SUPPLEMENT DATED 7 JANUARY 2011 TO THE BASE PROSPECTUS DATED 1 JULY 2010

NATIONWIDE BUILDING SOCIETY

(incorporated in England and Wales under the Building Societies Act 1986, as amended)

€45 billion
Global Covered Bond Programme
unconditionally and irrevocably guaranteed as to payments by
Nationwide Covered Bonds LLP
(a limited liability partnership incorporated in England and Wales)

This document (the **Supplement**) is a supplement to the base prospectus (the **Base Prospectus**) dated 1 July 2010, of Nationwide Building Society (the **Issuer** and **Nationwide** and the **Society**) and constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the **FSMA**) and is prepared in connection with the €45 billion global covered bond programme (the **Programme**) established by the Issuer. Terms defined in the Base Prospectus have the same meanings when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and any other supplements to the Base Prospectus issued by the Issuer and with all documents which are deemed to be incorporated by reference herein and therein. The Issuer is publishing this Supplement to provide updated information to potential investors with respect to (i) its business, results of operations and financial condition following the publication of its half-yearly financial report for the period ended 30 September 2010, including its unaudited interim consolidated financial statements for the six month period ended 30 September 2010, (ii) to reflect the new safekeeping structure in relation to Registered Covered Bonds; (iii) risk factors describing current general economic conditions and regulatory and capital requirements that may impact its business, operating results, financial condition or prospects; (iv) its potential liabilities under the Financial Services Compensation Scheme and the proposed bank levy in the United Kingdom; (v) the regulation of its lending operations (including mortgage credit lending) in the United Kingdom and (vi) the amended definition of "Loan Without Independent Valuation".

The Base Prospectus is amended on the date hereof to include the amendments which are the subject of this Supplement. The Base Prospectus constitutes a Base Prospectus for the purposes of Directive 2003/71/EC.

The Issuer and the LLP each accept responsibility for the information contained in this Supplement. To the best of the knowledge and belief of each of the Issuer and the LLP (each having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus since the publication of the Base Prospectus.

In accordance with Section 87Q(4) FSMA, investors who have agreed to purchase or subscribe for Covered Bonds before this Supplement is published have the right, exercisable before the end of the period of two working days beginning with the working day after the date on which this Supplement was published, to withdraw their acceptances.

The date of this Supplement is 7 January 2011

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1. AMENDMENT TO "DOCUMENTS INCORPORATED BY REFERENCE" IN THE BASE PROSPECTUS

The first paragraph in the section **Documents Incorporated by Reference** on page 9 of the Base Prospectus is amended from:

"The auditors' reports and audited consolidated financial statements of the Issuer for the financial years ended 4 April 2010, 2009 and 2008 and of the LLP for the financial years ended 4 April 2009, 2008 and 2007, all of which have previously been published or are published simultaneously with this Base Prospectus and have been submitted to and filed with the Financial Services Authority shall be deemed to be incorporated in, and to form part of, this Base Prospectus, save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Documents which are referred to or incorporated by reference into the documents listed above do not form part of this Base Prospectus."

to:

"The following documents have previously been published or are published simultaneously with this Base Prospectus and have been admitted to and filed with the Financial Services Authority and shall be deemed to be incorporated in, and form part of, this Base Prospectus: (i) the unaudited condensed consolidated financial statements of the Issuer for the six month periods ended 30 September 2010 and 2009 and the Independent Review Report thereon appearing on pages 42-59 and 65 respectively of our Half-Yearly Financial Report for the period ended 30 September 2010 and (ii) the auditors' report and audited consolidated financial statements of the Issuer and the LLP for the financial years ended 4 April 2010, 2009 and 2008, save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any such statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Documents which are referred to or incorporated by reference into the documents listed above do not form part of this Base Prospectus "

2. AMENDMENT TO "RISK FACTORS" IN THE BASE PROSPECTUS

The section entitled **Risk Factors** is amended as follows:

2.1 The risk factor with the heading "***The Issuer's business and financial performance have been and will continue to be affected by general economic conditions in the UK and elsewhere and the severe dislocation in the global financial markets.***" on pages 39-41 of the Base Prospectus is deleted in its entirety and replaced with the following:

"***Our business and financial performance have been and will continue to be affected by general economic conditions in the UK and elsewhere and the severe dislocation in the global financial markets.***

The Issuer is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as it specifically affects financial institutions. For more than three years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world that began in August 2007 and significantly worsened in 2008 has triggered widespread problems at many commercial banks, investment banks, insurance companies, building societies and other financial and related institutions in the UK and around the world. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK government (the **Government**) and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions aimed at both supporting the sector and providing confidence to the market.

Despite these actions, the volatility and disruptions in the financial markets have continued. Although there have been periods in which the market disruptions have eased, recent developments, particularly in the eurozone, have demonstrated that there continues to be significant dislocations and uncertainty. These market dislocations were also accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in the UK and other economies around the world adversely affected, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes, the liquidity of the global financial markets and market interest rates, which in turn had, and continues to have, a material adverse effect on the Issuer's business, operating results, financial conditions and prospects.

While recent economic figures show the UK and a number of other countries exiting recession, most forecasts are that the recovery will be at a modest pace and is likely to be protracted. In any event, the rate at which deterioration of the UK and global economies has occurred has proven very difficult to predict and this will apply to any further deterioration or any recovery.

The exact nature of the risks that the Issuer faces and how and the extent to which they ultimately will impact the Issuer is difficult to predict and guard against in light of (i) the severity and duration of the global financial crisis, (ii) the inter-related nature of the risks involved, (iii) difficulties in predicting whether recoveries will be sustained and at what rate, and (iv) the fact that the risks are totally or partially outside of the Issuer's control.

Currently, the Issuer believes the mortgage and savings markets in the UK are beginning to stabilize and improve, although at levels well below recent historical norms. Unless there is a significant spike in interest rates, the Issuer believes that a major dip in house prices is unlikely over the next year. At the same time, the upside potential for prices is limited by the high level of prices relative to household earnings and the more restricted availability of mortgage credit relative to pre-crisis levels. Despite the recent increases in house prices, the depth of the previous declines as well as the continuing uncertainty as to the timing and extent of the economic recovery will mean that some lending will not be fully secured and losses could be incurred on these loans should they go into possession.

Evidence so far in 2010 suggests that the UK retail savings market is beginning to improve, although it is still weak in historical terms. This relative weakness in the savings market accentuates the need for continuation of the recovery in long-term wholesale funding markets, which will be necessary to support availability of credit and the repayment by the industry of government-sponsored funding schemes due to mature during 2011 and 2012.

The Issuer has been experiencing a decline in its net interest margin. The main factor driving the reduction in margin has been the increased cost of retail funding, reflecting the competitive savings market and the progressive re-pricing of long term wholesale funding. This has been partly offset by wider spreads on new mortgage pricing, the impact of which has been limited as liabilities continue to reprice faster than the asset side of the balance sheet due to very low levels of re-mortgage activity and the Issuer's Base Mortgage Rate (**BMR**) commitment to existing borrowers, whereby the Issuer guaranteed to existing customers that its BMR mortgage will be no more than 200 basis points above the Bank of England Base Rate. The decline in net interest margin also reflects the fact that customers have continued to benefit from our decision to implement the mortgage tracker floor when its Base Rate reached 2%, 0.75% below their contractual floor limit of 2.75%.

The UK commercial property market was badly hit by the recession with peak to trough falls in capital values of 44%. At 30 September 2010 the proportion of Nationwide originated commercial balances three months or more in arrears was 3.15% (4 April 2010: 2.77%), with arrears balances of £47 million, although there are positive signs that the arrears trend is now stabilising. The Issuer has booked a total commercial impairment charge of £95 million in the first half of the current financial year, which is 20% lower than the charge of £119 million in the second half of the financial year ended 4 April 2010.

The continued effect from margin compression and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions means that the Issuer may continue to experience the lower levels of profitability that it experienced in the last 24 months, and there remains the possibility of further downward pressure on profitability depending on a number of influences, such as the consequences of a more austere economic environment.

The dislocations in the financial markets have also resulted in the Issuer recording in its results over the last three financial years impairment charges and negative fair value adjustments with respect to securities and other investments that it holds. Although the Issuer believes that overall impairments for the Nationwide Group have peaked, asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Nationwide Group's investment assets and these may also translate into increased impairments, particularly with respect to its exposure through its liquidity and investment portfolios to financial institutions in Greece, Ireland, Italy, Portugal and Spain (**GIIPS**) and residential mortgage backed securities (**RMBS**) and covered bonds collateralized on assets originated in GIIPS. In addition, the value that the Issuer ultimately realises for its securities and other investments may be lower than the current fair value. Any of these factors could require the Issuer to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects."

2.2 The risk factor with the heading "***Risks associated with regulatory authority and monetary policy of the UK and changes thereto may adversely affect the Issuer's business.***" on pages 43-44 of the Base Prospectus is deleted in its entirety and replaced with the following:

"***Risks associated with regulatory authority and monetary policy of the UK and changes thereto may adversely affect the Issuer's business.***

The Issuer conduct its business subject to ongoing regulation by the Financial Services Authority, which oversees the sale of residential mortgages, commercial lending and general insurance products. The regulatory regime requires the Issuer to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant with relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking, personal finance and real estate sectors. Future changes in regulation, fiscal or other policies are unpredictable and beyond the Issuer's control and could materially adversely affect the Issuer's business or operations.

There are a number of business risks associated with the UK personal finance sector that alone or cumulatively could have a material adverse effect on the Issuer's operations. These risks include:

- if the United Kingdom were to adopt the euro as its currency. The Issuer has incurred costs preparing its business for the potential adoption of the euro, and these costs will continue. Additionally, the adoption of the euro could destabilise the United Kingdom's economy, which may have an adverse effect on the Issuer's business; and

- the Financial Services Authority, and other bodies such as the Financial Services Ombudsman, could impose additional regulations on current and past dealings with retail customers. As a result, the Issuer may be required to incur costs to apply these regulations to its business, including costs relating to advice given to retail customers that purchased endowment policies used to repay mortgage loans.

UK Banking Act 2009

The Banking Act 2009 (the **Banking Act**), which came into effect on 21 February 2009, includes (amongst other things) provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society (such as the Issuer, Covered Bond Swap Providers, Interest Rate Swap Provider etc). The orders which may be made under the UK Banking Act in respect of relevant deposit-taking institutions relate to share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances, including between group companies, and/or disapplication or modification of laws (with possible retrospective effect)) and two new special insolvency procedures (bank insolvency and bank administration) which may be commenced by UK authorities. In addition, in respect of UK building societies, the relevant tools include modified property transfer powers which refer to (i) cancellation of shares and conferring rights and liabilities in place of such shares and (ii) a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society. The Banking Act also includes powers for a modified bank insolvency procedure and/or a modified bank administration procedure to be applied by statutory instrument to building societies. Pursuant to Section 90C of the Building Societies Act (as inserted by the Building Societies (Insolvency and Special Administration) Order 2009), these special insolvency proceedings were applied (with modifications) to building societies. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial systems of the UK. It is a condition to the exercise of a stabilisation power under the Banking Act that the FSA must be satisfied that the relevant bank or building society is failing or likely to fail to meet the FSA's threshold conditions for authorisation and that, having regard to timing and other relevant circumstances, it is not reasonably likely that action would be taken that would have enabled such bank or building society to satisfy the threshold conditions. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to UK authorities under the Banking Act and how the UK authorities may choose to exercise them.

If an instrument or order were to be made under the Banking Act in respect of the Issuer, Covered Bond Swap Providers, Interest Rate Swap Provider etc such instrument or order may (amongst other things) affect the ability of the relevant entity to satisfy its obligations under the Transaction Documents and/or result in modifications to the Terms and Conditions of the Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents which are linked to the relevant entity, including, in the case of the Issuer, trigger events in respect of perfection of legal title to the Loans and the Issuer Events of Default). Moreover, other than in the context of certain partial property transfers under the Act, modifications may be made to contractual arrangements between the relevant institution and certain group companies (such as the LLP in the case of the Issuer). As a result, the making of an instrument or order in respect of the Issuer, Covered Bond Swap Providers, Interest Rate Swap Providers etc, may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or the ability of the Issuer to meet its obligations in respect of the Covered Bonds. While there is provision for compensation in certain circumstances under the Act, there can be no assurance that Covered Bondholders would recover compensation promptly and equal to any loss actually incurred.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the Issuer, Covered Bond Swap providers, Interest Rate Swap providers, etc, and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such instrument or order if made.

In addition, on 7 April 2010 the UK Building Societies (Financial Assistance) Order 2010 came into force in exercise of certain powers under the Banking Act for the purpose of modifying the application of the Building Societies Act in specified circumstances to facilitate the provision to a building society of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain 'qualifying persons'. Qualifying institutions for this purpose include H.M. Treasury, the Bank of England, another central bank of a member state of the European Economic Area, the European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance from such an institution. Most significantly, the Building Societies (Financial Assistance) Order 2010 would permit any qualifying institution to provide such assistance to the Issuer without it counting for the purpose of the 50% limit on the Issuer's non-member funding. The Financial Assistance Order also modifies the restriction in section 9B of the Building Societies Act on the creation of floating charges by a building society and would permit the Issuer to create a floating charge over its assets in favour of a qualifying institution in respect of any financial assistance provided. The creation of a floating charge by the Issuer in favour of a qualifying institution would allow for an administrative receiver to be appointed over the assets of the Issuer.

On 16 June 2010, the Chancellor of the Exchequer announced the intention of the current government with respect to the following matters:

- the existing tripartite regulatory regime in the UK will be abolished;
- the FSA will cease to exist in its current form;
- a new prudential regulator, which will operate as a subsidiary of the Bank of England, will be created that will carry out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies;
- an independent Financial Policy committee at the Bank of England will be created that will have the tools and the responsibility to look across the economy at the macro issues that may threaten economic and financial stability and take effective action in response; and
- a powerful new Consumer Protection and Markets Authority will be established.

In addition, on 22 June 2010, the Chancellor of the Exchequer announced that the Government will introduce a bank levy from 1 January 2011. After a period of consultation, the Treasury recently issued draft legislation for comment. The levy will apply to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance will be given against the first £20 billion of relevant liabilities meaning that smaller institutions will effectively be exempted from the levy charge. The scope of the excluded liabilities is also proposed to include Tier 1 capital, insured retail deposits and repos secured on sovereign debt. It has also been confirmed that non-insured retail deposits will qualify as longer maturity funding so that a lower rate will apply to these liabilities. Indicative levy rates were published on 9 December 2010 at the level of 0.05% for short term liabilities and 0.025% for long term liabilities in respect of the calendar year 2011 only, rising to 0.075% for short term liabilities and 0.0375% for long term equity and liabilities thereafter. However, it is not yet known whether such rates or the scope of liabilities to which they apply will remain unchanged in the final law. The policy aim remains to collect £2.5 billion in total from the levy.

It was also announced in connection with the Government's June 2010 budget that alongside the Independent Commission on Banking's review of the UK banking sector, the Government would consult on a remuneration disclosure scheme and will also look into the costs and benefits of a "Financial Activities Tax on profits and remuneration". The Issuer is not aware of any developments with the remuneration disclosure scheme since the original announcement. Policy initiatives for the Financial Activities Tax are not expected until 2011.

