



## NATIONWIDE BUILDING SOCIETY

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

\$20,000,000,000

### Senior and Subordinated Medium-Term Notes Due Twelve Months or More from Date of Issue

We may issue at various times up to \$20,000,000,000 aggregate principal amount outstanding at any time of senior or subordinated medium-term notes denominated in U.S. dollars or in other currencies or composite currencies. The notes will be issued in series and each series will be the subject of final terms (each "Final Terms"). We are privately placing the notes on a delayed or continuous basis to the placement agents named below (the "Placement Agents") or through the Placement Agents to qualified institutional buyers as described in this Base Prospectus under the section entitled "Plan of Distribution". This document will be considered a base prospectus ("Base Prospectus") for the purposes of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "Prospectus Directive"). Application has been made to the United Kingdom Financial Conduct Authority (the "FCA"), in its capacity as competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the "UK Listing Authority") for the document to be approved as a Base Prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of notes issued under this program. Application has been made to admit such notes during the period of twelve months after the date hereof to listing on the Official List of the UK Listing Authority (the "Official List"). Application has also been made to the London Stock Exchange plc (the "London Stock Exchange") for the notes to be admitted to trading on the London Stock Exchange's regulated market, which is a regulated market for the purpose of Directive 2004/39/EC (the "Markets in Financial Instruments Directive").

See the section entitled "Risk Factors" commencing on page 9 for a discussion of certain risks that you should consider prior to making an investment in the notes.

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws, and we are only offering notes outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act and within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A or in other transactions exempt from registration under the Securities Act and, in each case, in compliance with applicable securities laws.

In the United Kingdom, this communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 ("Financial Promotion") Order 2005 (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

Each initial and subsequent purchaser of a note will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such note, as described in this Base Prospectus, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. See the section entitled "Transfer Restrictions" for a further description of these restrictions.

One or more Placement Agents may purchase notes, as principal, from us for resale to investors and other purchasers at varying prices relating to prevailing market prices as determined by any such Placement Agent at the time of resale or, if so agreed, at a fixed offering price. We reserve the right to cancel or modify the medium-term note program described in this Base Prospectus without notice. We, or a Placement Agent if it solicits an offer on an agency basis, may reject any offer to purchase notes in whole or in part. For further information, see the section entitled "Plan of Distribution".

The Placement Agents expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company ("DTC"). Beneficial interests in the notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Clearstream Banking, *société anonyme*, and Euroclear Bank S.A./N.V.

The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms. Each of Moody's Investors Service Limited ("Moody's"), Standard & Poor's Credit Market Services Europe Limited ("S&P") and Fitch Rating Ltd. ("Fitch") is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"). As such, each of Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. DBRS, Inc. ("DBRS") is not established in the European Union, and has not applied for registration under the CRA Regulation, but its ratings have been, or are expected to be, endorsed by DBRS Ratings Limited, which is established in the European Union and registered under the CRA Regulation. Each of Moody's, S&P, Fitch and DBRS Ratings Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. The European Securities and Markets Authority has indicated that ratings issued in the United States which have been endorsed by DBRS Ratings Limited may be used in the EU by the relevant market participants.

BARCLAYS

BOFA MERRILL LYNCH

CITIGROUP

CREDIT SUISSE

DEUTSCHE BANK SECURITIES

HSBC

J.P. MORGAN

MORGAN STANLEY

UBS INVESTMENT BANK

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The date of this Base Prospectus is August 2, 2013

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## NOTICE TO INVESTORS

We are furnishing this Base Prospectus in connection with an offering exempt from registration under the Securities Act and applicable state securities laws solely for the purpose of enabling a prospective investor to consider the purchase of the notes. Delivery of this Base Prospectus to any person or any reproduction of this Base Prospectus, in whole or in part, without our consent is prohibited. The information contained in this Base Prospectus has been provided by us and other sources identified in this Base Prospectus. The source of third-party information is identified where used. Any information provided by a third party has been accurately reproduced and as far as we are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Placement Agents make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Base Prospectus. None of the information contained in this Base Prospectus is, or should be relied upon as, a promise or representation by the Placement Agents. You should be aware that since the date of this Base Prospectus there may have been changes in our affairs or otherwise that could affect the accuracy or completeness of the information set forth in this Base Prospectus.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption from registration. You should be aware that you may be required to bear the financial risk of an investment in the notes for an indefinite period of time.

You must comply with all applicable laws and regulations in force in any jurisdiction in connection with the distribution of this Base Prospectus and the offer or sale of the notes. If you decide to invest in the notes, you and any subsequent purchaser will be deemed, by acceptance or purchase of a note, to have made certain acknowledgements, representations and agreements to and with us and any applicable Placement Agent intended to restrict the resale or other transfer of the note as described in this Base Prospectus. In addition, you and any subsequent purchaser may be required to provide confirmation of compliance with resale or other transfer restrictions in certain cases. See the section entitled "*Transfer Restrictions*" for more information on these restrictions.

In making your decision whether to invest in the notes, you must rely on your own examination of us and the terms of this offering, including the merits and risks involved. You should not construe the contents of this Base Prospectus as legal, business, financial advice or tax advice. You should consult your own attorney, business advisor, financial advisor or tax advisor.

Each potential investor in any notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant notes, the merits and risks of investing in the relevant notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant notes and be familiar with the behavior of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in notes which are complex financial instruments unless it has the expertise (either alone or with the

help of a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of such notes and the impact this investment will have on the potential investor's overall investment portfolio.

The notes have not been approved or disapproved by the U.S. Securities and Exchange Commission or any state or foreign securities commission or any regulatory authority. The foregoing authorities have not confirmed the accuracy or determined the adequacy of this Base Prospectus. Any representation to the contrary is a criminal offence.

You should direct any inquiries that you have relating to us, this Base Prospectus or the medium-term note program described in this Base Prospectus to the Placement Agents.

Nationwide Building Society accepts responsibility for the information contained in this Base Prospectus, and to the best of its knowledge and belief (and it has taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

In connection with the issue of any tranche of notes, one or more relevant Placement Agents acting as the stabilizing manager(s) (or persons acting on behalf of any stabilizing manager(s)) may over-allot notes (provided that, in the case of any tranche of notes to be admitted to trading on the London Stock Exchange or any other regulated market (within the meaning of the Markets in Financial Instruments Directive) in the European Economic Area, the aggregate principal amount of notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant tranche) or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilizing manager(s) (or persons acting on behalf of a stabilizing manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant tranche of notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of notes and 60 days after the date of the allotment of the relevant tranche of notes. Any stabilization action or over-allotment must be conducted by the relevant stabilizing manager(s) (or persons acting on behalf of any stabilizing manager(s)) in accordance with all applicable laws and rules.

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## **FORWARD-LOOKING STATEMENTS**

This Base Prospectus contains projections of some financial data and discloses plans and objectives for the future. This forward-looking information, as defined in the United States Private Securities Litigation Reform Act of 1995, reflects our views regarding future events and financial performance.

The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which in any event speak only as of the date of this Base Prospectus. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The risk factors beginning on page 9 of this Base Prospectus and many other factors could cause actual events and results to differ materially from historical results or those anticipated. See the sections entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Description of Business*".

