share of interest on the loan from HM Treasury to FSCS for the full three year period, were incurred in the year.

Financial position at the end of the year	2009 £m	2008 £m
Assets		
Liquid assets	**34,464**	31,676
Mortgages	**151,263**	138,579
Other loans	**4,219**	4,225
Derivative financial instruments	**5,861**	2,408
Fixed and other assets	**6,554**	2,139
Total assets	**202,361**	179,027
Liabilities		
Shares	**128,284**	113,816
Borrowings	**58,121**	53,549
Derivative financial instruments	**5,986**	1,201
Other liabilities	**1,917**	1,150
Subordinated liabilities	**2,233**	2,058
Subscribed capital	**1,526**	1,245
General reserves	**6,234**	6,303
Available for sale reserve	**(2,009)**	(418)
Other capital	**69**	123
Total liabilities	**202,361**	179,027

Summary of key financial ratios	2009 %	2008 %
Gross capital as a percentage of shares and borrowings (Note 1)	**4.3**	5.6
Liquid assets as a percentage of shares and borrowings (Note 2)	**18.5**	18.9
Profit for the year as a percentage of mean total assets (Note 3)	**0.08**	0.31
Management expenses as a percentage of mean total assets (Note 4)	**0.72**	0.82

NOTES

1 The gross capital ratio measures the proportion which the Group's capital bears to the Group's shares and borrowings. The Group's gross capital consists of the general reserve, which comprises the Group's profits accumulated over many years, the revaluation reserve, the available for sale reserve, the cash flow hedge reserve, subscribed capital and subordinated liabilities.

2 The liquid assets ratio measures the proportion which the liquid assets (held primarily in the form of cash, short term deposits and marketable securities) bear to the Group's shares and borrowings. As liquid assets are readily realisable, they assist the Group in managing its cash requirements, including the ability to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

3 The ratio of profit for the year as a percentage of mean total assets measures the proportion which the profit after taxation for the year bears to the average balance of the total assets during the year. The ratio is similar to a company's return on assets. The Group needs to make a reasonable level of profit each year in order to maintain its capital ratios at a suitable level to protect investors. The fall in this ratio is largely due to FSCS levies, reduced margins and increased impairment arising from difficult trading conditions.

4 The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses as reported in this document (which include depreciation and amortisation) bear to the average balance of the total assets during the year.

Independent auditors' statement to the members and depositors of Nationwide Building Society

We have examined the Summary Financial Statement of Nationwide Building Society.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, Annual Business Statement, Directors' Report and Report of the Directors on Remuneration, and its conformity with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained in the Summary Financial Statement and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

This statement, including the opinion, has been prepared for, and only for, the Society's members as a body and depositors as a body in accordance with Section 76 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 statement is shown, or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with the Bulletin 1999/6 'The Auditors' Statement on the Summary Financial Statement' issued by the Auditing Practices Board. Our report on the Group and Society's full Annual Accounts describes the basis of our audit opinions on those Annual Accounts and the Directors' Remuneration Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Directors' Report, the Annual Business Statement and the Report of the Directors on Remuneration of Nationwide Building Society Group for the year ended 4 April 2009 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
LONDON
26 MAY 2009

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Your local branch will be pleased to organise an alternative version for you. Or, you can contact us on **08457 30 20 10**.

If you have hearing or speech difficulties, and are a textphone user, you can call us direct in text on **18001 0800 37 80 01**.

Calls may be recorded.

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Nationwide