As the legislation relating to the bank levy has not been finalised, at this point it is not possible to reliably quantify the amount if the liability that will result from the bank levy. For further information, see "*The Issuer – Bank levy*". In addition, currently it is not possible to predict and the other foregoing recently announced changes will impact on the Issuer's operations, business results, financial condition or prospects. Accordingly, the Issuer cannot assure that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on the Issuer's operations, business, results, financial condition or prospects."

2.3 The risk factor with the heading "***The Issuer is subject to capital requirements that could limit its operations.***" on page 46 of the Base Prospectus is deleted in its entirety and replaced with the following:

"The Issuer is subject to capital requirements that could have an impact on its operations

The Issuer is subject to capital adequacy requirements adopted by the FSA for a building society. The Issuer's capital is reported as a ratio of total capital to risk-adjusted assets expressed as a percentage. If the Issuer fails to meet its minimum regulatory requirements, this may result in administrative actions or sanctions against it, which may impact the Issuer's ability to fulfil its obligations under the Covered Bonds.

The risk-adjusted capital guidelines (the **Basel Accord**) promulgated by the Basel Committee on Banking Supervision (the **Basel Committee**), which form the basis for the European Union (**EU**)'s and thus the FSA's capital adequacy requirements, have been revised and implementation began at the start of 2008. Broadly, the principal changes effected by the revised requirements include the application of risk-weighting (depending upon the credit status of certain customers, using an "internal ratings-based" approach to credit risk, and subject to approval of supervisory authorities). The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

Changes to the capital requirements affecting building societies will be implemented in the UK from 31 December 2010 as a result of amendments to the Capital Requirements Directive. These will include changes to the criteria for hybrid tier 1 capital, the control of large exposures and requirements relating to securitisation transactions. The requirements for hybrid capital to count as non-core tier 1 capital will be toughened, as will the relative proportions of core, non-core and innovative tier 1 capital. A transitional period will apply, enabling firms to manage their capital resources as necessary to comply with new requirements.

In addition, a reform programme continues to be developed at the global and European level, which will lead to new capital standards and further revisions to the Basel Accord and Capital Requirements Directive (such changes being commonly referred to as **Basel III**), including new capital requirements, higher capital ratios, leverage ratio and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for financial institutions, including building societies. Representations are being made on behalf of building societies and other mutuals with a view to ensuring that the proposed changes avoid placing them at a commercial disadvantage to their banking peers in terms of access to core tier 1 capital. The outcome of these discussions is uncertain at this stage. Although certain elements of the new standards have been set, details of the reform package are still to be finalised, with phased implementation expected from 2013. Whilst a long phasing in implementation period is currently included in the proposals, financial institutions will be required to comply with some of these requirements to some extent, during the transition period. The Basel Committee is also considering introducing additional capital requirements for systemically important institutions, which may include the Issuer.

The introduction of the new rules and proposals will present a number of challenges to the Issuer in reviewing its existing capital and liquidity arrangements and could have an impact on the Issuer's capital and liquidity calculations and funding requirements or otherwise adversely affect its business or profitability.".

2.4 The last sentence of the second paragraph of the risk factor with the heading "***Insolvency proceedings and subordination provisions***" on page 36 of the Base Prospectus shall be amended from:

"Like the recent English decision, the US decision may be subject to appeal."

to:

"A motion for leave to appeal in respect of the US decision was filed in August 2010 and granted by the District Court in September 2010.".

2.5 The risk factor with the heading "***Implementation of Basel II risk-weighted asset framework may result in changes to the risk-weighting of the Covered Bonds***" on pages 67-68 of the Base Prospectus shall be deleted in its entirety and replaced as follows:

"***Implementation of and/or changes to the Basel II and Basel III framework may affect the capital requirements and/or the liquidity of the Covered Bonds.***

The Basel II framework has not been fully implemented in all participating countries. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Covered Bonds for investors who are or may become subject to capital adequacy requirements that follow the framework.

It should also be noted that the Basel Committee has put forward a number of proposed changes to the Basel II framework. In December 2009, the Basel Committee published proposals for new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards (the so-called Basel III proposals) for credit institutions. The proposed changes remain under active discussion and, based on the outcome of the meeting of the Governors and Heads of Supervision held on 26 July 2010, further revised proposals are expected to be published later in 2010. The European Commission has indicated that it supports the work of the Basel Committee in this regard in general and, in February 2010, the Commission published a staff working document referring to corresponding proposed changes to the Capital Requirement Directive (known as **CRD IV**). If changes to the framework are adopted, such changes may have an impact on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences to and effect on them of the implementation of, or of the changes to, the Basel II framework described above (and the relevant implementing measures). No predictions can be made as to the precise effects of such matters on any investor or otherwise (including as a result of any relevant implementing measures which may be amended from time to time).".

3. AMENDMENT TO "FORM OF THE COVERED BONDS" IN THE BASE PROSPECTUS

3.1 The fourth paragraph under the heading "Registered Covered Bonds" in the section entitled **Form of the Covered Bonds** on page 72 of the Base Prospectus shall be amended from:

"Registered Global Covered Bonds will either (a) be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg or (b) be deposited with a Common Depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form."

to

"Registered Global Covered Bonds will either (a) be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg or (b) be deposited with a Common Depositary or Common Safekeeper, as the case may be for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the Common Safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form."

3.2 The following words shall be inserted into the seventh line of the eighth paragraph under the heading "Registered Covered Bonds" in the section entitled **Form of the Covered Bonds** on page 72 of the Base Prospectus after the words "registered in the name of a nominee for a Common Depositary":

"or in the name of a nominee of the Common Safekeeper, as the case may be,".

4. AMENDMENT TO "FINAL TERMS" IN THE BASE PROSPECTUS

4.1 The seventh paragraph of Item 24 (Form of the Covered Bonds) in the section "**Final Terms**" on page 83 of the Base Prospectus is amended from:

	Regulation S Global Covered Bond (US$ [●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (US$[●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Covered Bond (*specify nominal amounts*)]

to:

	Regulation S Global Covered Bond (US$ [●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg/a Common Safekeeper for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (US$[●] nominal amount) registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg/a Common Safekeeper for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Covered Bond (*specify nominal amounts*)]

4.2 Item 46(a) (Operational Information) in the section "**Final Terms**" on pages 87-88 of the Base Prospectus is amended from:

46. OPERATIONAL INFORMATION	
(a) Bearer Global Covered Bonds intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No] [Note that the designation "yes" simply means the Bearer Global Covered Bonds are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as Common Safekeeper and does not necessarily mean that the Bearer Global Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem

	eligibility criteria.] [*include this text if "yes" selected in which case the Bearer Global Covered Bonds must be issued in NGN form*]

to:

46. OPERATIONAL INFORMATION	
(b) Bearer Global Covered Bonds intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No] [Note that the designation "yes" simply means the Bearer Global Covered Bonds are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as Common Safekeeper, [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] [*include this text for Registered Covered Bonds which are to be held under the NSS*]and does not necessarily mean that the Bearer Global Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [*include this text if "yes" selected in which case the Bearer Global Covered Bonds must be issued in NGN form and the Registered Global Covered Bonds must be issued under the NSS*]

5. AMENDMENT TO "TERMS AND CONDITIONS" IN THE BASE PROSPECTUS

The following words shall be added to the second line of the seventh paragraph of Condition 1 (Form, Denomination and Title) in the section entitled "**Terms and Conditions**" on page 92 of the Base Prospectus after the words "For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of":

"or, as the case may be, registered in the name of a common depositary or common safe keeper (as the case may be) for,".

6. REPLACEMENT OF "CAPITALISATION AND INDEBTEDNESS" IN THE BASE PROSPECTUS

The section entitled **Capitalisation and Indebtedness** appearing on page 131 of the Base Prospectus shall be deleted in its entirety and replaced as follows:

"CAPITALISATION AND INDEBTEDNESS

The following is a summary of our consolidated capitalisation and indebtedness extracted from our audited consolidated financial statements as at 30 September 2010.

	As at September 30, 2010
	(£ millions)
Consolidated Indebtedness[(1)]	
Deposits from banks	3,951
Amounts due to customers and other deposits..	11,379
Debt securities in issue[(2)]..	35,899
Total Senior Debt..	**51,229**
Subordinated Debt[(1)(3)]	
Comprising an issue of subordinated debt maturing in 2014, two issues maturing in 2015, three issues maturing in 2016, two issues maturing in 2018, one issue maturing in 2019 two issues maturing in 2020 and two issues maturing in 2022	2,208
Total Senior and Subordinated Debt..	**53,437**
Permanent Interest Bearing Shares[(1)(4)]..	
Comprising six issues of permanent interest bearing shares callable (subject to relevant supervisory consent) in 2013, 2015, 2016, 2019, 2021, 2024, 2026, 2030 and 2050, respectively.................	1,626
Members' Funds	
General reserve...	6,385
Revaluation reserve...	69
Other Reserves	(603)
UK retail member deposits[(1)(5)]	121,856
Total members' funds..	**127,707**
Total capitalization[(6)]	**182,770**

Notes:

(1) If we were to go into liquidation the claims of non-member depositors and other unsubordinated creditors would rank before those of holders of UK retail member deposits and the claims of holders of UK retail member deposits would rank before those of subordinated debt holders. The claims of holders of permanent interest bearing shares rank behind those of all other creditors, including subordinated debt holders.

(2) This includes an aggregate of £4.01 billion in securities guaranteed by H.M. Treasury under the Guarantee Scheme.

(3) For consistency with other indebtedness, accrued interest of £38 million is included.

(4) For consistency with other indebtedness, accrued interest of £16 million is included.

(5) Our rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. Our Board of Directors has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.

(6) The covered bond issues are our only secured debt. The covered bonds are secured on a ring-fenced section of our residential loans and advances to customers. As at 30 September 2010, the cover pool totalled £36,549 million.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalisation, indebtedness, guarantees or contingent liabilities since 30 September 2010."

7. REPLACEMENT OF "SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION" IN THE BASE PROSPECTUS

The section entitled **Selected Consolidated Financial and Operating Information** appearing on pages 132-135 of the Base Prospectus shall be deleted in its entirety and replaced as follows:

"SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been derived from our audited consolidated financial statements as of 4 April 2010, 2009 and 2008 and for the financial years then ended and our unaudited consolidated financial statements as of and for the six months ended 30 September 2010 and 2009.

The following data should be read in conjunction with our audited consolidated financial statements and the notes thereto incorporated by reference herein as well as the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	For the six month period ended 30 September			For the financial year ended 4 April		
	2010(1)	**2010**	**2009**	**2010**	**2009**(2)	**2008**
	($ millions)	*(£ millions)*				
		(unaudited)			*(audited)*	
Income Statement Data:						
Interest receivable and similar income....	3,492	2,218	2,416	4,568	9,250	9,701
Interest expense and similar charges.......	2,299	1,460	1,525	2,854	7,492	7,905
Net interest income................................	1,193	758	891	1,714	1,758	1,796
Fees and commission income	337	214	175	378	359	333
Fees and commissions expense	(3)	(2)	(3)	(5)	(4)	(2)
Premiums on insurance contracts(3)	-	-	-	-	-	143
Fair value gains on insurance assets(3).....	-	-	-	-	-	(1)
Income from investments.........................	1	1	-	1	16	25
Other operating income............................	5	3	46	47	123	4
Gains/(losses) on derivatives and hedge accounting......................................	186	118	(15)	34	10	(31)
Profit on sale of subsidiary undertakings	-	-	-	-	-	10
Total income..	1,719	1,092	1,094	2,169	2,262	2,277
Claims on insurance contracts(3)..............	-	-	-	-	-	100
Administrative expenses	886	563	561	1,195	1,252	1,169
Depreciation and amortization expenses	110	70	75	151	126	124
Impairment losses on loans and advances to customers	282	179	317	549	394	106
Provisions for liabilities and charges	(16)	(10)	(1)	(103)	249	(10)
Impairment losses/(gain) on investment securities	49	31	(1)	36	51	102
Profit before tax......................................	408	259	143	341	190	686
Analyzed as:						
- Profit before tax and merger and similar costs	232	147	117	212	393	745
Financial Sector Compensation Scheme	-	-	1	117	(241)	-
- Transformation costs & gains/(losses) on business combinations and gains/(losses) from derivatives and hedge accounting(4).........	176	112	25	12	38	(59)
Profit before tax	408	259	143	341	190	686
Taxation	98	62	41	77	44	191
Profit for the financial year	310	197	102	264	146	495

Notes:

(1) Dollar amounts are unaudited and have been derived from our audited financial statements for the half year ended 30 September 2010 using the exchange rate of U.S. $1.5745 to £1.00.

(2) On 30 March 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of the Dunfermline Building Society (**Dunfermline**). As the acquisition of the core parts of Dunfermline took place immediately prior to the 4 April 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in our audited financial statements for the year ended 4 April 2009. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline Building Society disclosed in our audited financial statements for the year ended 4 April 2009 have been recognised as if the accounting for the business combination had been completed at the acquisition date. Information for the year ended 4 April 2009 has thus been adjusted, with the effects being a reduction in reported profit before tax of £22 million, a reduction in taxation of £6 million and a reduction in profit after tax of £16 million.

(3) The Group sold its life insurance subsidiary, Nationwide Life, on January 31, 2008 to Legal & General. Therefore, 2008 reflects the business of Nationwide Life up to and including January 31, 2008 only.