## PRIVATE PLACEMENT OF MEDIUM-TERM NOTES

We have appointed Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and UBS Securities LLC as Placement Agents for the offering, from time to time, of the notes. We will limit the aggregate principal amount of the notes to \$20,000,000,000, or the equivalent of that amount in one or more other currencies or composite currencies, outstanding at any time, subject to increase without the consent of the holders of the notes. We have not registered, and will not register, the notes under the Securities Act and purchasers of the notes may not offer or sell them in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The notes will be offered in the United States only to qualified institutional buyers, as defined in Rule 144A under the Securities Act ("Rule 144A"), in transactions exempt from registration under the Securities Act. The notes may be offered outside the United States to non-U.S. persons in accordance with Regulation S. We hereby notify you that the sellers of the notes, other than ourselves, may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

You may not transfer notes sold in the United States, except in accordance with the restrictions described under the section entitled "*Transfer Restrictions*" of this Base Prospectus. We will deem each purchaser of the notes in the United States to have made the representations and agreements contained in this Base Prospectus.

We may issue additional notes of any series having identical terms to that of the original notes of that series but for the original issue discount (if any) and the public offering price. The period of the resale restrictions applicable to any notes previously offered and sold in reliance on Rule 144A shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional notes.

We will furnish each initial purchaser of the notes with a copy of this Base Prospectus and each applicable amendment and supplement, including the Final Terms to the Base Prospectus describing the terms related to that series of the medium-term notes. Unless the context otherwise requires, references to the Base Prospectus include this Base Prospectus, together with any amendment and supplements applicable to a particular series of the notes.

## ENFORCEMENT OF CIVIL LIABILITIES

We are a building society incorporated under the laws of England and Wales. All of our directors and some of the experts named in this Base Prospectus reside outside the United States. All or a substantial portion of our assets and the assets of these individuals are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon these individuals or upon us or to enforce against them judgments obtained in U.S. courts based upon the civil liability provisions of the U.S. securities laws. Our English solicitors, Allen & Overy LLP, have advised us that there is also doubt as to the enforceability in the United Kingdom in original actions or in actions for the enforcement of judgments of U.S. courts predicated upon the civil liability provisions of the U.S. securities laws. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents have previously been published or are published simultaneously with this Base Prospectus and have been admitted to and filed with the FCA and shall be deemed to be incorporated in, and form part of, this Base Prospectus:

- (1) our audited consolidated financial statements for the financial years ended April 4, 2013, 2012 and 2011 and the auditors' reports thereon; and
- (3) the Terms and Conditions of the Notes (previously the "Description of the Notes") contained in the previous base prospectuses dated November 23, 2003, pages 88-117 (inclusive), June 25, 2009, pages 102-130 (inclusive), July 1, 2010, pages 126-154 (inclusive), July 15, 2011, pages 145-173 (inclusive), February 22, 2012, pages 175-203 (inclusive), and January 18, 2013, pages 185-213 (inclusive).

Following the publication of this Base Prospectus a supplement may be prepared by us and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus.

We will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference. Written requests for such documents should be directed to our Treasury Division at Nationwide Building Society, King's Park Road, Moulton Park, Northampton, NN3 6NW, England. In addition, copies of this Base Prospectus and each document incorporated by reference herein are available on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

We will, in the event of any significant new factor, material mistake or inaccuracy relating to information included or incorporated by reference in this Base Prospectus which is capable of affecting the assessment of any notes, prepare a supplement to this Base Prospectus or publish a new prospectus for use in connection with any subsequent issue of notes.

The table below sets out the relevant page references for our audited consolidated financial statements for the financial years ended April 4, 2013, 2012 and 2011 and the auditors' reports thereon.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

**Audited consolidated annual financial statements for the financial year ended April 4, 2013**

Independent Auditors' Report	Page 130
Income statements	Page 131
Statements of comprehensive income	Page 132
Balance sheets	Page 133
Group statement of movements in members' interests	Page 134
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**Audited consolidated annual financial statements for the financial year ended April 4, 2012**

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**Audited consolidated annual financial statements for the financial year ended April 4, 2011**

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Statements of comprehensive income	Page 86
Balance sheets	Page 87
Statements of movements in members' interests	Page 88
Cash flow statements	Page 90
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## PRESENTATION OF FINANCIAL INFORMATION

The financial information incorporated by reference in this Base Prospectus as of and for the financial years ended April 4, 2013, 2012 and 2011 has been extracted from our audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union (“**EU**”).

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports incorporated by reference herein.

We have made rounding adjustments to reach some of the figures included in this Base Prospectus. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

Unless otherwise indicated, all references in this Base Prospectus to “**pounds sterling**”, “**sterling**” and “**£**” are to the lawful currency of the United Kingdom, all references to “**U.S. dollars**”, “**dollars**”, “**USD**” and “**\$**” are to the lawful currency of the United States, all references to “**Canadian dollars**” or “**C\$**” are to the lawful currency of Canada and all references to “**euro**”, “**EUR**” or “**€**” are to the single currency of the participating member states of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time..

## WHERE YOU CAN FIND MORE INFORMATION

Our audited consolidated financial statements are incorporated by reference in this Base Prospectus. We will not distribute these financial statements to holders of notes, but we will make them available to these holders upon request. You should direct requests for copies of these financial statements to the Treasury Division, Nationwide Building Society, Kings Park Road, Moulton Park, Northampton, NN3 6NW, England.

As of the date of this Base Prospectus, we do not file reports or other information with the U.S. Securities and Exchange Commission. To preserve the exemption for resales and other transfers under Rule 144A, we have agreed to furnish the information required pursuant to Rule 144A(d)(4) of the Securities Act if a holder of notes, or a prospective purchaser specified by a holder of notes, requests such information. We will continue to provide such information for so long as we are neither subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) nor exempt from such reporting requirements pursuant to Rule 12g3-2(b) of the Exchange Act.

## OVERVIEW

This overview highlights important information regarding, but is not a complete description of, our medium-term note program. We urge you to read the remainder of this Base Prospectus where we set out a description of our medium-term note program in more detail. You should also review the applicable Final Terms for additional information about the particular series of notes that you are considering purchasing. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular tranche of Notes, the applicable Final Terms.

We may offer senior or subordinated notes under the medium-term note program described in this Base Prospectus, depending on the terms of the applicable Final Terms for each series. In this Base Prospectus, when we refer to “**notes**” we mean any senior or subordinated medium-term notes that we may issue under the medium-term note program described in this Base Prospectus, unless it is clear from the context that we mean otherwise. When we say “**we**”, “**us**”, “**our**”, “**Nationwide**”, “**the Group**” or “**the Society**”, we refer to Nationwide Building Society and its subsidiaries, all of which are consolidated, unless the context otherwise requires.

Issuer.....

Nationwide Building Society. We are a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended) of the United Kingdom (the “**UK Building Societies Act**”). Our core business is providing personal financial services, including residential mortgage loans, retail savings, general banking services, personal investment products, personal secured and unsecured lending, secured commercial lending, insurance and offshore deposit-taking. We operate through an integrated and diversified distribution network, including branches, ATMs, call centers, mail and the Internet.

As a building society, we are a mutual organization managed for the benefit of our “**members**”, who are retail savings customers and residential mortgage customers.

Placement Agents .....

Barclays Capital Inc.  
Citigroup Global Markets Inc.  
Credit Suisse Securities (USA) LLC  
Deutsche Bank Securities Inc.  
HSBC Securities (USA) Inc.  
J.P. Morgan Securities LLC  
Merrill Lynch, Pierce, Fenner & Smith Incorporated  
Morgan Stanley & Co. LLC  
UBS Securities LLC

Trustee .....

The Bank of New York Mellon (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One Trust Company, N.A.)). We have entered into an indenture with the trustee relating to the notes.

Program Size.....

We may issue up to \$20,000,000,000, or the equivalent of that amount in one or more other currencies or composite currencies, outstanding at any time. We may increase the program size from time to time without the consent of the holders of the notes.

Currencies .....

Subject to any applicable legal or regulatory restrictions, we may issue notes in any currency as we may agree with the relevant Placement Agent.

Issuance in Series.....