(4) Transformation costs and gains on business combinations for the six months ended 30 September 2010 relate to gains / (losses) from derivatives and hedge accounting. Costs for the six months ended 30 September 2009 relate to transformation costs and gains on business combinations on the acquisition of the social housing portfolio from DBS Bridge Bank Limited on 30 June 2009, which was not part of the original purchase of core parts of the Dunfermline Building Society on 30 March 2009. Transformation costs and gains on business combinations for the year ended 4 April, 2010 relate to the acquisition of the social housing portfolio from DBS Bridge Bank Limited on 30 June 2009, which was not part of the original purchase of core parts of the Dunfermline Building Society on 30 March 2009. Costs for the year ended 4 April 2009 relate to the acquisitions of the Cheshire Building Society (**Cheshire**) and the Derbyshire Building Society (**Derbyshire**) and core parts of the Dunfermline Building Society and other costs relating to the restructuring of parts of our business. Costs for the year ended April 4, 2008 relate to the merger with Portman Building Society and setting up of the new distribution agreement with Legal & General

	For the six month period ended 30 September		For the financial year ended 4 April		
	2010[(1)]	**2010**	**2010**	**2009**[(2)]	**2008**
	($ millions)	*(£ millions)*			
	(unaudited)		*(audited)*		
Balance Sheet Data					
Assets:					
Cash and balances at central banks	6,240	3,963	3,994	8,205	3,353
Loans and advances to banks	4,357	2,767	2,017	5,033	2,838
Investment securities-available for sale	35,642	22,637	23,385	21,223	25,486
Derivative financial instruments	8,128	5,162	4,852	5,859	2,408
Fair value adjustment for portfolio hedged risk	4,179	2,654	2,638	3,408	247
Residential mortgage loans	198,096	125,815	127,313	129,916	127,103
Other loans[(3)]	39,879	25,328	25,116	25,553	15,701
Investments	142	90	86	81	61
Intangible fixed assets	704	447	353	211	137
Property, plant and equipment	1,456	925	916	886	811
Investment properties	14	9	9	9	15
Accrued income and expenses prepaid	178	113	77	743	556
Deferred tax assets	538	342	357	866	116
Other assets	36	23	284	360	191
Assets classified as held for sale	-	-	-	-	6
Total assets	**299,589**	**190,275**	**191,397**	**202,353**	**179,029**
Liabilities:					
UK retail member deposits	191,862	121,856	120,943	128,292	113,816
Deposits from banks	6,221	3,951	8,031	13,283	11,777
Other deposits	9,168	5,823	4,509	5,673	4,567
Due to customers	8,748	5,556	5,085	4,371	3,433
Debt securities in issue	56,523	35,899	36,802	34,794	33,772
Derivative financial instruments	8,696	5,523	4,942	5,986	1,202
Fair value adjustment for portfolio hedged risk	449	285	106	239	-
Other liabilities	817	519	529	671	752
Provisions for liabilities and charges	90	57	118	271	16
Accruals and deferred income	589	374	376	354	355
Subordinated liabilities	3,417	2,170	2,166	2,233	2,058
Tier 1 capital instruments	2,535	1,610	1,524	1,526	1,245
Current tax liabilities	127	81	42	51	(12)
Retirement benefit obligations	1,134	720	508	331	40
General reserve	10,053	6,385	6,363	6,218	6,303
Revaluation reserve	109	69	68	69	121
Available for sale reserve	(949)	(603)	(715)	(2,009)	(418)

	For the six month period ended 30 September		For the financial year ended 4 April		
	2010[1]	2010	2010	2009[2]	2008
	($ millions)	*(£ millions)*			
	(unaudited)		*(audited)*		
Balance Sheet Data					
Cash flow hedge reserve	-	-	-	-	2
Total liabilities	**299,589**	**190,275**	**191,397**	**202,353**	**179,029**

Notes:

(1) Dollar amounts are unaudited and have been derived from our audited financial statements for the half year ended 30 September 2010 using the exchange rate of U.S. $1.5745 to £1.00.

(2) On 30 March 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of the Dunfermline Building Society. As the acquisition of the core parts of Dunfermline took place immediately prior to the 4 April 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in our audited financial statements for the year ended 4 April 2009. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline Building Society disclosed in our audited financial statements for the year ended 4 April 2009 have been recognised as if the accounting for the business combination had been completed at the acquisition date. Information for the year ended 4 April 2009 has thus been adjusted, with the effects being a reduction in reported profit before tax of £22 million, a reduction in taxation of £6 million and a reduction in profit after tax of £16 million.

(3) Other loans include loans to corporate bodies, such as independent UK housing organisations registered with the Tenant Services Authority under the Housing Act 1996 (**Registered Social Landlords**), which are residential mortgage loans where the commitment was made prior to 2 January 1998. The classification of these assets is not consistent with the treatment of similar loans made after 2 January 1998, which are included in residential mortgage loans, but is necessary to comply with the requirements of the UK Building Societies Act 1997.

	For the six month period ended 30 September		For the financial year ended 4 April		
	2010	2009	2010	2009[(1)]	2008
			(unaudited)		
Other Financial Data:					
Return on average total assets[(2)]	0.21%	0.10%	0.13%	0.08%	0.31%
Net interest margin[(3)]	0.82%	0.89%	0.87%	0.93%	1.13%
Ratio of earnings to fixed charges[(4)]					
Including interest on retail deposits	1.18%	1.09%	1.12%	1.03%	1.09%
Excluding interest on retail deposits	2.20%	1.52%	1.74%	1.08%	1.25%
Capital ratios					
Tier 1 capital[(5)]	15.8%	15.0%	15.3%	15.1%	9.69%
Total capital[(5)]	19.9%	19.2%	19.4%	19.5%	12.36%
Ratio of administrative expenses to mean total assets[(6)]	0.66%	0.63%	0.68%	0.72%	0.82%

Notes:

(1) Based on adjusted results for the year ended 4 April 2009. See Note 2 above under Income Statement Data and Note 2 above under Balance Sheet Data.

(2) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets. Average balances are based on the balance as at the end of each month during the financial year.

(3) Net interest margin represents net interest income as a percentage of weighted average total assets.

(4) For this purpose, earnings consist of profit on ordinary activities before tax and fixed charges. Fixed charges consist of interest expense including or excluding interest on retail deposits, as appropriate.

(5) From 1 January 2008 and throughout the year ended 4 April 2010, the Group has complied with these rules which implement the EU Capital Requirements Directive (**Basel II**). As at 4 April 2008 the Group calculated its capital requirement on a Standardized basis. The Group's Internal Ratings Based (**IRB**) Waiver Application was approved by the FSA in May 2008, with subsequent confirmation from the FSA that Nationwide has cleared the conditions required to use its IRB models to calculate capital requirements. As at 4 April 2009 capital requirements are calculated on this IRB basis. The Group has also received Individual Capital Guidance based on IRB approaches. The measurement of a bank's assets weighted according to credit risk, "Risk Weighted Assets" differs significantly under IRB and so the stated figures for 4 April 2008 are not directly comparable with those for 4 April 2009. The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages and unsecured lending; Foundation IRB approach for treasury portfolios (excluding corporates); and the Standardized approach for all other credit risk exposures.

(6) This ratio represents administrative expenses plus depreciation as a percentage of the average of total assets at the start and end of each period."

8. AMENDMENT TO "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" IN THE BASE PROSPECTUS

The section entitled **Management's Discussion and Analysis of Financial Condition and Results of Operations** appearing on pages 136-179 of the Base Prospectus is amended as follows:

8.1 The subsections with the headings "Overview", "Impact of Economic Conditions in the United Kingdom" and "Interest Rate Management" appearing sequentially on pages 136-139 of the base prospectus are deleted in their entirety and replaced with the following updated subsections with the headings "Overview", "Impact of Economic Conditions in the United Kingdom" and "Interest Rate Management" and the following additional subsection with the heading "Results of Operations for the Six Month Period Ended 30 September 2010 with the Six Month Period Ended 30 September 2009":

"Overview

We are a building society, regulated by the UK Financial Services Authority. Our core business is providing personal financial services, primarily residential mortgage lending funded largely through retail savings. As a mutual organisation, we are managed for the benefit of our "members", our retail savings and residential mortgage customers, rather than for equity shareholders. We return value to our members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by our main competitors. As a result, we generally earn lower pre-tax profits than our main competitors, which are primarily banks or other non-mutual organisations. As a mutual organisation, we pay no dividends, and our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements. For information regarding UK capital adequacy requirements, see the subsection entitled "*—Financial Condition of the Nationwide Group —Capital Resources*" below.

Although our business differs from that of a bank, we are committed to a business model that is competitive with our bank and other competitors in terms of product range, service, credit quality and profitability. Over the past five fiscal years, a number of initiatives have been undertaken to more deeply embed this competitive culture, and our focus on costs continues to be a priority.

For the second year running, the UK financial services industry has faced a challenging trading environment. The UK economy only started to turn the corner in the last quarter of 2009 and the recovery still looks fragile. Housing market transactions have remained subdued and the Bank of England Base Rate (the **Base Rate**) has been frozen at 0.5%. Both our core mortgage and savings markets are now growing far more slowly than in the past, and there are few signs of any imminent major improvements.

We believe that our resilience in the face of these challenges can be seen in the strength of the financial performance we have delivered for our members. We believe that we have continued to conduct our business in a responsible manner and have maintained both a high level of liquidity and strong capital ratios.

The Nationwide Group has delivered a strong performance for the six month period ended 30 September 2010, with underlying profit up 26% to £147 million compared to £117 million for the six month period ended 30 September 2009. Strong growth in non-interest income has partly offset the impact of margin compression in the low rate environment, and our strategic focus on cost control has ensured that underlying costs remained flat. The overall improvement in performance has been driven by a significant reduction in the loan impairment charge, which has fallen from £317 million in the six month period ended 30 September 2009 to £179 million for the six month period ended 30 September 2010.

We continue to be predominantly funded through retail deposits and are the third largest savings provider in the UK based on savings balances. Although we are less reliant on the wholesale markets than many of our listed competitors, we maintain a substantial and diverse wholesale funding capability.

In the financial year ended 4 April 2010, the Nationwide Group was particularly active in the term debt capital market, issuing £8.5 billion equivalent of term unsecured and secured debt relative to £4 billion equivalent of maturing term debt. In the current financial year to 4 April 2011, the long term refinancing requirement is a more modest £1.8 billion equivalent of wholesale term debt maturing, and in September 2010 the Nationwide Group issued a €1.25 billion five year covered bond. This was the first externally issued covered bond by the Nationwide Group since the start of the crisis in 2007.

In October 2010, the Nationwide Group launched its second public secured issuance of residential mortgage backed securities (**RMBS**) through the Silverstone Master Trust Vehicle via the issue of both US dollar and Euro notes. This raised £1.52 billion equivalent and has provided further investor diversification to complement our initial Sterling RMBS issuance in November 2009.

Both of these transactions further re-established the Nationwide Group's presence in the secured term funding market and provided breadth and diversification to the unsecured issuances undertaken in the financial year ended 4 April 2010. In addition to these issuances, in the six month period ended 30 September 2010, the Nationwide Group has also successfully issued over £200 million equivalent of private placements, with a weighted average life of over five years over this period.

In addition the Nationwide Group issued €750 million of lower Tier 2 subordinated debt in July 2010 to refinance the subordinated debt called in August 2010. This also demonstrated the strength of institutional support for the Nationwide Group. In November 2010 we confirmed that we intend to call £100 million of lower Tier 2 capital which falls due for call on 17 December 2010.

The Nationwide Group continues to enjoy a strong franchise in the short term unsecured funding markets, with balances of £16 billion at 30 September 2010 (4 April 2010: £16 billion and 4 April 2009: £20 billion). The average term at issuance of the short term funding book at 30 September 2010 was 150 days (4 April 2010: 155 days and 4 April 2009: 125 days).

The Nationwide Group has extended the maturity profile of its wholesale funding portfolio from 26 months to 27 months at 30 September 2010 and increased the split between short and long term with a further reduction in the less than one year maturity category to 43.3% at 30 September 2010 from 49.7% at 4 April 2010 (4 April 2009: 63.3%).

Impact of Economic Conditions in the United Kingdom Generally and Outlook

The UK economy has continued to recover over the first half of the year, but still faces considerable challenges in the years ahead. We believe that the measures announced in the Government's Comprehensive Spending Review will lead to the longer term stability of the UK public finances, but such measures are expected to keep the pace of economic recovery relatively subdued in the near term. One side-effect of the Comprehensive Spending Review is that we believe the Bank of England is likely to keep interest rates near record low levels for longer in order to offset the dampening impact of spending cuts. We currently do not expect any change in the Bank of England base rate until late 2011, despite inflation remaining above the Government's target. We believe that the persistence of low interest rates will keep liability margins relatively compressed and make it difficult for the size of the retail savings market to grow from its current weak levels.

In the housing market, conditions have weakened noticeably over the last six months, with both a decline in buyer demand and a modest downward trend in house prices. We expect buyer activity to remain weak during the period of uncertainty surrounding the implementation of fiscal tightening measures. In addition, the supply of properties for sale is now significantly higher than last year. However, we believe that large house price falls of the magnitude seen in 2008 are unlikely given that interest rates will remain low limiting the level of mortgage arrears and distressed sales.

The UK retail savings market remains subdued, with market balance growth of £7.3 billion in the six month period ended 30 September 2010 largely attributable to interest capitalised, compared to a market growth of £8.3 billion for the six month period ended 30 September 2009, and £21.8 billion for the six month period ended 4 April 2010, based on internal estimates and Bank of England data. The low rate environment has prompted many investors to seek alternative forms of investment with equity-linked returns, or to use their savings to pay down their debt. In this environment, we have actively managed our flow of retail savings with a view to achieving a balance between securing funds at an economic rate and providing long term good value to our members. We attracted £423 million of net receipts across the savings and current account book during the six month period ended 30 September 2010. This is in contrast with a net outflow of funds for the year ended 4 April 2010 and reflects a strong funding performance from all of our new Champion Saver, Champion ISA and e-ISA products. Nevertheless, the relative weakness in the savings market accentuates the need for continuation of the recovery in long-term wholesale funding markets, which will be necessary to support availability of credit and the repayment by the industry of Government sponsored funding schemes due to mature during 2011 and 2012.

The Nationwide Group's net interest income declined 14.9 % to £758 million for the six month period ended 30 September 2010 compared with £891 million for the six month period ended 30 September 2009.

	For the six month period ended 30 September	
	2010	**2009**
	(£ millions, except percentages)	
Net interest income	758	891
Weighted average total assets	189,984	200,061
Net interest margin	**0.81%**	**0.91%**

The Nationwide Group's reported net interest margin for the six month period ended 30 September 2010 was 0.81%. Although the margin has declined, this was only 2 basis points lower than for the previous six month period ended 4 April 2010 of 0.83%. The downward trend in our margin over the last 12 months reflects the exceptional level of liquidity management gains (£75 million) in the first half of the financial year ended 4 April 2010 compared with a more normal level (£26 million) of such gains in the first half of the current financial year.

Margins have declined steadily in the low interest rate environment, as retail liabilities re-priced significantly and at a faster rate than assets. We have now reached a position in the cycle where retail liabilities are re-pricing at relatively constant levels and the margin is stabilising. We currently anticipate that a progressive return to a more normalised interest rate environment in future years will result in a strong upturn in the overall level of Nationwide Group profitability.

The main factor driving the reduction in margin continues to be the increased cost of retail funding, reflecting the competitive savings market, partly offset by wider spreads on new mortgage pricing. The impact of new mortgage pricing is constrained by the very low levels of re-mortgage activity and our BMR commitment to existing borrowers referred to below.

We have maintained our approach to margin management, which balances the challenge of a low rate environment with our commitment to provide our members with long term good value products. We continue to support our borrowing members by honouring our BMR pledge, ensuring that the majority of the our existing mortgage customers have access to a rate which is capped at 2% above the Bank of England base rate (See "*The Issuer – Lending – UK Residential Mortgage Lending to Individuals*"). Given the continued low rate environment, there is less incentive for borrowers to move product, and BMR balances have therefore increased. We estimate the opportunity cost of maintaining BMR at this level, relative to other rates charged in the market, has been in the region of £300 million for the six month period ended 30 September 2010. In addition, we have also continued to waive the contractual floor of 2.75% on tracker mortgages, instead applying the floor at 2%, representing a saving to our members of £34 million in mortgage interest over the six month period ended 30 September 2010. The tracker floor benefit will continue to reduce as borrowers roll off their tracker period.

We believe that our margins have now stabilised, and that a progressive return to a more normalised interest rate environment in future years will result in an upturn in the overall level of our profitability. Alongside this expected improvement in profitability, we are continuing both to diversify our income streams and maintain a tight control of our cost base. By doing so, we hope to make steady progress towards our medium term cost income ratio target of 50%.

Our commercial impairment charge has reduced significantly in the six month period ended 30 September 2010, and currently we anticipate a broadly similar charge in the second half of the current financial year. The uncertainty around the strength of economic recovery and the level of real estate debt to be refinanced in the coming years clearly pose some risks to the commercial property market, necessitating that we continue to remain cautious in our outlook for commercial lending.

In the second half of the current financial year we will become liable for further FSCS levies, which we currently estimate to be in the region of £40-50 million. There is also the possibility that FSCS levies arising from recovery shortfalls from previous bank failures may also start to be recognised.

The Government previously announced its intention to introduce a new bank levy, which will apply to certain UK banks, building societies (including Nationwide) and the UK operations of foreign banks from 1 January 2011. As the legislation relating to the bank levy has not been finalised, at this point it is not possible to reliably quantify the amount of the liability that will result from the bank levy. For further information, see "*The Issuer – Bank Levy*".

Interest Rate Management

Because the majority of our assets and liabilities are either floating rate instruments or synthetically converted to floating rate instruments using derivatives, variations in market interest rates have a direct impact on our interest income and interest expense. Fluctuations in market interest rates, however, give us the opportunity to manage our interest rate margins and, for most of our assets and liabilities, we can reprice the interest rate that we offer, subject to market and competitive pressures.

The following table sets forth the daily average three-month sterling LIBOR rates (11:00 a.m. British Bankers Association fixing) and average Bank of England base rates for the six month period ended 30 September 2010 and the financial years ended 4 April 2010 and 2009:

	For the six month period ended 30 September 2010	For the year ended 4 April 2010	For the year ended 4 April 2009
Daily average three-month sterling LIBOR	0.71%	0.85%	4.56%
Average Bank of England base rate	0.50%	0.50%	3.57%

Interest rate risk arises from the mortgage, savings and other financial services products that we offer. The varying interest rate features and maturities of retail products and wholesale funding create exposures to interest risks. This is due to the imperfect matching of variable interest rates, in particular Bank of England base rate and LIBOR, and timing differences on the re-pricing of assets and liabilities. The risk is managed through the use of derivatives and other appropriate financial instruments and through product design.

The contractual terms of products and transactions determine the flexibility to manage net interest margin. In the current low interest rate environment, this flexibility has been constrained by a natural floor, at zero percent, for banking and savings rates, and a contractual ceiling for BMR mortgages, relative to the base rate. New mortgages written by the Society do not contain a contractual cap relative to base rate in order to increase our flexibility in this regard.

The Nationwide Group's exposure to the mismatch between base rate and LIBOR-linked balances (basis risk) has changed during the six month period ended 30 September 2010. At the start of the current financial year the position was a net LIBOR asset, reflecting fixed rate mortgages hedged to LIBOR and funded through variable savings linked to base rate. During the six months to 30 September 2010, customer preference has moved towards variable rate mortgages and fixed rate savings bonds. These changes have resulted in a net base rate asset at 30 September 2010. A large element of the net basis position is driven by government funding schemes, which acts as a base rate asset due to the fee paid, but which will have fully reversed out by the end of the next financial year.

Swap spread risk is the risk of loss from changes in the relationship between swap rates and sovereign debt yields. Swap spread risk arises at Nationwide from long-dated sovereign debt that has been purchased for liquidity purposes. This fixed rate debt is swapped into LIBOR using an interest rate swap. After taking the swap into account, the mark to market value of the debt falls if the credit spread on sovereign debt increases relative to the credit spread on inter-bank borrowing. The risk is only crystallised if the sovereign debt and associated swap are sold ahead of maturity.

The lower interest rates have exposed us to changes in customer behaviour, driven by associated changes in the financial dynamics of transactions, particularly with respect to early repayment of fixed rate mortgages. Some of this effect has been mitigated by the relative constriction of the mortgage market as well as increased early redemption fee income.

Results of Operations for the Six Month Period Ended 30 September 2010 Compared with the Six Month Period Ended 30 September 2009

Introduction

We believe that our results indicate a strong performance from Nationwide, with underlying profit before tax up 26% when compared with the six month period ended 30 September 2009. We have maintained our strong balance sheet, excellent capital ratios and strong consumer franchise. Our focus on the needs of our members has resulted in us performing well in our core markets. Underlying profit before tax equates to reported profit before tax adjusted for the add back of movements in the value of derivatives and hedge accounting, FSCS levy releases, transformation costs and gains on business combinations.

Profit before tax on a reported basis and underlying basis are set out below. Certain aspects of results are presented to reflect management's view of underlying results and to provide a clearer representation of the performance of the Nationwide Group.

	For the six month period ended 30 September 2010				
	As reported	**Fair value and other adjustments**	**FSCS cost**	**Transformation costs**	**Underlying profit before tax**
			(£ millions)		
Net interest income	758	-	-	-	758
Other income	216	-	-	-	216
Fair value adjustments from derivatives and hedge accounting	118	(118)	-	-	-
Total income	**1,092**	**(118)**	**-**	**-**	**974**
Administrative expenses	563	-	-	(6)	557
Depreciation and amortisation	70	-	-	-	70
Impairment losses on loans and advances to customers	179	-	-	-	179
Provisions for liabilities and charges	(10)	-	-	-	10
Impairment losses on investment securities	31	-	-	-	31
Profit before tax	259	(118)	-	6	147

	For the six month period ended 30 September 2009				
	As reported	**Fair value and other adjustments**	**FSCS cost**	**Gain on portfolio acquisition**	**Underlying profit before tax**
			(£ millions)		
Net interest income	891	-	-	-	891
Other income	218	-	-	(40)	178
Fair value adjustments from derivatives and hedge accounting	(15)	15	-	-	-
Total income	**1,094**	**15**	**-**	**(40)**	**1,069**
Administrative expenses	561	-	-	-	561
Depreciation and amortisation	75	-	-	-	75
Impairment losses on loans and advances to customers	317	-	-	-	317
Provisions for liabilities and charges	(1)	-	1	-	-
Impairment losses on investment securities	(1)	-	-	-	(1)
Profit before tax	143	15	(1)	(40)	117

The following discussion considers our results for the six month period ended 30 September 2010 compared to our results for the six month period ended 30 September 2009.

Total income

Our total income remained steady at £1,092 million in the six month period ended 30 September 2010 compared to £1,094 million in the six month period ended 30 September 2009. The following table sets forth the components of income for the six month periods ended 30 September 2010 and 30 September 2009, respectively.

	For the six month period ended 30 September	
	2010	**2009**
	(£ millions)	
Net interest income	758	891
Net fees and commissions	212	172
Income from investments	1	-
Other operating income	3	46
Gains/ (losses) from derivatives and hedge accounting	118	(15)
Total	**1,092**	**1,094**

Net interest income

Net interest income decreased by 14.9% to £758 million for the six month period ended 30 September 2010 compared with £891 million for the six month period ended 30 September 2009.

The following table sets forth the components of net interest income for the six month periods ended 30 September 2010 and 2009, respectively.

	For the six month period ended 30 September	
	2010	2009
	(£ millions)	
Interest and similar income:		
On residential mortgages	2,506	2,660
On other loans	559	584
On investment securities	601	527
On other liquid assets	14	30
Other interest receivable	1	5
Net (expense) on financial instruments hedging assets	(1,546)	(1,455)
Expected return on pension assets	83	58
Foreign exchange difference	-	7
Total interest and similar income	**2,218**	**2,416**
Interest expense and similar charges:		
On UK retail member deposits	(1,207)	(1,215)
On subscribed capital	(47)	(47)
On deposits and other borrowings:		
Subordinated liabilities	(53)	(47)
Other	(132)	(221)
Debt securities in issue	(427)	(449)
Net income on financial instruments hedging liabilities	489	523
Pension interest cost	(83)	(69)
Total interest expense and similar charges	**(1,460)**	**(1,525)**
Net interest income	758	891

Interest and similar income

Interest and similar income decreased by 8.2% to £2,218 million in the six month period ended 30 September 2010 from £2,416 million in the six month period ended 30 September 2009.

On residential mortgages

Interest on residential mortgages decreased by 5.8% to £2,506 million in the six month period ended 30 September 2010 from £2,660 million in the six month period ended 30 September 2009. The reduction in income is attributable to the combination of a 2.0% decrease in the size of our average residential mortgage portfolio to £135,843 million in the six month period ended 30 September 2010 from £138,561 million in the six month period ended 30 September 2009 and a small decrease in average interest rates between the two periods to 4.0% for the six month period ended 30 September 2010 from 4.2% for the six month period ended 30 September 2009. The decrease in the size of our average residential mortgage portfolio reflects active management of our balance sheet, adjusting our business flows in response to the recessionary conditions and the significant contraction in the market.

On other loans

Interest on other loans includes interest income that we earned from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans decreased by 4.3% to £559 million in the six month period ended 30 September 2010 from £584 million in the six month period ended 30 September 2009. The decrease is a result of a small reduction in the average balances of other loans and a decrease in the interest rates charged.

On investment securities

Interest and other income from investment securities comprises interest income earned on the corporate and government investment securities that we purchase for our own account to manage our investment and liquidity portfolios and net realized gains and losses on our sales of these instruments.

Interest and other income from investment securities increased by 14.0% to £601 million for the six month period ended 30 September 2010 compared with £527 million for the six month period ended 30 September 2009. However, net of foreign exchange differences and net expenses on financial instruments hedging assets there has been a decrease to £137 million for the six month period ended 30 September 2010 from £340 million for the six month period ended 30 September 2009. This decrease is due to a fall of 6.1% in the average balance of securities held in both the investment and liquidity portfolios to £21,743 million in the six month period ended 30 September 2010 from £23,165 million for the six month period ended 30 September 2009 combined with a decrease in the average interest rate earned on such assets to 1.3% in the six month period ended 30 September 2010, compared to 2.9% for the six month period ended 30 September 2009. The decrease in average interest rates is a direct result of decreases in market rates between the two periods.

Net income/expense on financial instruments hedging assets

We use derivative instruments to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as "net expense on financial instruments hedging assets". In the six month period ended 30 September 2010, we incurred a net expense of £1,546 million on financial instruments used to hedge our fixed rate assets compared with a net expense of £1,455 million in the six month period ended 30 September 2009. As LIBOR rates have remained at very low levels seen during the six month periods ended 30 September 2010 and 30 September 2009, the floating rate income on these financial instruments has reduced, resulting in an increased expense to the Nationwide Group.

Expected return on pension assets

Under IFRS, interest earned on pension fund assets is recognised in interest and similar income and the release of discounts on pension fund liabilities is recognised in interest expense and similar charges in the income statement. These amounts are calculated by an independent actuary using accepted methodology and agreed assumptions.

Interest expense and similar charges

Interest expense and similar charges decreased by 4.3% in the six month period ended 30 September 2010 to £1,460 million from £1,525 million in the six month period ended 30 September 2009.

On UK retail member deposits

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits remained consistent at £1,207 million in the six month period ended 30 September 2010 from £1,215 million in the six month period ended 30 September 2009.

This reflects a small increase in the average interest rate that we paid to depositors to 2.0% for the six month period ended 30 September 2010 compared with 1.9% in the six month period ended 30 September 2009 offset by a 2.5% reduction in the average balance of UK retail member deposits held to £122,011 million in the six month period ended 30 September 2010 from £125,145 million in the six month period ended 30 September 2009. In the current low interest rate environment the UK savings market remains subdued. We have actively managed our flow of retail savings to achieve a balance between securing funds at an economic rate and providing long term good value to our members.

On deposits and other borrowings

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the six month period ended 30 September 2010 interest on subordinated liabilities increased by 12.8% to £53 million from £47 million in the six month period ended 30 September 2009. The increase was partially a result of refinancing subordinated debt: we issued €750 million of new subordinated debt on July 2010 with a coupon of 6.75% and redeemed our existing issue of the same size that had a coupon of 3.375% in August 2010. The remaining increase in the interest expense was a result of exchange rate movements as all interest rates on our subordinated liabilities are fixed and therefore not affected by changes in market interest rates.

Other interest expense on deposits and other borrowings include the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the six month period ended 30 September 2010, other interest expense on deposits and other borrowings decreased by 40.3% to £132 million from £221 million in the six month period ended 30 September 2009. This reduction is due to a combination of the fall in market interest rates together with a decrease in the average monthly balance of deposits and other borrowings, excluding subordinated liabilities, of 27.3% to £15,689 million in the six month period ended 30 September 2010 compared with £21,578 million in the six month period ended 30 September 2009.

Debt securities in issue

Debt securities in issue include interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the six month period ended 30 September 2010, interest expense on debt securities in issue decreased by 4.9% to £427 million from £449 million in the six month period ended 30 September 2009. This reduction relates to a 6.4% decrease in the average monthly balance of debt securities in issue to £35,313 million in the six month period ended 30 September 2010, compared with £37,727 million in the six month period ended 30 September 2009. Such decrease was due to changes in our internal liquidity requirements that were predominantly driven by changes in external market factors between the two periods. However, the average interest rate paid before adjusting for income/expense on financial instruments hedging liabilities increased slightly to 2.42% for the six month period ended 30 September 2010, compared with 2.38% for the six month period ended 30 September 2009. The decrease was a result of the performance of derivatives in the market.

Net income/expense on financial instruments hedging liabilities

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as "net income/expense on financial instruments hedging liabilities". In the six month period ended 30 September 2010, net income on financial instruments used to hedge our fixed rate liabilities was £489 million, compared with a net income of £523 million in the six month period ended 30 September 2009.

Net fees and commissions

The following table sets forth the components of net fees and commissions for the six month periods ended 30 September 2010 and 2009 respectively:

	For the six month period ended 30 September	
	2010	2009
	(£ millions)	
Fee and commission income:		
Mortgage related fees	19	13
Banking and savings fees	80	74
General insurance fees.	69	50
Other fees and commissions	46	38
Total fee and commission income	**214**	**175**
Fee and commission expense:		
Mortgage related fees	1	-
Other fees and commissions	1	3
Total fee and commission expense	**2**	**3**
Net fee and commission income	212	172

Income from net fees and commissions consists of income that we earn from lending, banking and savings fees and insurance sales commissions less lending fees and commission expense.

In the six month period ended 30 September 2010, net fees and commissions increased by 23.3% to £212 million compared with £172 million in the six month period ended 30 September 2009. This increase has been driven by strong sales of protection and investment products, predominantly Unit Trust and Equity ISAs. In addition, general insurance commission and mortgage payment protection income has increased following contract renegotiations in the period. Moreover, profit share from mortgage payment protection insurance policies has increased as a result of lower unemployment claims in the six month period ended 30 September 2010 compared with the six month period ended 30 September 2009.

Other operating income

In the six month period ended 30 September 2010, other operating income decreased by 93.5% to £3 million, compared with £46 million in the six month period ended 30 September 2009. This is due to the inclusion in other operating income for the six month period ended 30 September 2009 of a one-time £40 million gain on the Dunfermline Social Housing portfolio which was acquired from DBS Bridge Bank Limited on 30 June 2009.

Gain/losses on derivatives and hedge accounting

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives are only used to limit the extent to which we could be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. Derivatives are therefore used exclusively to hedge risk exposures and are not used for speculative purposes.

Where effective hedge accounting relationships can be established, the movement in the fair value of the derivative instrument is offset in full or in part by opposite movements in fair value of the underlying asset or liability being hedged. Any ineffectiveness arising from different movements in fair value will likely trend to zero over time.