We will issue senior notes and subordinated notes in series under an indenture. Within each series, we will issue tranches of notes subject to terms identical to those of other tranches in that series, except that the issue date, the issue price and the amount of the first payment of interest may vary.

Ranking of Senior Notes.....

The senior notes will constitute our direct, unconditional,

unsubordinated and, subject to the provisions set forth in the section entitled “*Terms and Conditions of the Notes—Negative Pledge*”, unsecured obligations without any preference among themselves and will rank equally with non-member deposits and all of our other unsecured and unsubordinated obligations, subject, in the event of insolvency, to laws of general applicability relating to or affecting creditors’ rights. They will rank senior to our UK retail member deposits. If we demutualize or transfer our business to the subsidiary of another mutual organization, our UK retail member deposits will rank equally with our obligations under our senior debt, including the senior notes. The above is subject to any changes introduced following the enactment of the Financial Services (Banking Reform) Bill regarding the conferring of preference on deposits covered by the Financial Services Compensation Scheme (the “**FSCS**”).

Ranking of Subordinated Notes .....

The subordinated notes will constitute our direct, unsecured and subordinated obligations, conditional in the event of a winding up, and rank without any preference among themselves. They will rank equally with all of our other unsecured and subordinated indebtedness, other than some subordinated indebtedness, at present comprising our permanent interest bearing shares, which will rank junior to the subordinated notes. They will rank junior to our UK retail member and non-member deposits and our senior indebtedness, including the senior notes.

Issue Price .....

We may offer notes at par or at a premium or discount to par as specified in the applicable Final Terms.

Maturities .....

The notes will mature in twelve months or longer as specified in the applicable Final Terms.

Redemption at Maturity .....

Subject to any purchase or early redemption, the notes will be redeemed at par on the maturity date.

Early Redemption .....

We are permitted to redeem the notes prior to maturity for taxation reasons and as specified in the applicable Final Terms. Additionally, the applicable Final Terms may provide that the notes of a series are redeemable at our option and/or the option of the holder.

Interest .....

Interest may accrue at a fixed rate or a floating rate. The floating rate may be determined by reference to a base rate, such as LIBOR, as we agree with the purchaser and describe in the applicable Final Terms.

Interest Payments .....

We may pay interest monthly, quarterly, semi-annually, annually or at such other intervals as we describe in the applicable Final Terms.

Denominations .....

We will issue the senior notes in minimum denominations of \$200,000 and the subordinated notes in minimum denominations of \$250,000 or, in each case, in integral multiples of \$1,000 in excess of these minimum denominations, or the equivalent of these amounts in other currencies or composite currencies, and in any other denominations in excess of the minimum denominations as we specify in the applicable Final Terms.

Rating .....

The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms.

Form, Clearance and Settlement .....

Notes of a series will initially be represented by a global note or global notes in fully registered form (“**Global Notes**”). Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S.

global notes (“**U.S. Global Notes**”) and notes offered outside the United States in reliance on Regulation S will be represented by one or more international global notes (“**International Global Notes**”).

The Global Notes will be issued in fully registered form and will be held by or on behalf of DTC for the benefit of participants in DTC.

No temporary documents of title will be issued.

Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with the transfer restrictions set forth therein. Transfers of interests from a U.S. Global Note to an International Global Note are subject to certification requirements.

Governing Law .....

The notes and all related contracts will be governed by, and construed in accordance with, the laws of the State of New York, except that the subordination provisions in each of the indenture and the subordinated notes will be governed by, and construed in accordance with, the laws of England and Wales.

Sales and Transfer Restrictions.....

We have not registered the notes under the Securities Act, and they may not be offered or sold within the United States or to or for the benefit of U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the Securities Act.

Listing.....

Application has been made to the UK Listing Authority for the notes to be admitted to listing on the Official List. Application has also been made to the London Stock Exchange for the notes to be admitted to trading on the London Stock Exchange’s regulated market.

Risk Factors .....

There are certain risks related to any issue of notes under the program, which investors should ensure they fully understand. See “*Risk Factors*” on page 9 of this Base Prospectus.

## RISK FACTORS

*We believe that the following factors may affect our ability to fulfill our obligations under the notes. Most of these factors are contingencies which may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the notes are also described below.*

*In purchasing notes, investors assume the risk that we may become insolvent or otherwise be unable to make all payments due in respect of the notes. There is a wide range of factors which individually or together could result in us becoming unable to make all payments due in respect of the notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as we may not be aware of all relevant factors and certain factors which we currently deem not to be material may become material as a result of the occurrence of events outside our control. The following is a description of the principal risks associated with the notes and our business as of the date of this Base Prospectus; however, we do not represent that the risks set out in the statements below are exhaustive.*

*This section of the Base Prospectus is divided into two main sections—“Risks Related to Our Business” and “Risks Related to the Notes”.*

### Risks Related to Our Business

***Our business and financial performance have been and will continue to be affected by general economic conditions in the UK, the eurozone and elsewhere, and other adverse developments in the UK or global financial markets could cause our earnings and profitability to decline.***

We are directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies, particularly the eurozone, and the state of the global financial markets both generally and as they specifically affect financial institutions. Since mid-2008, the global economy and the global financial system have experienced a period of significant turbulence and uncertainty. The severe dislocation of the financial markets around the world that began in August 2007 and worsened significantly in mid-2008 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. The dislocation 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, including bank recapitalizations and the provision of government guarantees for certain types of funding, aimed at both supporting the sector and providing confidence to the market.

These market dislocations were also accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in these economies around the world adversely affected, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate (“**CRE**”) sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, the liquidity of the global financial markets and market interest rates, which in turn had, and continues to have, a material adverse effect on our business, operating results, financial conditions and prospects.

Although there have been periods where market conditions have generally improved, recent developments, particularly in the eurozone, have demonstrated that there continues to be significant uncertainty. From April 2010 to date, financial markets have periodically been negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Greece, Ireland, Italy, Portugal and Spain (“**GIIPS**”) and more recently Cyprus) and the possibility of one or more defaults on sovereign debt and the risk of contagion to other more stable countries throughout and beyond the eurozone remains. This is, in part, because a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations, in particular GIIPS, which are under considerable financial pressure. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized, resulting in the further spread of the ongoing economic crisis.

Moreover, the sovereign debt crisis in Europe has periodically adversely affected the ability of countries throughout the eurozone to raise capital and the cost thereof, and the uncertainty of how this may be resolved has led to an increase in the general cost of funding. The initial impact of this was felt in the wholesale markets, though there was a

consequent increase in the cost of retail funding, with greater competition in a savings market which is growing slowly by historical standards. In the absence of a permanent resolution of the eurozone crisis, conditions could continue to deteriorate.

The outlook for the UK economy has remained challenging over the last year, with the UK economy dipping back into recession in 2012. Though the economy returned to growth in the third quarter of 2012, this was in part due to one-off factors (such as the Olympics) and prospects for the 2013/2014 financial year remain challenging. Uncertainty surrounding the future of the eurozone continues to pose a risk of further significant slowdown in economic activity in the UK's principal export markets which would have a corresponding effect on the broader UK economy. A wide-scale break-up of the eurozone would most likely be associated with a significant deterioration in the economic and financial environment in the UK and eurozone that would materially affect the capital and the funding position of participants in the European financial sector. Domestically, both public and household spending are being constrained by austerity measures, and we face the risk of higher levels of unemployment combined with declines in real disposable incomes. Government measures to return UK public finances to a sustainable trajectory, including taxation rises and the public spending cuts being implemented, are also likely to result in a slower recovery than other recent recessions.

The exact nature of the risks that we face and the manner and the extent to which they ultimately will impact us are difficult to predict and to guard against in light of (i) the inter-related nature of the risks involved, (ii) difficulties in predicting whether recoveries will be sustained and at what rate, and (iii) the fact that the risks are totally or partially outside of our control.

At the onset of the financial turbulence noted earlier, we experienced a decline in our net interest margin. The initial decline was driven by the increased cost of retail funding (reflecting the competitive savings market), the progressive re-pricing of long-term wholesale funding and by our Base Mortgage Rate ("BMR") commitment to existing borrowers whereby we guaranteed existing customers that our BMR will be no more than 200 basis points above the Bank of England ("BoE") base rate. The decline in net interest margin also reflected the fact that customers have continued to benefit from our decision not to implement the mortgage tracker floor when our BMR reached 2%, 0.75% below their contractual floor limit of 2.75%. Whilst these remain negative drivers, more recently they have been offset by wider spreads on new mortgage and other lending. However, if low interest rates persist there will be less incentive for customers to move to higher yielding products, and this will continue to depress net interest margin and profitability.

The UK housing market has remained muted since the start of 2011, with transaction levels well below historic norms and with house prices essentially flat since mid-2010. We expect buyer activity to continue to be relatively subdued, with the potential to decline further should the labor market situation deteriorate markedly or if strains in the financial system intensify and impair the flow of credit to the wider economy. Similarly, the outlook for the commercial property market continues to be uncertain in the light of broader macroeconomic conditions. Potential for further weakening in tenant demand and investor appetite means the impairment outlook for Nationwide's commercial lending business has become more uncertain since mid-2011. The UK commercial property market was negatively impacted by the recession with peak (June 2007) to trough (July 2009) falls in capital values of 44% and conditions remain extremely challenging. Commercial property values continued to decline in the last financial year and we expect this decline to continue throughout 2013 with no meaningful increases anticipated in the near term. At April 4, 2013, the proportion of our commercial loans three months or more in arrears was 4.50% (April 4, 2012: 3.66%), with arrears balances of £81 million (April 4, 2012: £58 million). We booked a total commercial impairment charge of £493 million in the financial year ended April 4, 2013, which is £246 million higher than in the financial year ended April 4, 2012.

The continued effect of margin compression and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions means that we may continue to experience the lower levels of profitability that we have experienced since the 2008–2009 financial year and there remains the possibility of further downward pressure on profitability and growth depending on a number of external influences, such as the consequences of a more austere economic environment.

***Negative fair value adjustments could have a material adverse effect on our operating results, financial condition and prospects.***

The dislocations in the financial markets have resulted in our recording in our results over the last three financial years impairment charges and negative fair value adjustments with respect to securities and other investments that we hold. Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in

the fair values of the Group's investment assets and these may also translate into increased impairments, particularly with respect to our exposure through our liquidity and investment portfolios to financial institutions in GIIPS and residential mortgage backed securities ("RMBS") and covered bonds collateralized on assets originated in GIIPS. In addition, the value that we ultimately realize for our securities and other investments may be lower than the current fair value. Any of these factors could require us to record further negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

***Our business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or our access to wholesale money markets becomes limited and/or becomes more expensive, and this may have an adverse effect on our business and profitability.***

Liquidity and funding continue to remain key areas of focus for the Group and the industry as a whole. Like all major financial institutions, we are dependent on confidence in the short- and long-term wholesale funding markets. Should we, due to exceptional circumstances, be unable to continue to source sustainable funding, our ability to fund our financial obligations could be impacted.

Our business is subject to risks concerning liquidity, which are inherent in building society operations. If access to liquidity is constrained for a prolonged period of time, this could affect our profitability. Whilst we expect to have sufficient liquidity to meet our funding requirements even in a market-wide stress scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank funding and liquidity support) could affect our ability to meet our financial obligations as they fall due, to meet our regulatory minimum liquidity requirements, or to fulfill our commitments to lend. In such extreme circumstances the Group may not be in a position to continue to operate without additional funding support. Inability to access such support could have a material impact on the Group's solvency. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding, changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that the funding structure employed by the Group may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for us to grow our business or even maintain it at current levels. Our ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of our control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside our control, such as general economic conditions and market volatility, the confidence of retail depositors in the economy in general and in the Group in particular, the financial services industry specifically and the availability and extent of deposit guarantees. These or other factors could lead to a reduction in the Group's ability to access retail deposit funding on appropriate terms in the future.

The maintenance and growth of the level of our lending activities depends in large part on the availability of retail deposit funding on appropriate terms, for which there has been increased competition since the severe disturbances in the financial markets began. Increases in the cost of such funding together with the low base rate environment have had a negative impact on our margins and profit. In extreme circumstances, loss in consumer confidence could result in high levels of withdrawals from our retail deposit base, upon which we rely for lending and which could have a material adverse effect on our business, financial position and results of operations.

***In past years the Government has provided significant support to UK financial institutions, including most recently the Bank of England's Funding for Lending Scheme which commenced on August 1, 2012 and was extended in a number of respects on April 24, 2013. Any significant reduction or withdrawal of this scheme could increase competition for other sources of funding which could adversely impact Nationwide.***

In past years the Government has provided significant support to UK financial institutions, including through the Special Liquidity Scheme ("SLS"), which was introduced in April 2008 to improve the liquidity position of the banking system by allowing banks and building societies to swap their high quality mortgage-backed and other securities for UK Treasury Bills for up to three years, and the Credit Guarantee Scheme ("CGS"), which was introduced in October 2008 and under which the Government guaranteed eligible bank and building society debt securities for a limited period. Nationwide participated in both these schemes.

On August 1, 2012, the BoE's Funding for Lending Scheme (the "FLS") became operational. The aim of the FLS is to boost the incentive for banks and building societies to lend to UK households and non-financial companies. The FLS is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to the FLS is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more in the FLS and at a lower cost than those that scale back their loans. Under the FLS as originally announced, participating financial institutions are, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. This period has been extended to allow drawdowns up to the end of January 2015.

The availability of Government support for UK financial institutions, to the extent that it provides access to cheaper and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. Nationwide is participating in the FLS, and our initial borrowing allowance under FLS was set at £7.61 billion. As at April 4, 2013, we have drawn £2.5 billion of UK treasury bills, with further usage expected to form part of our funding plans in the period to January 31, 2015 when the drawdown period ends. By so participating, Nationwide reduces the need to fund itself in the wholesale markets and there is a risk that if it ceases to remain sufficiently active in those markets its access to them could be prejudiced in the future when Government support is reduced or no longer available to it. The withdrawal of Government support in January 2015 will increase funding costs for those institutions which have previously utilized that support. In addition, other financial institutions who have relied significantly on Government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, Nationwide expects to face increased competition for funding, particularly retail funding on which it is reliant, in the future. This competition could further increase its funding costs and so adversely impact its results of operations and financial position.

***Our financial performance is affected by borrower credit quality.***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Adverse changes in the credit quality of our borrowers and counterparties or a general deterioration in the UK or global economic conditions, including such changes or deterioration arising from systemic risks in the financial systems, could affect the recoverability and value of our assets and require an increase in our impairment provision for bad and doubtful debts and other provisions.

As a result of, among other factors, increases and decreases in the BoE base rate, interest rates payable on a significant portion of our outstanding mortgage loan products fluctuate over time, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers taking out new loans and those repaying existing variable rate loans regardless of special or introductory rates, and these rates are expected to increase as general interest rates return to historically more normal levels. Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Recent declines in housing prices and/or any further declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses. For further discussion see "*Management's Discussion and Analysis of Financial Condition and Results of Operation—Results of Operations for the Year Ended April 4, 2013 Compared with the Year Ended April 4, 2012—Operating expenses and similar charges—Impairment losses on loans and advances to customers*".