In addition, we enter into certain derivative contracts which, although efficient economically, cannot be included in effective hedge accounting relationships. Consequently, although the implicit interest cost of the underlying instrument and associated derivatives are included in “Net interest income” in the income statement, fair value movements on such derivatives are included in "Gains from derivatives and hedge accounting".

Gains from derivative and hedge accounting were £118 million in the six month period ended 30 September 2010 compared to losses of £15 million in the six month period ended 30 September 2009. The £118 million credit in the six month period ended 30 September 2010 represents the change during such period in the fair value of derivative instruments, offset, where applicable, by the change in fair value of the underlying asset or liability attributable to the hedged risk.

In the six month period ended 30 September 2010 we recorded gains from fair valuation of mortgage commitments of £10 million. As a result of structural changes in our balance sheet, this practice was ended with effect from 1 July 2010 (see note 2 to the our unaudited consolidated financial statements for the six month period ended 30 September 2010 incorporated by reference herein). We enter into derivatives to economically hedge forecast fixed rate savings. The accounting mismatch between the derivative being entered into and recognition of the liability created a gain of £28 million in the six month period ended 30 September 2010. Finally we recognised material hedge adjustments on disposal of gilt assets of £30 million and early cancellation of a covered bond liability of £26 million. The gains associated with these disposals reversed losses previously reported.

Operating expenses and similar charges

Operating expenses and similar charges decreased by 12.4% in the six month period ended 30 September 2010 to £833 million from £951 million in the six month period ended 30 September 2009. The following table sets forth the components of operating expenses and similar charges for the six month periods ended 30 September 2010 and 2009, respectively.

	For the six month period ended 30 September	
	2010	**2009**
	(£ millions)	
Administrative expenses	563	561
Depreciation and amortisation	70	75
Impairment losses on loans and advances to customers	179	317
Provisions for liabilities and charges	(10)	(1)
Impairment losses on investment securities	31	(1)
Total	**833**	**951**

Administrative Expenses

Administrative expenses remained consistent in the six month period ended 30 September 2010 at £563 million compared to £561 million in the six month period ended 30 September 2009. On-going administrative expenses as an annualised percentage of total average assets increased slightly to 0.59% in the six month period ended 30 September 2010 from 0.56% in the six month period ended 30 September 2009.

The following table sets forth the components of administrative expenses for the six month periods ended 30 September 2010 and 2009, respectively.

	For the six month period ended 30 September	
	2010	2009
	(£ millions)	
Employee costs:		
Salaries and social security costs	249	260
Pension costs	42	37
Other administrative costs	272	264
Total	**563**	**561**

Employee costs are made up of salaries, social security costs (which consist entirely of mandatory UK national insurance contributions) and pension costs.

In the six month period ended 30 September 2010, salaries and social security costs decreased by 4.2% to £249 million from £260 million in the six month period ended 30 September 2009. This decrease reflects the impacts of synergies and our ongoing focus on efficiency savings which have enabled some reductions in headcount across the Nationwide Group. The impact of the reduction in headcount will have been partly offset by typical annual salary increases and merit-based salary increases to some employees.

Within employee costs, the pension charge increased by 13.5% to £42 million for the six month period ended 30 September 2010 from £37 million in the six month period ended 30 September 2009. The increase in pension costs is due a decrease in the AA bond rates used to discount the pension costs to 5.6% for the six month period ended 30 September 2010 from 6.5% the six month period ended 30 September 2009, partly offset by a shift in membership from defined benefit to cheaper defined contribution pension arrangements and a reduction in past service costs.

The Nationwide Group operates defined benefit arrangements and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund. This is a contributory defined benefit arrangement, with two main sections. The final salary section was closed to new entrants in 2001 and the career average revalued earnings (**CARE**) section was closed to new entrants on 31 May 2007. Since that date, new employees have the option of joining a new defined contribution arrangement.

The Nationwide Group's net retirement benefit liability was £720 million as at 30 September 2010 (30 September 2009: £586 million). This change reflects both an increase in the measurement of Fund liabilities and a fall in the market values of Fund assets. The primary reason for the increase in the Fund liabilities is a reduction in the discount rate (which is based on AA long term corporate bond yields) to 5.1% (30 September 2009: 5.5%, 4 April 2010: 5.6%).

We have been actively managing our retirement benefit liability and have taken a number of steps to contain and reduce the deficit over time:

- Final Salary arrangements closed to new members since 2001 and CARE arrangements closed in May 2007;
- Employee contributions (final salary arrangements) increased from 5% to 7% on 1 July 2006;
- Special contributions of £200 million were paid in the period 2005/06 – 2007/08;
- Transfers in and new Additional Voluntary Contribution arrangements were stopped from 31 December 2009; and
- The Pension Trustees continue to work closely with their advisors to optimize the investment strategy for the schemes' assets.

We will continue to review our options to manage the pension schemes in a responsible way.

Other administrative costs increased by 3.0% to £272 million for the six month period ended 30 September 2010 from £264 million for the six month period ended 30 September 2009. The expenses for the period ended 30 September 2010 include £6 million of transformation costs relating to the restructuring of parts of our business. These costs are "one off" in nature and are therefore excluded from the calculation of underlying/ongoing profit. Other main categories of expenditure include advertising and marketing, postage and communications, rent and associated taxes, computer hardware maintenance, property maintenance, ATM costs and equipment leasing.

Ongoing other administration costs have remained broadly flat at £266 million for the six month period ended 30 September 2010 compared to £264 million for the six month period ended 30 September 2009. This reflects our commitment and ability to manage our cost base. Cost control has been achieved through a number of measures including cost synergies and an ongoing focus on efficiency savings across the Nationwide Group.

Depreciation and amortisation

For the six month period ended 30 September 2010, depreciation and amortisation expenses decreased by £5 million to £70 million compared to £75 million for the six month period ended 30 September 2009.

Impairment losses on loans and advances to customers

We assess at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of assets is impaired. Evidence of impairment may include indications that a borrower or group of borrowers are experiencing significant financial difficulty or default or delinquency in interest or principal payments.

Impairment losses on loans and advances to customers for the six month period ended 30 September 2010 decreased by 43.5% to £179 million from £317 million for the six month period ended 30 September 2009.

The following table analyzes the impairment losses on loans and advances to customers for the six month periods ended 30 September 2010 and 2009, respectively.

	For the six month period ended 30 September	
	2010	**2009**
	(£ millions)	
Residential mortgages	45	45
Commercial lending	95	180
Unsecured lending	43	62
Other secured lending	(4)	30
Total	**179**	**317**

The impairment loss on loans to customers of £179 million for the six month period ended 30 September 2010 is significantly lower than the £317 million charge for the six month period ended 30 September 2009. We believe that the underlying quality of our lending remains strong but is inevitably affected by recessionary conditions and falling asset values in the commercial sector.

The impairment loss of £45 million for the six month period ended 30 September 2010 on residential mortgages incorporates an increase in prime mortgage provisions of £24 million and a reduction to the specialist mortgage provisions of £24 million. Although we have not seen any worsening of arrears in our prime book, we have taken a prudent approach in making additional provisions in the half year by increasing the charge on the prime book to £29 million, reflecting increased uncertainty over the future direction of house prices and an allowance for forbearance policies within our provisioning models. Residential mortgages impairment provisions held on balance sheet increased by 18.9% to £176 million for the six month period ended 30 September 2010 from £148 million for the six month period ended 30 September 2009, and the residential mortgages provision as a percentage of total residential mortgages increased to 0.14% as compared to 0.12% in the six month period ended 30 September 2009. In the same period residential mortgages balances more than three months in arrears increased by 1.8%.

In our commercial lending division, ongoing difficult market conditions resulted in further commercial loan defaults and a charge of £95 million for the six month period ended 30 September 2010 compared with £180 million in the six month period ended 30 September 2009. Defaults in the six month period ended 30 September 2010 have been triggered by tenant failures and our borrowers' subsequent inability to service loans, along with covenant breaches and business failures on owner occupied properties. The number of Nationwide-originated commercial property cases more than three months in arrears increased from 285 cases at 4 April 2010 to 313 cases at 30 September 2010. This equates to 3.15% of commercial originated accounts (4 April 2010: 2.77%).

Our total commercial portfolio includes £194 million of subordinated exposures, of which £85 million are provided for, and the Nationwide Group's residual exposure to subordinated loans is therefore restricted to the unprovided balances of £109 million. Within this portfolio, for loans that Nationwide originated (i.e., excluding loans acquired via the mergers with the Cheshire and Derbyshire, and the Dunfermline acquisition), the subordinated exposure is £137 million, of which £60 million is now fully provided. All unprovided exposures are being closely monitored and currently are performing satisfactorily.

The overall level of provision for commercial lending as a percentage of Nationwide originated assets increased to 2.09% (4 April 2010: 1.97%) and the provision coverage ratio (which is the percentage of principal balance that is covered by provisions taken) with respect to balances more than three months in arrears is 51.5% (4 April 2010: 48.0%).

The impairment charge for unsecured lending decreased to £43 million for the six month period ended 30 September 2010 compared with £62 million for the six month period ended 30 September 2009. This is driven by personal loans and the FlexAccount (current account) product, in both cases the change being due to the collective provisions increasing during the previous year, but decreasing during the six month period ended 30 September 2010 in line with the reduction in delinquent balances. The book improvement is coupled with improved collection processes and a slight improvement in our customers' ability to repay.

The release of £4 million for the six month period ended 30 September 2010 for other secured lending is in respect of a small one-off reduction to provisions in respect of a portfolio of European commercial loans acquired by our Treasury Division. The £30 million charge in the six month period ended 30 September 2010 relates to the same portfolio. The portfolio is managed on our behalf by a leading European investment manager.

Provisions for liabilities and charges

The following table sets forth the components of provisions for contingent liabilities and commitments for the six month periods ended 30 September 2010 and 2009, respectively.

	For the six month period ended 30 September	
	2010	**2009**
	(£ millions)	
FSCS	-	(1)
Other provisions	(10)	-
Total	**(10)**	**(1)**

The FSCS provision is to meet expected levies payable on the Nationwide Group's estimated share of interest on loans received by the FSCS from HM Treasury in respect of scheme years ending on and before 31 March 2011.

For further information on the FSCS see "*The Issuer–Financial Services Compensation Scheme*".

Impairment losses on investment securities

Under IAS 39: Financial Instruments: Recognition and Measurement (**IAS 39**), provisions against investment securities are made where there is objective evidence of impairment at the balance sheet date.

During the six month period ended 30 September 2010, an impairment loss of £31 million was recognised compared with a release of £1 million in the six month period ended 30 September 2009. The impairment provision for the six month period ended 30 September 2010, consists of £20 million impairment on a small number of US RMBS exposures and £11 million on notes of a Structured Investment Vehicle (**SIV**) which was restructured in 2007. At the start of the credit crunch in August 2007, the Nationwide Group held £167 million in seven SIVs and the exposure to all of these was removed through participation in various restructurings that had mostly occurred by the end of the financial year ended 4 April 2008. The £11 million impairment relates to one of these restructured SIVs and is not expected to be a recurring feature in future charges.

Taxes

Tax on our profit on ordinary activities for the six month period ended 30 September 2010 amounted to £62 million based on our reported profit on ordinary activities before tax of £259 million, reflecting an effective tax rate of 23.9% as compared with the prevailing UK corporation tax rate of 28%. For the six month period ended 30 September 2009, tax on our profit on ordinary activities amounted to £41 million based on our reported profit on ordinary activities of £143 million, reflecting an effective tax rate of 28.4% as compared with the prevailing UK corporation tax rate of 28%. The lower effective tax rate reflects the recognition of previously unrecognised losses, lower overseas tax rates and the effect through the income statement on deferred tax of the change in corporation tax rate to 27%. This has been partially offset by the effects of non-deductible expenditure and tax paid in respect of our Irish branch. As higher costs are expected in the second half of the current financial year due to FSCS levies, reduced profitability could result in the above items having a larger effect on the full year rate for the year ended 4 April 2011 than for the six month period ended 30 September 2010.

Balance Sheet Review

Loans and advances to customers

Our lending remains predominantly concentrated on prime quality, secured products, with residential mortgages (both prime and specialist) accounting for 83.5% of our total loans and advances to customers, commercial lending 14.6% and consumer banking 1.5% as at 30 September 2010. The mix of lending as at 30 September 2010 has remained broadly consistent with that reported as at 4 April 2010. The following table sets forth the breakdown of loans and advances to customers as at 30 September 2010 and 4 April 2010.

	As at 30 September		As at 4 April	
	2010		2010	
	(£ billions, except percentages)			
Prime residential mortgages	106.7	70.7%	108.7	71.3%
Specialist residential mortgages	19.3	12.8%	18.7	12.2%
Total residential mortgages	**126.0**	**83.5%**	**127.4**	**83.5%**
Commercial lending	22.0	14.6%	22.2	14.6%
Consumer banking	2.3	1.5%	2.3	1.5%
Other operations lending	0.6	0.4%	0.6	0.4%
Gross balances	150.9	100.0%	152.5	100.0%
Impairment provisions	(0.8)		(0.8)	
Fair value adjustments for micro hedged risk	1.0		0.7	
Total	**151.1**		**152.4**	

Residential mortgage portfolio

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet as at 30 September 2010 includes prime residential mortgages totaling £4.3 billion which were brought on to our balance sheet following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios.

Specialist residential mortgages as at 30 September 2010 were made up of £16.4 billion of advances made through our specialist lending brands, The Mortgage Works (**TMW**) and UCB Home Loans (**UCB**), and £2.9 billion arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline specialist lending brands. Loans were advanced primarily in the buy-to-let and self-certification markets. As at 30 September 2010, buy-to-let mortgages make up 69% of total specialist lending, 22% relates to self-certification mortgages, 7% relates to near prime and just 2%, amounting to approximately £0.4 billion, relates to sub prime.

Gross prime residential lending in the six month period ended 30 September 2010 amounted to £4.7 billion. Specialist residential lending in the six month period ended 30 September 2010 of £1.3 billion was almost exclusively in the buy-to-let sector with a small amount of prime residential lending, insignificant amounts of self-certified lending and no sub or near prime lending.

Residential mortgages are only secured against UK properties. The Nationwide Group operates across the whole of the UK with a bias towards the South East of England and Greater London, reflecting the concentration of branches in that region and historically higher asset value growth trends. We continued to focus on affordability and loan-to-value (**LTV**) ratios in underwriting residential mortgages during the six month period ended 30 September 2010. The average LTV of residential mortgages completed in the six month period ended 30 September 2010 was 64% (six month period ended 30 September 2009: 63%), whilst the average indexed LTV of residential mortgages as at 30 September 2010 has fallen to 47%. The value of residential property is updated on a quarterly basis to reflect changes in the Nationwide house price index. The following table sets forth a breakdown of the LTV analysis of our residential mortgage portfolio as at 30 September 2010 and 4 April 2010.

	As at 30 September 2010	As at 4 April 2010
	(percentages)	
Total portfolio of residential mortgages:		
<50%	55	54
50% - 60%	10	10
60% - 70%	11	10
70% - 80%	11	10
80% - 90%	8	8
90% - 100%	4	6
> 100%	1	2
	100	**100**
Average loan to value of stock (indexed)	47	48
Average loan to value of new business	64	63
New business profile:		
First-time buyers	24	26
Home movers	39	38
Remortgagers	9	18
Buy-to-let	28	18
	100	**100**

The analysis of the new business profile excludes further advances, which were previously included in remortgages.