***Rating downgrade and/or market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on our performance and/or the marketability and liquidity of the notes.***

If sentiment towards the banks, building societies and/or other financial institutions operating in the United Kingdom (including Nationwide) were to further deteriorate, or if our ratings and/or the ratings of the sector were to be

further adversely affected, this may have a materially adverse impact on us. In addition, such change in sentiment or further reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including Nationwide. Any such events could affect the market value of the notes.

Any future declines in those aspects of our business identified by the rating agencies as significant or otherwise could adversely affect the rating agencies' perception of our credit and cause them to take further negative ratings actions. Any downgrade in our credit ratings could adversely affect our liquidity and competitive position, undermine confidence in our business, increase our borrowing costs, limit our access to the capital markets, or limit the range of counterparties willing to enter into transactions with us. Nationwide has experienced all of these effects when downgraded in the past, although the precise effects experienced on each downgrade have varied based on the reasons for the particular downgrade and the extent to which the downgrade had been anticipated by the market. Our credit ratings are subject to change and could be downgraded as a result of many factors, including the failure to successfully implement our strategies. A downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on our business, results of operations and financial condition.

If the ratings analysis of any agency that rates our credit is updated to reflect lower forward-looking assumptions of systemic support in the current environment or higher assumptions of the risks in the financial sector, or otherwise modified, it could result in a further downgrade to the outlook or to the credit ratings of UK financial institutions, including Nationwide, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including Nationwide. A further downgrade could also create new obligations or requirements for Nationwide under existing contracts with its counterparties that may have a material adverse effect on our business, financial condition, liquidity or results of operations.

Likewise, any downgrade of the UK sovereign credit rating, or the perception that such a downgrade may occur, may severely destabilize the markets and have a material adverse effect on our operating results, financial condition, prospects and the marketability and trading value of the notes. This might also impact on our own credit ratings, borrowing costs and our ability to fund ourselves. A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment and/or reducing asset prices. These risks are exacerbated by concerns over the levels of the public debt of, the risk of further sovereign downgrades of, and the weakness of the economies in, GIIPS in particular. Further instability within these countries or others within the eurozone might lead to contagion.

***Competition in the UK personal financial services markets may adversely affect our operations.***

Developments in our industry and increased competition could have a material adverse effect on our operations. We operate in an increasingly competitive UK personal financial services market. We compete mainly with other providers of personal finance services, including banks, building societies and insurance companies. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Impact of Economic Conditions in the United Kingdom Generally and Outlook*".

The UK market for financial services and the mortgage market in particular have been reshaped by the recent financial crisis. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers, judged by credit score and loan to value criteria, and there is strong competition for these customers. The supply of credit is much more limited for those potential customers without a large deposit or good credit history. As the wholesale funding market has become more challenging, there has been greater competition for retail deposits, which has inevitably impacted on lenders' margins. Competition may intensify further in response to consumer demand, technological changes, the impact of consolidation by our competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, our business, financial condition and results of operations could be materially adversely affected. Currently, there is particular uncertainty on the shape and potential effects of pending changes to the way in which the sector is regulated. This is particularly the case in regard to the impact of the Government's response to the recommendations of the Independent Commission on Banking ("ICB") and the progress of the Financial Services (Banking Reform) Bill. Although this proposed legislation carves out building societies from the ring-fencing proposals, it does contain a power to make provisions for ring-fencing in relation to building societies under separate regulation, which may include an amendment to the UK Building Societies Act.

In addition, if our customer service levels were perceived by the market to be materially below those of competitor UK financial institutions, we could lose existing and potential new business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on our business, financial condition and results of operations.

***If we do not control our financial and operational risks, we may be unable to manage our business.***

Our success as a financial institution depends on our ability to manage and control our financial risk, which includes liquidity, market, and credit risk. We are exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments. We have market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. Credit risk is the risk that a customer or counterparty is unable to meet its obligations to us as they fall due. If we fail to manage and control these risks, we could become unable to meet our own obligations, including those under the notes, resulting in material adverse effects to our business, financial condition and reputation. For additional information about our policies for managing and controlling liquidity, market and credit risk, see the section entitled "*Financial Risk Management*".

Our businesses are also dependent on our ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of our suppliers or counterparties. Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above. Notwithstanding the above, this risk factor should not be taken to imply that we will be unable to comply with our obligations as a company with securities admitted to the Official List or as a supervised firm regulated under the Financial Services and Markets Act 2000.

***Market risks may adversely impact our business.***

The most significant market risks we face are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency.

The performance of financial markets may cause changes in the value of our investment and liquidity portfolios. Although we have implemented risk management methods to seek to mitigate and control these and other market risks to which we are exposed and our exposures are constantly measured and monitored, there can be no assurance that these risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on our financial performance and business operations.

***Reputational risk could cause harm to us and our business prospects.***

Our ability to attract and retain customers and conduct business with our counterparties could be adversely affected if our reputation or the reputation of the Nationwide brand is damaged. Failure to address, or appearing to fail to address, issues that could give rise to reputational risk could cause harm to us and our business prospects. Reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; breaching or facing allegations of having breached legal and regulatory requirements; acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices); adequacy of anti-money laundering and anti-terrorism financing processes; privacy issues; failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping; technology failures that impact upon customer services and accounts; sales and trading practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and general company performance. A failure to address these issues appropriately could make customers unwilling to do business with us, which could adversely affect our business, financial condition and results of operations.

***We are exposed to risks relating to the misselling of financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice.***

We are exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of our business may be determined by the BoE, the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”), H.M. Treasury, the Office of Fair Trading (the “OFT”), the Financial Ombudsman Service (the “FOS”) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman’s opinion;
- the alleged misselling of financial products, including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions to be recorded in Nationwide’s financial statements and could adversely impact future revenues from affected products; and
- we may be liable for damages to third parties harmed by the conduct of our business.

In addition, we face both financial and reputational risk where legal or regulatory proceedings, or complaints before the FOS, or other complaints are brought against us or members of our industry generally in the UK High Court or elsewhere. For example, a UK High Court judgment in 2011 on the misselling of payment protection insurance (“PPI”) resulted in very significant provisions for customer redress made by several UK financial services providers. Our provision for customer redress is reflected in a charge for the year ended April 4, 2013 of £53 million (£103 million for the year ended April 4, 2012). Although our PPI product sales ceased in 2007 and although we view our historical sales volumes as relatively low and subject to a rigorous sales process, we continue to see elevated levels of PPI claims and there can be no assurance that our estimates for potential liability are correct, and our reserves taken to date might prove inadequate.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage, which could have a material adverse effect on our business, financial condition, results of operations and relations with customers.

***Risks associated with governmental authorities and monetary policies of the UK and changes thereto may adversely affect our business.***

We conduct our business subject to ongoing regulation by the PRA and the FCA, which oversee the sale of residential mortgages, commercial lending and general insurance products. The regulatory regime requires us to be in compliance across many aspects of activity, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to be compliant with relevant regulations, there is a risk of an adverse impact on our 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 our control and could materially adversely affect our 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 our operations, including the risk that the UK financial regulatory authorities and other bodies such as the FOS, could impose additional regulations on current and past dealings with retail customers. As a result, we may be required to incur costs to apply these regulations to our business, including costs relating to advice given to retail customers that purchased endowment policies used to repay mortgage loans.

The Banking Act 2009 (the “UK Banking Act”), which came into effect on February 21, 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 us) or other UK incorporated and authorized deposit-taking institution. 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 retroactive effect) and two new special insolvency procedures (bank insolvency and bank administration) which may be commenced by the 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 UK 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 UK Building Societies Act (as inserted by the Building Societies (Insolvency and Special Administration) Order 2009 (amended by the Building Societies (Insolvency and Special Administration) (Amendment) Order 2010), these special insolvency proceedings were applied (with modifications) to building societies.

In general, the UK Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the UK 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 stabilization power under the UK Banking Act that the PRA must be satisfied that the relevant bank or building society is failing or likely to fail to meet the threshold conditions for authorization 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 UK Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it.

If an instrument or order were to be made under the UK Banking Act in respect of us, such instrument or order may (amongst other things) (i) result in a transfer to another issuer via the modified tools described above, (ii) affect our ability to satisfy our obligations under the notes and/or (iii) result in modifications to the terms of the notes. In addition, the UK Banking Act contains particular powers for provision to be included in an instrument or order that such instrument or order (and possibly certain related events) be disregarded in determining whether certain widely defined “default event” provisions have occurred (which default events could include certain events of default under any Notes) and provides for the disapplication or modification of laws (with possible retroactive effect) and/or fiscal consequences in connection with the exercise of powers under the UK Banking Act.

At present, the UK authorities have not made an instrument or order under the UK Banking Act in respect of us 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 the holders of Notes will not be adversely affected by any such instrument or order if made.

On June 6, 2012, following earlier consultation papers in this area published in January 2011 and March 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Among other things, the proposed crisis-management directive (“**CMD**”) contemplates the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The resolution tools and powers referred to in the **CMD** include certain tools and powers which overlap in part with those available under the UK Banking Act and also certain further tools, such as provision for authorities to bail-in eligible liabilities of relevant institutions and to ensure mandatory write-down of capital instruments at the point of non-viability of the relevant institution and to convert unsecured debt claims to equity. There is still scope for changes to be made before any final legislation is adopted. On the basis of the current proposals, however, Member States will be expected to implement the **CMD**, including the proposals on capital write-down, on or before January 1, 2015, except for the proposals on bail-in, which Member States will have until January 1, 2018 to implement. The proposals on capital write-down and on bail-in are both expected to cover outstanding liabilities already in issue. In general, there is considerable uncertainty about the scope of the powers afforded to the Government under the UK Banking Act and how the Government may choose to exercise them or the powers granted under any future legislation. If similar legislation providing for capital write-down and bail-in is implemented in relation to building societies, it may cover outstanding liabilities already in issue (in which case this may include notes outstanding at that time) or future issuances of notes under the program. If so, there can be no assurance that noteholders will not be adversely affected by an action taken under it, once it is agreed upon and implemented.

On April 7, 2010 the UK Building Societies (Financial Assistance) Order 2010 came into force in exercise of certain powers under the UK Banking Act for the purpose of modifying the application of the UK 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 BoE, 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 such institution or providing financial assistance to a building society on the basis of financial assistance from such an institution. Most significantly, the UK Building Societies (Financial Assistance) Order 2010 would permit any qualifying institution to provide such assistance to us without it counting for the purpose of the 50% limit on our non-member funding. It would also permit us to create a floating charge over our assets in favor of a qualifying institution in respect of that assistance.

On April 1, 2013, pursuant to the UK Financial Services Act 2012, a range of structural reforms to UK financial regulatory bodies was implemented, as follows:

- the Financial Services Authority (“FSA”) was re-established as the FCA;
- a Financial Policy Committee was established in the BoE which is responsible for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the BoE, the PRA, was established which is responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the FCA has responsibility for conduct of business and markets regulation. The FCA also represents the UK’s interests in markets regulation at the new European Securities and Markets Authority.

In addition, UK banks and building societies became subject to a bank levy from January 1, 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance is 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 also includes Tier 1 capital, insured retail deposits and repos secured on sovereign debt. For further information, see “*Description of Business—Bank levy*”.

From January 1, 2011 an updated FSA remuneration code (the “**FSA Remuneration Code**”) came into effect, which applies to the UK’s largest banks and building societies (including Nationwide) and sets forth certain remuneration principles affecting fixed and variable remuneration of employees of covered institutions. Although management does not believe the FSA Remuneration Code has historically affected or presently affects its ability to recruit or retain personnel, there can be no assurance that the aforementioned restrictions will not adversely affect our business, financial condition or results of operations.

In June 2010, the Government created the ICB to consider and to make recommendations on structural and related non-structural reforms to the UK banking sector to promote, among other things, financial stability and competition. The ICB released its Final Report to the Cabinet Committee on Banking Reform on September 12, 2011, which sets out the ICB’s recommendations on reforms. These recommendations include (i) ring-fencing domestic retail banking services of UK banks and building societies, (ii) introducing a power for the UK authorities to bail in debt issued by UK banks and building societies, (iii) increasing UK banks’ and building societies’ loss-absorbing capacity (including by way of bail-in bonds), (iv) increasing the ranking of insured depositors on a winding up to rank ahead of all other unsecured creditors and (v) promoting competition in UK retail banking. The ICB indicated that the reforms will require an extended implementation period and recommended that implementation should be completed at the latest by 2019. If implemented, the ICB’s recommendations would have an impact on the manner in which we conduct our business, may affect our ability to satisfy our obligations under the notes and/or may result in modifications to the terms of the notes, which may have certain tax implications.

H.M. Treasury published a white paper on June 14, 2012 (“Banking reform: delivering stability and supporting a sustainable economy”) confirming its continuing support for the majority of the ICB proposals and its intention to bring forward legislation to effect the relevant changes before the end of this Parliament (2015). Broadly, the white paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector. A draft of the initial bill to implement the ICB recommendations was published on October 12, 2012, in the form of framework legislation to put in place the architecture to effect the reforms, with detailed policy being provided for through secondary legislation. Any future bail-in powers will be implemented in line with the draft EU Recovery and

Resolution Directive published on June 6, 2012. Primary legislation (the draft Financial Services (Banking Reform) Bill) is intended to give effect to the ICB's recommendations. A revised text of the bill was published on February 4, 2013. The draft bill excludes building societies entirely from the enabling ring-fencing legislation, to avoid imposing disproportionately burdensome requirements upon the sector. The white paper notes, however, that some parallel changes will be made to the UK Building Societies Act to implement bespoke ring-fencing requirements for building societies and that loss absorbency requirements are still likely to apply. The intention is that the changes to the UK Building Societies Act will bring building societies into line so that they can compete on a fair basis while maintaining their distinctive approach. The Government plans to introduce all necessary legislation as soon as Parliamentary time allows, and has confirmed its commitment to completing all primary and secondary legislation by the end of this Parliament in May 2015. Banks and building societies will be expected to comply with all of the measures proposed in the white paper by 2019, as the ICB recommended.

On July 6, 2012, H.M. Treasury published a discussion document entitled "The future of building societies" which sets out the Government's aim to maintain the distinctiveness of the building society sector while creating a level playing field and removing unnecessary barriers to growth. The Government stated that it intends to amend the UK Building Societies Act to widen the opportunities for building societies and to align them with ring-fenced banks without compromising their mutuality. The Government stated that the loss absorbency proposals set out in the white paper of June 2012 on banking reform will apply to building societies as they apply for banks of a similar profile. As part of its commitment to foster diversity in the financial sector, the Government invited suggestions for reviewing those parts of the UK Building Societies Act which restrict societies, where this is in accordance with maintaining their distinctiveness.

Currently it is not possible to predict how and the extent to which the other foregoing recently announced changes will impact on our operations, business results, financial condition or prospects. Accordingly, we 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 our operations, business, results, financial condition or prospects.

***We are subject to capital requirements that could have an impact on our operations.***

We are subject to capital adequacy requirements adopted by the PRA for a building society. Our capital is reported as a ratio of total capital to risk-adjusted assets expressed as a percentage. If we fail to meet our minimum regulatory requirements, this may result in administrative actions or sanctions against us, which may impact our ability to fulfill our obligations under the notes.