The table below presents residential mortgages three months or more in arrears as a percentage of our total residential mortgage portfolio, and shows arrears in prime mortgages remained broadly stable compared to 4 April 2010 whilst there has been a reduction in arrears in specialist mortgages with respect to Nationwide-originated mortgages at 30 September 2010 from 4 April 2010 helped by strong book growth, low reversion rates and a buoyant rental market. We continue to maintain our very favourable position to the industry on both originated business and lending including acquired loans. Specialist residential mortgages originated by Nationwide continue to perform well and remain broadly in line with the industry measure (that includes prime residential mortgages).

Cases three months or more in arrears as % of total book of residential mortgages	As at 30 September 2010	As at 4 April 2010
	(percentages)	
Nationwide-originated residential mortgages:		
Prime	0.51	0.52
Specialist	2.18	2.28
Total Nationwide-originated residential mortgages	**0.67**	**0.68**
Nationwide Group residential mortgages: (1)		
Prime	0.53	0.54
Specialist	2.77	3.37
Total Nationwide Group residential mortgages	**0.77**	**0.82**
Industry average	2.15	2.27

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

Residential mortgage assets acquired with Cheshire, Derbyshire, and Dunfermline's brands were fair valued at acquisition on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £59 million of losses have been written off and, as reported at 4 September 2010, we continue to believe it is unlikely that these loans will contribute any significant losses to the Nationwide Group in excess of the fair value allowance made at the time of acquisition. Accordingly in evaluating the Nationwide Group's exposure to losses, as well as the quality of its underwriting process, we believe that it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

We maintain close relationships with customers experiencing financial difficulties and work with them to agree the most appropriate course of action. In the case of short term difficulty, we will seek to agree revised payment schedules with the customer, which may include a reduction to the contractual payment due. If the customer can meet the interest portion of their repayment, we may grant a temporary interest only concession which would be non-arrears bearing as long as the customer continues to meet the terms of the new arrangement. Where this is not the case, arrears will continue to accrue and will be included in the arrears numbers reported above. Payment holidays are also non-arrears bearing, but a credit score assessment is included as part of the eligibility criteria to restrict the use of this concession.

If a customer demonstrates they are able to meet a payment schedule at a normal commercial rate for a period of six months, and only if they request it, we may 'capitalise' the arrears on their account. This will result in an enlarged outstanding balance but no arrears and consequently these cases will no longer be reported as arrears.

The number of Nationwide Group borrowers in possession, including borrowers under residential mortgages acquired from Cheshire, Derbyshire, and Dunfermline building societies, of 868 represented 0.06% of the total residential mortgage portfolio at 30 September 2010. As buy-to-let borrowers may have more than one property, possession measures are slightly higher on a property basis but, at 941 properties, representing 0.07% of our book at 30 September 2010 this compares very favourably with the industry measure of 0.12% at 30 September 2010. Excluding the impact of residential mortgages from the acquired societies, our position relative to the industry is even more favourable. The table below shows possessions as a percentage of our residential mortgage portfolio for both Nationwide-originated and total Nationwide Group residential mortgages.

Possessions as % of total book of residential mortgages (number of borrowers)

	As at 30 September 2010	As at 4 April 2010
	(percentages)	
Nationwide-originated residential mortgages:		
Prime	0.024	0.021
Specialist	0.307	0.414
Total Nationwide-originated residential mortgages	**0.052**	**0.055**
Nationwide Group residential mortgages: (1)		
Prime	0.025	0.021
Specialist	0.381	0.497
Total Nationwide Group residential mortgages	**0.063**	**0.069**

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is demonstrated by the number of properties taken into possession compared with the total for the industry. During the six month period ended 30 September 2010, 602 Nationwide-originated properties were taken into possession representing only 3.29% of properties taken in by the industry as a whole against our residential mortgage market share of 11.44%.

The table below provides further information on the residential mortgage portfolio by payment due status:

	As at 30 September 2010					As at 4 April 2010				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
	(£ billions, except percentages)									
Not impaired:										
Neither past due nor impaired	104.1	17.2	2.1	**123.4**	96%	106.3	16.5	2.1	**124.9**	96%
Past due up to 3 months but not impaired	2.1	1.2	0.0	**3.3**	3%	1.9	1.2	0.0	**3.1**	3%
Impaired	0.5	0.9	0.2	**1.6**	1%	0.5	1.0	0.2	**1.7**	1%
Total	**106.7**	**19.3**	**2.3**	**128.3**	**100%**	**108.7**	**18.7**	**2.3**	**129.7**	**100%**

The status "past due up to three months but not impaired" includes any asset where a payment due is received late or missed. The amount included is the entire financial asset balance rather than just the payment overdue. Loans on interest only or payment holiday concessions are initially categorised according to their payment status as at the date of concession, with subsequent revisions to this category assessed against the terms of the concession.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on such loans, with the amount of such allowances determined by us based on our expectation of the proportion that are likely to be repaid. Loans acquired from the Derbyshire, Cheshire and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for anticipated losses over the remaining life of the loans. Impaired retail loans are broken down further in the following table:

	As at 30 September 2010					As at 4 April 2010				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
	(£ millions, except percentages)									
Impaired status:										
Past due 3 to 6 months	279	300	70	**649**	41%	280	342	60	**682**	39%
Past due 6 to 12 months	176	252	47	**475**	30%	174	282	67	**523**	30%
Past due over 12 months	80	187	44	**311**	20%	81	222	45	**348**	20%
Possessions	30	115	-	**145**	9%	30	160	-	**190**	11%
Total	**565**	**854**	**161**	**1,580**	**100%**	**565**	**1,006**	**172**	**1,743**	**100%**

Possession balances represent properties of which Nationwide has taken ownership pending their sale.

£131 million of retail loans that would otherwise be categorized as past due or impaired have had their terms renegotiated or have been capitalised in the six month period ended 30 September 2010. Customers with loans in arrears are only permitted to renegotiate where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period. Once renegotiated the loans are categorised as not impaired as long as contractual repayments are maintained.

The following table presents collateral held against past due or impaired retail residential mortgages:

	As at 30 September 2010				As at 4 April 2010			
	Prime lending		Specialist lending		Prime lending		Specialist lending	
	(£ million, except percentages)							
Past due but not impaired	2,053	100%	1,250	99%	1,884	100%	1,159	99%
Impaired	533	100%	721	98%	532	99%	829	98%
Possessions	29	97%	107	93%	29	97%	150	94%
Total	**2,615**	**100%**	**2,078**	**98%**	**2,445**	**100%**	**2,138**	**98%**

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The percentages in the table above represent the cover over the impaired asset.

The following table presents negative equity on residential mortgages:

	As at 30 September 2010		As at 4 April 2010	
	Prime lending	**Specialist lending**	**Prime lending**	**Specialist lending**
		(£ million)		
Past due but not impaired	2	11	5	10
Impaired	2	18	3	17
Possessions	1	8	1	10
Total	**5**	**37**	**9**	**37**

Commercial loan portfolio

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under Government supported Private Finance Initiatives (**PFIs**).

Our commercial loan portfolio of £22.0 billion as at 30 September 2010 (4 April 2010: £22.2 billion) consists of £20.7 billion (4 April 2010: £20.9 billion) of Nationwide-originated lending and £1.3 billion (4 April 2010: £1.3 billion) of commercial loans acquired from the Derbyshire, Cheshire and Dunfermline building societies. As at 30 September 2010, our Nationwide-originated portfolio comprises £12.1 billion of property finance secured on commercial property, £7.2 billion advanced to Registered Social Landlords and £1.4 billion advanced under the PFI. Loans to Registered Social Landlords are secured on residential property, and loans advanced under the PFI are secured on cash flows from Government backed contracts. In terms of Nationwide-originated lending, as at 30 September 2010, we have only modest exposure to development finance with total balances of £155 million, and a total further commitment of £47 million, relating to three office developments in the centre of London.

There are currently no arrears of three months or more on the Registered Social Landlord and PFI portfolios and we believe that our property finance portfolio is well diversified by industry type and by borrower.

The Nationwide-originated commercial loan portfolio as at 30 September 2010 includes £137 million of subordinated exposures, against which £60 million of provisions have been raised. The Nationwide Group's residual exposure to these subordinated loans is therefore restricted to the unprovided balances of £77 million (which consist of six cases) which are currently performing satisfactorily.

The number of Nationwide-originated property finance loans more than three months in arrears increased to 313 loans at 30 September 2010 from 285 loans at 4 April 2010. This equates to 3.15% of Nationwide-originated commercial loans (4 April 2010: 2.77%). Total arrears balances on these loans at 30 September 2010 were £47 million (4 April 2010: £42 million). Robust arrears management is carried out by dedicated teams who, supported by daily arrears reporting, maintain a focus on early intervention to maximize economic value and mitigate losses. There are currently no arrears of three months or more on these portfolios.

Commercial mortgage loans totaling £1.3 billion acquired through mergers with the Cheshire and Derbyshire building societies and the acquisition of the Dunfermline Building Society's social housing portfolio have been fair valued in the same way as described for residential assets above, including a credit risk adjustment of £179 million for anticipated losses over the remaining life of the loans, none of which relates to Dunfermline's social housing portfolio. A loan loss impairment charge of £10 million has been raised since the mergers as 31 individually assessed cases have an impairment provision requirement in excess of the original fair value adjustment. However, in most cases, the credit risk adjustment exceeds the current impairment provision requirement and we continue to believe that acquired loans are unlikely to contribute any significant net losses to the Nationwide Group over their lifetime.

Although we continue to expect difficult market conditions, and further impairment provisions, we remain confident that our commercial loan portfolio, which is primarily focused on what we believe is low risk lending, will perform better than most and this, combined with proactive management, should ensure that commercial lending continues to make a positive long term contribution to the Nationwide Group.

Other operations loan portfolio

As at 30 September 2010, balances for other operations lending include a secured European commercial loan portfolio of £278 million (4 April 2010: £299 million) and unsecured lending of £261 million (4 April 2010: £277 million) relating to a student loan portfolio. These investments were acquired by Treasury Division and are therefore held within the Head Office functions.

As at 30 September 2010, there are £13 million (4 April 2010: £38 million) past due or impaired balances classified above as other operations. All of the £13 million (4 April 2010: £11 million) relates to the unsecured student loan portfolio.

The table below provides further information on the commercial and other operations loan portfolio by payment due status:

	As at 30 September 2010				As at 4 April 2010			
	Commercial		Other operations		Commercial		Other operations	
	(£ billion, except percentages)							
Neither past due nor impaired	20.4	93%	0.6	100%	20.9	94%	0.6	100%
Past due up to 3 months but not impaired	0.7	3%	-	-	0.4	2%	-	-
Impaired	0.9	4%	-	-	0.9	4%	-	-
Total	**22.0**	**100%**	**0.6**	**100%**	**22.2**	**100%**	**0.6**	**100%**

The status "past due up to three months but not impaired" includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. This analysis includes commercial mortgage loans totaling £1.3 billion acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies. These loans were fair valued on a basis which made allowances for anticipated losses over the life of the loans. Impaired loans totalling £66 million as at 30 September 2010 (4 April 2010: £67 million) in the above analysis have thus been fair valued We therefore believe these loans should not contribute any significant losses to the Nationwide Group for the foreseeable future.

Impaired commercial and other operations loans are further analyzed in the following table:

	As at 30 September 2010				As at 4 April 2010			
	Commercial		Other operations		Commercial		Other operations	
	(£ million, except percentages)							
Impaired status:								
Past due 3 to 6 months	184	20%	2	29%	291	31%	14	42%
Past due 6 to 12 months	371	41%	2	29%	397	43%	15	46%
Past due over 12 months	353	39%	3	42%	238	26%	4	12%
Possessions	1	-	-	-	-	-	-	-
Total	**909**	**100%**	**7**	**100%**	**926**	**100%**	**33**	**100%**

Commercial loans totaling £1,145 million as at 30 September 2010 (4 April 2010: £960 million) have individual provisions against them. This includes cases which are not more than three months past due. Possession balances represent properties of which Nationwide has taken ownership pending their sale.

£168 million of commercial and other operations loans that would otherwise be categorised as past due or impaired have had their terms renegotiated in the six month period ended 30 September 2010 (year ended 4 April 2010: £300 million). Once renegotiated the loans are categorised as not impaired as long as contractual repayments are maintained.

The following table presents collateral held against past due or impaired commercial loans:

	As at 30 September 2010		As at 4 April 2010	
	(£ million, except percentages)			
Past due but not impaired	653	92%	382	97%
Impaired	771	85%	834	90%
Total	**1,424**	**88%**	**1,216**	**92%**

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The percentages in the table above represent the cover over the impaired asset. No collateral is held against the commercial property held in possession.

The following table presents negative equity on commercial and other operations loans:

	As at 30 September 2010	As at 4 April 2010
	(£ million)	
Past due but not impaired	58	11
Impaired	137	92
Possessions	1	-
Total	**196**	**103**

Consumer banking

In consumer banking personal loans and credit cards have arrears levels significantly lower than averages for the industry according to the Finance & Leasing Association (**FLA**) and the UK Payments Association

(**APACS**) as shown in the table below, which presents the percentage of personal loans and credit card accounts more than 30 days in arrears:

	30 September 2010 Nationwide	30 September 2010 Industry	4 April 2010 Nationwide	4 April 2010 Industry [(1)]
		(percentages)		
Personal loans	6.29	20.5	7.07	19.6
Credit card	4.31	6.10	5.15	6.64

Note:

(1) Industry numbers for Personal Loans and Credit Cards for the prior period have been restated by the FLA and APACS respectively.

Funding and Liquidity

The Society has a strong and well-diversified funding base, which continues to comprise primarily retail savings. During the six month period ended 30 September 2010 we have continued to actively manage our balance sheet in response to market conditions in both wholesale and retail markets. However, in contrast to the position over the financial year ended 4 April 2010, the balance sheet size has only marginally decreased over the last six months, with an increase in members' balances partly offsetting a modest reduction in wholesale funding.

As a building society, we have always maintained a high level of unencumbered liquid assets relative to our banking peers. Over the previous financial year we increased core liquidity from 12.8% at 4 April 2009 to 13.8% at 4 April 2010 and at 30 September 2010 the ratio stood at 13.9%. Liquidity and funding are intrinsically inter-connected and a number of steps continue to be taken to manage the Nationwide Group's funding profile that have had a beneficial impact on the Nationwide Group's overall liquidity position. Over the last two years we have steadily increased the amount and quality of core liquidity in line with the change in regulatory policy as described below.

Liquidity

Liquidity, together with funding and capital, represents the cornerstone of the financial management of a financial institution. Much focus has been applied to this discipline by regulatory authorities in recent years. This has resulted in the FSA publishing a liquidity policy statement, PS 09/16, for firms categorised as "BIPRU firms" in the FSA's UK Prudential Sourcebook For Banks, Building Societies and Investment Firms (**BIPRU**). In addition, the FSA has set out a separate risk management framework for building societies, PS 10/5. Compliance with these new policy statements, given their tight timeframes, has been a key objective of ours during the past year: PS09/16 required the completion of an Individual Liquidity Adequacy Assessment (**ILAA**) by June 2010, and PS10/5 required a building society to have communicated its financial risk management and lending approaches to the FSA by October 2010. While these timeframes have both been met, there are additional requirements including aspects of regulatory reporting and stress testing) which will necessitate further work into 2011.