The current risk-adjusted capital guidelines (the "**Basel Accord**") promulgated by the Basel Committee on Banking Supervision (the "**Basel Committee**"), which form the basis for the EU's and thus the PRA's capital adequacy 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 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.

On December 16, 2010 and on January 13, 2011, with a minor revision on June 1, 2011, the Basel Committee issued its final guidance on a number of fundamental reforms to the regulatory capital framework (such reforms being commonly referred to as "**Basel III**"), including new capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, leverage ratio and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for financial institutions, including building societies. The guidance also proposes (by way of the January 13 press release) minimum requirements that all capital instruments issued after January 1, 2013 either under their terms or pursuant to appropriate laws be written down or converted into common equity (at the option of the relevant regulatory authority) upon the occurrence of certain "non-viability" trigger events.

Basel III will be implemented in the EEA through a regulation to establish a single set of harmonized prudential rules, which will apply directly to all credit institutions in the EU, and an associated capital requirements directive which will need to be transposed into national law (commonly referred to collectively as "**CRD IV**"). Draft texts of CRD IV were adopted by the European Parliament on April 16, 2013. The draft gives express recognition for Common Equity Tier 1 capital instruments for mutuals, co-operatives and similar institutions and permits the use of a cap or restriction on the maximum level of distributions on such instruments provided such cap or restriction is set out under applicable national law or the constitution of the institution. Implementation of CRD IV was originally intended by the European

authorities to begin from January 1, 2013 (consistent with the Basel III implementation timetable), but is now likely to be delayed at least until January 1, 2014. Otherwise, the timetable for implementation of CRD IV is anticipated to be broadly in line with Basel III, with full implementation by January 2019, but the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or level of capital more quickly than is envisaged under Basel III. It is intended that the Basel Committee recommendation on loss absorbency of capital instruments at the point of non-viability will be implemented separately through the CMD and would be intended to come into force with effect from January 1, 2015.

To complement the CRD IV legislative package—a proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms—the CMD, was published in June 2012. The powers provided to resolution authorities in the draft CMD include powers to write-down, or convert into equity, capital instruments (including Tier 2 capital instruments such as the Subordinated Notes) at the point of non-viability of a financial institution, as well as a more general bail-in tool, which would give resolution authorities power to write-down, or convert into equity, the claims of certain unsecured senior creditors. Nationwide cannot predict the final form of the CMD, including the proposal for a debt write-down tool, and how the implementation of the CMD may affect the pricing and claims of holders of the notes. Subject to the implementation of the proposed bail-in power under English law and applicable English banking regulations, Notes may be subject to write-down or loss absorption upon the occurrence of the relevant trigger event determined by UK authorities, which may result in holders losing some or all of their investment.

The ICB's recommendations on reforms also leave open the possibility of capital and leverage requirements in excess of the minimum requirements prescribed by Basel III and/or CRD IV. The ICB recommendations and the Government's response supporting such recommendations include proposals to increase capital and loss absorbency to levels that exceed the proposals under Basel III. The Government has, however, rejected the ICB proposal to increase the leverage ratio requirement above the level of 3% of Tier 1 capital as envisaged under Basel III. These requirements, as well as the other recommendations of the ICB, are expected to be phased in between 2015 and 2019. As the implementation of the ICB recommendations will be the subject of legislation not yet adopted, we cannot predict the impact such rules will have on our overall capital requirements or how they will affect our compliance with capital and loss absorbency requirements of Basel III.

In November 2012, the Financial Policy Committee (“FPC”) of the BoE issued its Financial Stability Report, which recommended that the FSA (subsequently the PRA) “take action to ensure that the capital of the UK banks and building societies reflect a proper valuation of their assets, a realistic assessment of future conduct costs and prudent calculation of risk weights”. Following this, in March 2013, the FPC issued a statement from its policy meeting which concluded that, after adjusting for the items described above, UK banks and building societies had an aggregate capital shortfall of £25 billion at the end of 2012. On June 20, 2013, the PRA announced the results of its capital shortfall exercise across the major UK banks and building societies. In its announcement, the PRA indicated that these institutions (including Nationwide) should hold capital resources equivalent to at least 7% of their risk weighted assets by the end of 2013. The PRA's assessment shows a capital shortfall attributable to Nationwide of £400 million, but acknowledges that we have already accommodated this shortfall in our plan for 2013 (Source: BoE). In addition, following its capital shortfall exercise, the PRA asked that we submit a plan to meet a leverage ratio of no less than 3% after adjustments. We have consulted with the PRA and submitted our plan, under which we expect to achieve this target by the end of 2015, significantly ahead of the expected January 1, 2018 implementation date of the leverage ratio requirements of CRD IV. The PRA has accepted our plan and we will continue to take action to achieve a 3% leverage ratio.

While our plan does not include further capital issuance by the Society, it does include certain assumptions about organic growth and the success of our current business model and strategy. If we are unable to meet our growth targets we may not achieve a 3% leverage ratio, which could result in further requirements placed upon us by the regulatory authorities. In addition, new or revised buffer and minimum capital requirements could be applied to us and/or the manner in which existing regulatory requirements are applied to us could change. The introduction of the new rules and proposals will present a number of challenges to us in reviewing our existing capital and liquidity arrangements and could have an impact on our capital and liquidity calculations and funding requirements or otherwise adversely affect our business or profitability.

#### ***Financial Services Compensation Scheme***

The Financial Services and Markets Act 2000 established the FSCS, which pays compensation to eligible customers of authorized financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information, please refer to the section entitled “*Description of Business—Financial Services Compensation Scheme*”. Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants, which levies may be in significant amounts that may have a material impact on our profits. In particular, following agreement between the FSCS and H.M. Treasury on the terms of a refinancing in March 2012, there is an expected shortfall of £363 million for the 2013/14 scheme year, which will be passed on across all firms holding protected deposits, including the Group. In addition, there can be no assurance that there will be no further actions taken under the UK Banking Act that may lead to further claims against the FSCS and concomitant increased FSCS levies payable by us. Any such increases in our costs and liabilities related to the levy may have a material adverse effect on our results of operations. Further costs and risks to us may also arise from discussions at national and EU levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes. The amount provided for in the Group’s accounts to meet its obligations to the FSCS was an estimated £133 million as at April 4, 2013 (£111 million as at April 4, 2012). Included within this provision is £44 million which represents our share of the £363 million expected shortfall described above.

On July 25, 2012 the FSA published a consultation paper, the FSCS Funding Model Review (“FFMR”), on changes to how the FSCS is funded. The consultation closed on October 25, 2012. The FFMR will concentrate on issues such as the composition of the funding classes, the levy thresholds applicable to each and their tariff bases. On March 25, 2013, the FSA published a policy statement on the FFMR. It confirms that, in addition to the five FCA funding classes already included in the FCA retail post (RP12116), all FCA-regulated deposit takers, general insurers, life insurers and home finance providers should also contribute to the pool if any of the thresholds of FCA intermediation are reached.

As a result of the structural reorganization and reform of the UK financial regulatory authorities, the FSCS is the joint responsibility of the PRA and the FCA. It is possible that future policy of the FSCS and future levies on us may differ from those at present, and such reforms could lead us to incur additional costs and liabilities, which may adversely affect our business, financial condition and/or results of operations.

***Future legislative and regulatory changes could force the Group to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Group’s expenses and/or otherwise adversely affect our business results, financial condition or prospects.***

Regulators and other bodies in the UK and world-wide have produced a range of proposals for future legislative and regulatory changes which could force the Group to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Group’s expenses and/or otherwise adversely affect our business results, financial condition or prospects. These include, amongst others:

- the introduction of recovery and resolution planning requirements for banks, building societies and other financial institutions as contingency planning for the failure of a financial institution that may affect the stability of the financial system;
- the implementation of the UK Financial Services Act 2012, which enhanced the UK regulatory authorities’ disciplinary and enforcement powers;
- the introduction of more regular and detailed reporting obligations;
- a move to pre-funding of the deposit protection scheme in the UK; and
- a proposal to require large UK retail banks and building societies to hold a minimum Core Tier 1 to risk-weighted assets ratio of at least 10% which is, broadly, 3% higher than the minimum capital levels under Basel III.