Liquid assets generally comprise cash deposits held with central banks or unencumbered securities that may be freely sold or are capable of financing through repurchase agreements or other similar arrangements either directly with those central banks to which we have direct access, or with market counterparties. The stock of liquid assets managed by our Treasury Division fall into the following four categories:

Core liquidity

We have continued to focus on the growth and diversification of our core liquidity portfolio through investing in a greater volume of highly liquid sovereign securities. The core portfolio is aligned to the 'Liquid Assets Buffer' defined by the FSA in BIPRU 12 and comprises:

- Deposits held at, and securities issued by, the Bank of England; and
- High quality debt securities of varying maturities issued by governments or designated multi-lateral development banks.

As at 30 September 2010, the core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 13.9%, compared to 13.8% at 4 April 2010 and 12.9% at 30 September 2009. This calculation is made net of any core liquidity holdings that are subject to repo arrangements.

In line with other major UK banks, we have voluntarily accelerated the repayment of certain central bank facilities which currently contribute to core liquidity.

Other eligible central bank assets

In addition to the core portfolio, as at 30 September 2010 the Nationwide Group held a stock of unencumbered securities (excluding self-issuance) that are eligible collateral for either the European Central Bank (**ECB**) repo operations or for the Bank of England extended collateral repo operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

Other securities

We hold other third party liquid assets (such as Floating Rate Notes) that are not eligible at either the Bank of England's or the ECB's operations, but may be capable of financing through third party repo agreements.

Self- issued RMBS and covered bonds

The Nationwide Group holds a stock of self-issued AAA RMBS and covered bonds. These self-issued securities are capable of repo financing either directly with the market or with central banks to which the Nationwide Group has direct access, and therefore represent contingent liquidity available to the Nationwide Group if necessary.

The table below sets out the fair value – before any "haircut" deduction – of each of the above liquidity types as at 30 September 2010. The table includes off balance sheet liquidity (including treasury bills held under the Special Liquidity Scheme and self-issued RMBS and covered bonds) but excludes any encumbered assets.

	As at 30 September 2010	**As at 30 April 2010**
	(£ billion)	
Core liquidity	23.8	23.4
Other central bank eligible assets	6.9	4.7
Other securities	3.5	3.4
Self-issued RMBS and covered bonds	12.4	11.8
Total	**46.6**	**43.3**

The retail savings market in the UK has been relatively subdued in the six month period ended 30 September 2010, with market growth in balances of £7.3 billion driven mainly by interest capitalised. This contrasts with the extremely competitive conditions in the financial year ended 4 April 2010, where a lack of access to wholesale markets led some institutions to compete aggressively for retail deposits by offering attractive rates to generate demand, resulting in balance growth of £8.3 billion in the first half and £21.8 billion in the second half of the year.

We have continued to actively manage our flow of retail savings in order to secure funds at an economic rate whilst offering long term good value products to our members. In the six month period ended 30 September 2010, we have attracted a positive inflow of funds, and retail savings balances have increased by £0.9 billion to £121.9 billion.

The increase in retail savings balances combined with a marginal decrease in balance sheet size has resulted in a reduction in wholesale funding balances such that the wholesale funding level reduced to 26.1% as at 30 September 2010 (4 April 2010: 27.8%).

An analysis of our wholesale funding (made up of deposits from banks, other deposits and debt securities in issue as disclosed on the balance sheet) is set out in the table below.

	As at September 30, 2010		**As at April 4, 2010**	
	(£ billion, except percentages)			
Repo and other secured agreements	3.9	8.6%	7.9	16.0%
Deposits	7.3	15.9%	6.1	12.4%
Certificates of deposit	6.2	13.5%	6.1	12.4%
Commercial paper	5.4	11.8%	6.4	13.0%
Covered bonds	9.9	21.7%	9.1	18.4%
Medium term notes	8.9	19.5%	10.1	20.5%
Securitizations	2.2	4.8%	2.2	4.5%
Other non-retail	1.9	4.2%	1.4	2.8%
Total	**45.7**	**100.0%**	**49.3**	**100.0%**

The reduction in the absolute amount of wholesale funding and in the wholesale funding ratio in the six month period ended 30 September 2010 is a function of the overall management of the Nationwide's balance sheet, as we have controlled the level and quality of lending undertaken and increased members' savings balances. However, we have seen much improved access to wholesale funding in the capital markets as market instability has eased.

In the financial year ended 4 April 2010, the Nationwide Group was particularly active in the term debt capital market, issuing £8.5 billion equivalent of term unsecured and secured debt relative to £4 billion equivalent of maturing term debt. In the current financial year, the long term refinancing requirement is a more modest £1.8 billion equivalent of wholesale term debt maturing, and in September 2010 the Nationwide Group issued a €1.25 billion 5 year covered bond. This was the first externally issued covered bond issued by the Nationwide Group since the start of the financial crisis in 2007.

In October 2010, the Nationwide Group launched its second public secured issuance of RMBS through the Silverstone Master Trust Vehicle via the issue of both US dollar and Euro notes. This raised £1.52 billion Sterling equivalent and has provided further investor diversification to complement our initial Sterling RMBS issuance in November 2009.

Both of these transactions further re-established the Nationwide Group's presence in the secured term funding market and provided breadth and diversification to the unsecured issuances undertaken in the financial year ended 4 April 2010. In addition to these public issuances in the six month period ended 30 September 2010, the Nationwide Group also issued over £200 million Sterling equivalent of private placements, with a weighted average life of over 5 years over this period.

Outside of wholesale funding and therefore not included in the portfolio mix and residual maturity tables included in this section, the Nationwide Group issued €750 million of lower tier 2 subordinated debt in July 2010, which refinances the subordinated debt called in August 2010. This also demonstrated the strength of institutional support for the Nationwide Group. In November 2010 we confirmed that we intend to call £100 million of lower tier 2 capital which falls due for call on December 17, 2010.

The Nationwide Group continues to enjoy a strong franchise in the short term unsecured funding markets, with balances of £16 billion at 30 September 2010 (4 April 2010: £16 billion). The average term at issuance of the short term funding book at 30 September 2010 was 150 days (4 April 2010: 155 days).

The Nationwide Group has extended the maturity profile of its wholesale funding portfolio from 26 months to 27 months and increased the split between short and long term with a further reduction in the less than one year maturity category to 43.3% at 30 September 2010 from 49.7% at 4 April 2010.

The table below sets out the residual maturity of the wholesale funding book:

	As at 30 September 2010		**As at 4 April 2010**	
	(£ billion, except percentages)			
Less than one year	19.8	43.3%	24.5	49.7%
One to two years	8.4	18.4%	4.3	8.8%
Two to five years	9.7	21.2%	11.7	23.6%
More than five years	7.8	17.1%	8.8	17.9%
Total	**45.7**	**100.0%**	**49.3**	**100.0%**

Our short and long term credit ratings from the major rating agencies as at 22 November 2010 are as follows:

	Long Term	**Short Term**	**Subordinated**	**Date of last rating action[(1)]**
Standard & Poor's	A+	A-1	BBB+	October 2010
Moody's	Aa3	P-1	Baa3	November 2010
Fitch	AA-	F1+	A	November 2010
DBRS Inc.	AA	R-1 (middle)	AA (low)	December 2010

Note:
(1) The current outlook from Moody's is stable. The outlook from Standard & Poor's (**S&P**), Fitch and DBRS is negative.

Standard & Poor's Credit Market Services Europe Limited, Fitch Rating Ltd. and Moody's Investors Service Limited are established in the European Union and have applied for registration under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. DBRS, Inc. is not established in the European Union and has not applied for registration under Regulation (EC) No 1060/2009. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Treasury Assets

Nationwide Group treasury assets at 30 September 2010 were £29.4 billion compared with £29.4 billion at 4 April 2010 and are held in two separate portfolios: the prudential portfolio and the investment portfolio. At

30 September 2010, the prudential portfolio totalled £25.9 billion compared with £25.7 billion at 4 April 2010 with the investment portfolio totalling £3.5 billion compared with £3.7 billion at 4 April 2010.

We have continued to manage the prudential portfolio to increase the quality and liquidity of the assets with 64% of the portfolio held in sovereign and supranational exposures compared with 63% as at 4 April 2010. Over 99% of the portfolio is rated A or better with 84% rated AA or above at 30 September 2010 compared with 99% rated A or better and 85% rated AA or better at 4 April 2010.

The following tables show the breakdown of the prudential portfolio at 30 September 2010 and 4 April 2010 by credit rating and geography:

	As at 30 September 2010								
		Credit Rating				Geography			
	Liquidity Portfolio	AAA	AA	A	Other	UK	US	Europe	Other
	(£ billion)	*(percentages)*							
Bank of England	4.0	100	-	-	-	100	-	-	-
Loans to financial institutions	2.3	3	24	73	-	83	-	3	14
Other (including items in transit and clearing accounts)	0.5	-	-	-	-	100	-	-	-
Non AFS Assets	**6.80**								
Gilts	7.6	100	-	-	-	100	-	-	-
Non Domestic Government Bonds	2.9	100	-	-	-	-	66	34	-
Supranational bonds	2.0	100	-	-	-	-	-	100	-
Residential mortgage backed securities	2.6	92	7	1	-	45	-	51	4
Covered bonds	0.8	80	20	-	-	-	3	89	8
Medium term notes / floating rate notes	3.2	4	23	64	9	21	5	58	16
AFS Assets	**19.1**								
Total liquidity portfolio	**25.9**	**78**	**6**	**15**	**1**	**61**	**8**	**27**	**4**

	As at 4 April 2010								
		Credit Rating				Geography			
	Liquidity Portfolio	AAA	AA	A	BBB	UK	US	Europe	Other
	(£ billion)	*(percentages)*							
Bank of England	4.0	100	-	-	-	100	-	-	-
Loans to financial institutions	1.7	-	36	59	5	78	1	5	16
Other (including items in transit and clearing accounts)	0.3	-	-	-	-	100	-	-	-
Non AFS Assets	**6.0**								
Gilts	6.4	100	-	-	-	100	-	-	-
Non domestic government bonds	3.9	100	-	-	-	-	43	57	-

	As at 4 April 2010								
		Credit Rating				Geography			
	Liquidity Portfolio	**AAA**	**AA**	**A**	**BBB**	**UK**	**US**	**Europe**	**Other**
	(£ billion)	*(percentages)*							
Supranational bonds	2.0	100	-	-	-	-	2	98	-
Residential mortgage backed securities	2.7	96	4	-	-	43	-	52	5
Covered bonds	0.9	89	11	-	-	-	3	90	7
Floating rate notes	3.8	4	25	61	10	26	3	57	14
Certificates of deposit and commercial paper	-	-	-	-	-	-	-	-	-
AFS Assets	**19.7**								
Total liquidity portfolio	**25.7**	**78**	**7**	**14**	**1**	**55**	**7**	**34**	**4**

Ratings are obtained from S&P in the majority of cases or from Moody's if there is no S&P rating available. Internal ratings are used if neither S&P nor Moody's ratings are available.

We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal and Spain (**GIIPS**).

Amounts shown above in respect of RMBS and covered bonds include securities collateralized on assets originated in GIIPS amounting in aggregate to £1.4 billion at 30 September 2010, of which 87% is rated AAA and 13% is rated AA. As part of our normal credit risk management process we monitor all secured investments by reference to assumptions made on collateral performance at the time of investment. We do not currently anticipate any impairments within this secured portfolio.

At 30 September 2010, we had £0.9 billion of senior debt exposures to financial institutions based in GIIPS, consisting of £10 million to Greece, £120 million to Ireland, £161 million to Italy, £62 million to Portugal and £579 million to Spain. 78% of these note exposures are rated A (58%) or AA (20%) and the weighted average maturity of these exposures is less than three years.

In addition, at 30 September 2010, we had £60 million of subordinated bond exposures to financial institutions based in GIIPS, consisting of £31 million to Ireland, £11 million to Italy and £18 million to Portugal.

The treasury investment portfolio was originally established to generate additional income for the Nationwide Group. Over 85% of the investment portfolio at 30 September 2010 is rated A or better (4 April 2010: 87%) with over 61% rated AA or better (4 April 2010: 69%). In light of current market conditions, we have not actively sought to expand the portfolio and we are managing the existing portfolio to minimize potential risk. During the six month period ended 30 September 2010, the reduction in the investment portfolio to £3.5 billion has been driven by paydowns received relating to the asset and mortgage backed securities and maturing investments.

The following tables show the breakdown of the investment portfolio at 30 September 2010 and 4 April 2010 by credit rating and geography:

	As at 30 September 2010								
		Credit Rating				Geography			
	Investment Portfolio – all AFS assets	**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Other**
	(£ billion)	*(percentages)*							
Collateralized debt obligations (CDO)	0.1	-	-	-	100	-	100	-	-

	As at 30 September 2010								
		Credit Rating				Geography			
	Investment Portfolio – all AFS assets	AAA	AA	A	Other	UK	US	Europe	Other
	(£ billion)				*(percentages)*				
Collateralized loan obligations - CLO	0.5	5	75	20	-	25	75	-	-
Commercial mortgage backed securities	0.7	38	31	15	16	49	13	38	-
Corporate bond portfolio	0.1	-	26	-	74	40	26	34	-
Credit card backed securities	0.3	100	-	-	-	35	65	-	-
Financial institutions including subordinated debt	0.6	-	15	68	17	22	30	40	8
Residential mortgage backed securities	0.4	30	26	20	24	67	29	2	2
US student loan	0.7	69	6	16	9	-	100	-	-
Other investments	0.1	36	20	17	27	27	39	25	9
Total	**3.5**	**35**	**26**	**24**	**15**	**30**	**52**	**16**	**2**

	As at 4 April 2010								
		Credit Rating				Geography			
	Investment Portfolio – all AFS assets	AAA	AA	A	Other	UK	US	Europe	Other
	(£ billion)				*(percentages)*				
Collateralized debt obligations – CDO	0.1	-	-	-	100	-	100	-	-
Collateralized loan obligations - CLO	0.6	33	59	8	-	25	75	-	-
Commercial mortgage backed securities	0.6	60	19	11	10	47	14	39	-
Corporate bond portfolio	0.1	-	13	17	70	36	28	36	-
Credit card backed securities	0.3	99	-	-	1	42	58	-	-
Financial institutions including subordinated debt	0.7	-	22	64	14	21	33	39	7
Other corporate bonds	-	-	34	66	-	100	-	-	-
Retail mortgage backed securities	0.3	24	23	23	30	61	36	3	-
US student loan	0.8	98	1	1	-	-	100	-	-
Other investments	0.2	38	21	15	26	11	47	33	9
Total	**3.7**	**49**	**20**	**18**	**13**	**27**	**55**	**16**	**2**

An independent monthly review is co-ordinated by our Commercial and Treasury Credit Committee and undertaken by our Risk Management Division on the current and expected future performance of all treasury assets. A governance structure exists to identify and review underperforming assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are considered impaired where there is objective evidence that current events and/or performance trends will result in a loss. For information regarding the monitoring of credit exposures, see the section entitled "*Financial Risk Management—Credit risk*".

There have been no material changes in the profile of the investment portfolio over the course of the six month period ended 30 September 2010 and additional detail on the more significant exposures is set out below. The portfolio has experienced some negative rating migration as a result of the on-going implementation of rating agency methodology changes and continued collateral deterioration particularly for CMBS and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

Included under financial institutions and other investments above are GIIPS-related exposures totaling £85 million as at 30 September 2010, of which £60 million relates to subordinated loans to financial institutions (£31 million to institutions in Ireland, £11 million to institutions in Italy and £18 million to institutions in Portugal). The remaining balance relates to secured exposure.

At 30 September 2010, Nationwide had £94 million of exposure to monoline wrapped transactions, which are shown above under their underlying holdings. For all but £9 million of these holdings, we anticipate full repayment without any assistance from the wrap provider. This is mainly as a result of the approach taken upon investment, where we placed no reliance on the wrap, requiring the investment to stand up to credit analysis in its own right.

In addition, as shown in the table above, at 30 September 2010, CLOs comprise £549 million of senior positions. 80% of this portfolio retains a AA or AAA rating. Our focus on the selection of strong managers has provided some protection from downward rating migration. 38% of the CMBS portfolio is AAA rated. The portfolio consists of exposures to established commercial real estate markets with the bulk of our holdings in the UK and Germany. Underlying collateral consists of office, retail, industrial and warehouse exposures with experienced sponsors supporting the underlying loans. Included in the financial institutions portfolio are £442 million of subordinated lower tier two bonds that were acquired as part of the process of eliminating SIV capital note investments. Total investment holdings in RMBS are £410 million, and the £117 million of US exposure is made up of prime and Alt A RMBS. 17% of this US portfolio retains a AAA rating. The US student loan portfolio comprises 60% FFELP (Federal Family Education Loan Program) originated loans, which are 98% guaranteed by the US government, and 40% alternative student loans.

In assessing impairment, the Nationwide Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. In the six month period ended 30 September 2010, an impairment loss of £31 million (six month period ended 30 September 2009: £1 million release) has been recognised in the income statement in respect of the prudential and investment portfolios.

Available for sale reserve

Out of a total of £29.4 billion of treasury assets held in the prudential and investment portfolios as at 30 September 2010, £22.6 billion are held as AFS and under IFRS they are marked to market though other comprehensive income and fair value movements are accumulated in reserves. The non AFS assets are predominantly short term loans to financial institutions or deposits with the Bank of England. Of the £22.6 billion of AFS assets, only £112 million are classified as Level 3 (not based on observable market data) for the purposes of IFRS 7.

The fair value movements of AFS assets that are not impaired have no effect on the Nationwide Group's profit for the period or its regulatory capital. The assets have been carefully reviewed based upon latest performance data and an impairment charge of £31 million has been booked against AFS assets in the six month period ended 30 September 2010.

As at 30 September 2010, the balance on the AFS reserve had improved to £603 million negative, net of tax compared with £715 million negative as at 4 April 2010 reflecting improved pricing as market sentiment has improved.

The following table shows the breakdown of AFS reserves as at 30 September 2010 and 4 April 2010:

	As at 30 September 2010		As at 4 April 2010	
	Cumulative AFS Reserve	Fair Value on balance sheet	Cumulative AFS Reserve	Fair Value on balance sheet
		(£ billion)		
Gilts and Supranational bonds	(0.6)	12.5	(0.3)	12.3
Residential mortgage backed securities	0.3	2.6	0.2	2.7
Covered bonds and floating rate notes	(0.2)	4.0	0.1	4.7
Liquidity portfolio	**(0.5)**	**19.1**	**-**	**19.7**
Collateralized debt obligations (CDO)	0.1	0.1	-	0.1
Collateralized loan obligations (CLO)	0.1	0.5	0.1	0.6
Commercial mortgage backed securities	0.2	0.7	0.3	0.6
Corporate bond portfolio	-	0.1	-	0.1
Credit card backed securities	-	0.3	-	0.3
Financial institutions including sub debt	-	0.6	-	0.7
Residential mortgage backed securities	-	0.4	0.1	0.3
US student loan	0.1	0.7	0.1	0.8
Other investments	-	0.1	0.1	0.2
Investment Portfolio	**0.5**	**3.5**	**0.7**	**3.7**
Negative AFS reserve before hedge accounting and taxation	**-**		**0.7**	
AFS Assets		**22.6**		**23.4**
Hedge accounting adjustment for interest rate risk	0.8		0.3	
Taxation	(0.2)		(0.3)	
Negative AFS reserve	**0.6**		**0.7**	

The following table provides an analysis of financial assets and liabilities held on our balance sheet at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

	As at 30 September 2010			
	Level 1[1]	**Level 2[2]**	**Level 3[3]**	**Total**
		(£ million)		
Investment securities – AFS	12,374	10,151	112	**22,637**
Investments in equity shares	-	6	84	**90**
Derivatives financial instruments	-	5,038	124	**5,162**
Financial assets	**12,374**	**15,195**	**320**	**27,889**
Derivative financial instruments	-	(5,469)	(54)	**(5,523)**
Other deposits – PEB	-	-	(1,874)	**(1,874)**
Financial liabilities	**-**	**(5,469)**	**(1,928)**	**(7,397)**

	As at 4April 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
		(£ million)		
Investment securities – AFS	12,130	11,149	106	**23,385**
Investments in equity shares	-	7	79	**86**
Derivatives financial instruments[4]	-	4,814	38	**4,852**
Financial assets	**12,130**	**15,970**	**223**	**28,323**
Derivative financial instruments[4]	-	(4,860)	(82)	**(4,942)**
Other deposits – PEB	-	-	(1,128)	**(1,128)**
Financial liabilities	**-**	**(4,860)**	**(1,210)**	**(6,070)**

Notes:

(1) Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.

(2) Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, asset backed securities, certain Collateralised Debt Obligations (CDOs), Collateralised Loan Obligations (CLOs) and OTC derivatives.

(3) Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.

(4) The derivative financial instrument comparatives have been re-classified to conform to the current year's presentation. The adjustment does not affect total derivative financial assets and liabilities.

There were no significant transfers between the Level 1 and 2 portfolios during the six month period ended 30 September 2010. Other than an increase in the Level 3 Other deposit – PEB balances and related derivative transactions, there have been no material changes in the amount of Level 3 balances and the composition remains the same as reported in our 2010 Annual Report and Accounts. Similarly there have been no material changes in the Level 3 sensitivities."

8.2 The subsection with the heading "Financial Condition of the Group" appearing on pages 178-179 of the Base Prospectus is deleted in its entirety and replaced with the following:

"**Financial Condition of the Nationwide Group**

Capital Resources

Capital is held by the Nationwide Group to protect its depositors, to cover its inherent risks, to provide a cushion for unexpected losses, and to support the development of the business. In assessing the adequacy of its capital resources, the Nationwide Group considers its risk appetite, the material risks to which the Nationwide Group is exposed, and appropriate management strategies required to manage those risks. The Nationwide Group is required to manage its capital in accordance with the rules issued by its regulator, the FSA. Since January 1, 2008, the Nationwide Group has complied with the EU Capital Requirements Directive (Basel II).

As at 30 September 2010, and throughout all periods described herein, the Nationwide Group complied with the capital requirements that were in force. From 4 April 2009, the Nationwide Group calculated its capital requirements using Internal Ratings Based (**IRB**) approaches for credit risks.

As at 30 September 2010, regulatory capital stood at £9.9 billion compared with £9.7 billion at 4 April 2010. In July 2010, the Nationwide Group issued €750 million of lower tier 2 subordinated debt to refinance subordinated debt called in August 2010.

	As at 30 September 2010	**As at 4 April 2010**
	(£ millions, except percentages)	
Tier 1		
General reserve	6,385	6,363
Permanent interest bearing shares[1]	1,610	1,524
Pension fund net deficit add back[2]	513	355
Intangible assets[3]	(447)	(353)
Deductions from Tier 1 capital[4]	(238)	(232)
	7,823	7,657
Tier 2		
Revaluation reserve	69	68
Subordinated debt[1][5]	2,118	2,132
Collective impairment allowance	96	97
Deductions from Tier 2 capital[4]	(238)	(232)
	2,045	2,065
Total capital	**9,868**	**9,722**
Risk weighted assets – Pillar 1[5]		
Retail mortgages	14,695	14,653
Commercial loans	18,073	18,316
Treasury	8,128	8,351
Other	4,463	4,375
Operational Risk	4,137	4,328
Market Risk	50	50
	49,563	50,073
Key capital ratios:		
Total capital	9,868	9,722
Core Tier 1 (%)[6]	12.5	12.2
Tier 1 ratio (%)[6]	15.8	15.3
Total capital (%)[6]	19.9	19.4
Tier 2 to Tier 1 ratio (%)[6]	26.1	27.0

Notes:

(1) Permanent interest bearing shares and subordinated debt include any fair value adjustments arising from micro hedging and adjustments for unamortized premiums and discounts that are included in the consolidated balance sheet.

(2) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.

(3) Intangible assets do not qualify as capital for regulatory purposes.

(4) Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with FSA guidance.

(5) The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline Building Societies) and unsecured lending; Foundation IRB for treasury portfolios (other than corporates); and the Standardized approach for all other credit risk exposures.

(6) Solvency ratios are calculated as relevant capital divided by Risk Weighted Assets. Core Tier 1 relates to Tier 1 capital excluding permanent interest bearing shares.

For further information and analysis of our capital resources, see "*Capitalisation and Indebtedness*".".

9. AMENDMENT TO "SUPERVISION AND REGULATION" IN THE BASE PROSPECTUS

The subsection with the heading "UK Regulation – Lending" appearing in the section entitled **Supervision and Regulation** on pages 223-224 of the Base Prospectus is deleted in its entirety and replaced with the following:

"***Lending***

The Financial Services and Markets Act 2000 regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the Financial Services and Markets Act 2000 as to authorization or financial promotions are contravened, then the affected regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The FSA Handbook part Mortgages and Home Finance: Conduct of Business Sourcebook (**MCOB**), sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under new MCOB rules, an authorized firm (such as Nationwide Building Society) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Any credit agreement intended to be a regulated mortgage contract or unregulated might instead be wholly or partly regulated by the Consumer Credit Act 1974 or treated as such, and any credit agreement intended to be regulated by the Consumer Credit Act 1974 or treated as such or unregulated might instead be a regulated mortgage contract, because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract or within the definition of a regulated agreement (described below) and changes to credit agreements.

The Consumer Credit Act 1974 regulates credit within the definition of "regulated agreement". A credit agreement is a regulated agreement if: (a) the borrower is or includes an "individual" as defined in this Act; and (b) the credit agreement is not an exempt agreement under this Act. Certain financial limits in respect of the credit provided applied to credit agreements entered into before 6 April 2008, or before 31 October 2008 in the case of Buy To Let mortgages satisfying prescribed conditions. Buy To Let mortgages entered into on or after 31 October 2008 and satisfying prescribed conditions are exempt agreements under the Consumer Credit Act 1974.

If requirements under the Consumer Credit Act 1974 as to licensing of lenders or brokers or entering into and documenting a credit agreement are not met, then the affected regulated agreement is unenforceable against the borrower without an order of the Office of Fair Trading or court order or (for agreements entered into before 6 April 2007) is totally unenforceable, depending on the circumstances. Under Sections 75 and 75A of the Consumer Credit Act 1974, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by this Act or treated as such, and the lender has a statutory indemnity from the supplier against such liability subject to any agreement between the lender and the supplier."

10. AMENDMENT TO "THE ISSUER" IN THE BASE PROSPECTUS

The subsection with the heading "Financial Services Compensation Scheme" appearing in the section entitled **The Issuer** on pages 241 of the Base Prospectus shall be deleted in its entirety and replaced with the following updated subsections with the headings "Financial Services Compensation Scheme" and the following additional subsection with the heading "Bank Levy":

"**Financial Services Compensation Scheme**

Like other UK financial institutions, we pay levies based on our share of protected deposits to the FSCS to meet claims against it. In 2008 and 2009 a number of institutions were declared in default by the FSA. The FSCS has met the claims by way of loans received from H.M. Treasury. The terms of these loans are interest-only for the first three years and the FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms over this period.

The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the financial institutions to fully repay the H.M. Treasury loans. To the extent that the loans have not been repaid in full by 2012, the FSCS will agree a schedule of repayments with H.M. Treasury. The FSCS will then levy the industry (including Nationwide) accordingly.

As at 30 September 2009, the Nationwide Group held a provision for £209 million, being the Nationwide Group's estimated share of the levies which it would incur in respect of the period of the initial three year loan facility from H.M. Treasury. At that time, the Nationwide Group did not provide for its estimated share of potential compensation costs because these could not be reliably estimated.

In line with the approach taken in the 2010 Annual Report and Accounts, the amount provided by the Nationwide Group as at 30 September 2010 of £45 million has been restricted to the latest estimates of its share of levies in respect of scheme years ending on and before 31 March 2011, for which our liability to scheme levies is already confirmed. The Nationwide Group will become liable to levies for the following scheme year ending March 2012 during the second half of the current financial year. The Nationwide Group has estimated it will provide £40-£50 million as its share of HM Treasury loan interest costs in the second half of this financial year. There is also the possibility that levies arising from recovery shortfalls may be included in the scheme year ending 31 March 2012 and therefore start to be recognised.

As further information is provided by the FSCS the Nationwide Group will continue to update its estimate of the amount of FSCS levies it will ultimately be required to pay.

Bank Levy

On 22 June 2010 the Government announced its intention to introduce a new bank levy which will apply to certain UK banks, building societies and the UK operations of foreign banks from 1 January 2011. HM Treasury has concluded a consultation to seek views on the detailed implementation of the levy and draft legislation was issued on 21 October 2010. The Issuer will be subject to the new levy which will apply to chargeable equity and liabilities of institutions. Certain liabilities are excluded, for example tier one capital, insured retail deposits, repurchase agreements (repos) secured on sovereign debt and policyholder liabilities of retail insurance businesses within banking groups. The levy will not be charged on the first £20 billion of chargeable equity and liabilities. Indicative levy rates were published on 9 December 2010 at the level of 0.05% for short term liabilities and 0.025% for long term liabilities in respect of the calendar year 2011 only, rising to 0.075% for short term liabilities and 0.0375% for long term equity and liabilities thereafter. However, it is not yet known whether such rates or the scope of liabilities to which they apply will remain unchanged in the final law. Given the expected timing of the 2011 Finance Bill being enacted, the liability is expected to crystallize for the Nationwide Group in the first half of the financial year ended 4 April 2012."

11. AMENDMENT TO "GLOSSARY" IN THE BASE PROSPECTUS

The definition of "Loan Without Independent Valuation" which appears in the **Glossary** section on page 359 of the Base Prospectus shall be amended from:

Loan Without Independent Valuation	A Loan which was not the subject of a Valuation Report by reason of the relevant loan-to-value ratio being less than 40% or where an updated Valuation Report was not obtained in relation to an Additional Loan Advance;

to:

Loan Without Independent Valuation	A Loan which was not the subject of a Valuation Report by reason of the relevant loan-to-value ratio being less than 40% or an Additional Loan Advance where an updated Valuation Report was not obtained in relation to such Additional Loan Advance;