At this point it is impossible to predict the effect that any of the proposed or recently enacted changes will have on our operations, business and prospects or how any of the proposals discussed above will be affected and implemented in light of the fundamental changes to the regulatory environment proposed by the coalition government. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group’s operations, structure, costs, and/or capital requirements. Accordingly, we cannot assure that the implementation

of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on our operations, business, results, financial condition or prospects.

Nationwide is also investing significantly to ensure that it will be able to comply with developing regulatory requirements. If Nationwide is unsuccessful in efficiently adopting the requisite new compliance practices, this will adversely impact our ability to operate in the financial services markets and to deliver an appropriate level of operational and financial performance.

***Demutualization, mutual society transfers and consequences of the UK Building Societies Act may have an adverse impact on the holders of Notes.***

Subject to regulatory confirmation, our members and our directors determine whether we remain a building society or if we demutualize (save in circumstances where a direction is undertaken under Section 42B of the UK Building Societies Act (as amended by section 56 of the UK Financial Services Act 2012) or a UK authority makes an instrument or order under the UK Banking Act which results in a demutualization taking place).

The UK Building Societies Act includes provisions under which a building society may demutualize by transferring the whole of its business to a company. In addition, the UK Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 (the “**Mutual Transfers Order**”) made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the “**Funding and Mutual Societies Transfers Act**”)) includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). At present, the claims of our depositors and other unsubordinated creditors would rank ahead of share accounts (which term excludes any deferred shares) and our members’ rights to any surplus in the event of our liquidation, and the claims of our subordinated creditors would rank behind share accounts but ahead of members’ rights to any surplus in the event of our liquidation. If, however, we transfer our business to a specially formed company or an existing company (as defined in the UK Building Societies Act) or to a subsidiary of another mutual society, all of our liabilities which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of our successor.

Under section 90B of the UK Building Societies Act (which was inserted by the Funding and Mutual Societies Transfers Act, although not yet in force), H.M. Treasury may, by order, make provision for the purpose of ensuring that, on the winding up, or dissolution by consent, of a building society, any assets available for satisfying the society’s liabilities to creditors (other than liabilities in respect of subordinated deposits, liabilities in respect of preferential debts, or any other category of liability which H.M. Treasury specifies in the order for these purposes) or to shareholders (other than liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. The power to make an order under section 90B of the UK Building Societies Act will, when it is in force, be exercisable by statutory instrument but may not be made unless a draft of it has been laid before and approved by a resolution of each House of Parliament. No date has been appointed for this provision to come into force.

Following a transfer of our business to a company (including where the transfer is to a subsidiary of another mutual society), our obligations under senior Notes would rank (a) in priority to both the rights of the holders of the equity share capital in the company to any repayment of capital or surplus on a liquidation and any obligations of the company (whether or not created prior to such transfer) expressed to rank junior to such Notes, (b) equally with other unsecured and unsubordinated creditors (including inter-bank lenders and retail depositors) and (c) behind any statutorily preferential creditors.

For additional discussion in relation to the ranking of our debt, see the sections entitled “*Terms and Conditions of the Notes—Status of Senior Notes*” and “*Terms and Conditions of the Notes—Status and Subordination of Subordinated Notes*”. For further information about demutualization, see the section entitled “*Supervision and Regulation*”.

## **Risks Related to the Notes**

***Notes are subject to potential modification and substitution.***

The terms and conditions of the notes contain provisions for calling meetings of holders of notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of notes

including holders of notes who did not attend and vote at the relevant meeting and holders of Notes who voted in a manner contrary to the majority.

The terms and conditions of the notes also provide that the Trustee may, without the consent of holders of notes, agree to (i) any modification of the terms and conditions of the notes or the Indenture or (ii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in the section entitled “*Terms and Conditions of the Notes—Supplemental Indentures*”.

***The EU Savings Directive will impact EU holders of Notes.***

Under EC Council Directive 2003/48/EC (the “**Directive**”) on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the government of Luxembourg announced its intention to abolish the withholding system with effect from January 1, 2015 in favor of automatic information exchange under the Directive.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, any Paying Agent or any other person would be obliged to pay additional amounts with respect to any note as a result of the imposition of such withholding tax.

***Foreign Account Tax Compliance withholding may affect payments on the notes.***

Section 1471 through 1474 of the U.S. Internal Revenue Code (or “**FATCA**”) imposes a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) “foreign passthru payments” made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. While the notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer’s obligations under the notes are discharged once it has paid DTC or its nominee (as holder of the notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries. Prospective investors should refer to the section “*Taxation—Foreign Account Tax Compliance Act*”.

***The Notes are subject to exchange rate risks and exchange controls.***

We will pay principal and interest on the notes in the Specified Currency (as defined below). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or

modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the notes, (2) the Investor's Currency equivalent value of the principal payable on the notes and (3) the Investor's Currency equivalent market value of the notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***The notes may not be freely transferred.***

We have not registered, and will not register, the notes under the Securities Act or any other applicable securities laws. Accordingly, the notes are subject to certain restrictions on resale and other transfer thereof as set forth in the section entitled "*Transfer Restrictions*". As a result of these restrictions, we cannot be certain of the existence of a secondary market for the notes or the liquidity of such a market if one develops. Consequently, a holder of notes and an owner of beneficial interests in those notes must be able to bear the economic risk of their investment in the notes for the term of the notes.

***There is no active trading market for the notes.***

The notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. Although we have applied to admit the notes issued from time to time to listing on the Official List and to admit them to trading on the London Stock Exchange, we cannot assure you that the notes will be accepted for listing or that an active trading market will develop. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes.

Potential investors should note that, in view of prevailing and widely reported global credit market conditions (which continue at the date hereof), the secondary market for the notes and for instruments of this kind may be illiquid. We cannot predict when and how these circumstances will change. Liquidity in the notes may also be disrupted by the recent market disruptions referred to above.

***The subordinated notes are subordinated to most of our liabilities.***

If we are declared insolvent and a winding up is initiated we will be required to pay the holders of our senior debt and meet our obligations to all of our other creditors (including unsecured creditors but excluding any obligations that we may have with respect to our subordinated debt and permanent interest bearing shares) and our UK retail member deposits in full before we can make any payments on the subordinated Notes. If this occurs, we may not have enough assets remaining after these payments to pay amounts due under the subordinated Notes. See "*Risks Related to Our Business—Risks associated with governmental authorities and monetary policies of the UK and changes thereto may adversely affect our business*".

***The credit ratings may not be reliable, and changes to the credit ratings could affect the value of the notes.***

The credit ratings of our medium-term note program may not reflect the potential impact of all risks relating to the value of the notes. In addition, real or anticipated changes in our credit ratings or the credit ratings of the notes will generally affect the market value of the notes. These credit ratings could change due to a wide range of factors, including but not limited to those discussed under "*Risks Related to Our Business—Rating downgrade and/or market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on our performance and/or the marketability and liquidity of the Notes*". A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

***Because the Global Notes are held by DTC or its nominee in book-entry form, you will have to rely on their procedures for transfer, payment and communication with us.***

These Notes will be represented by one or more Global Notes. These Notes will be deposited with a custodian on behalf of DTC or its nominee. Except in limited circumstances, holders will not be entitled to receive certificated Notes. DTC will maintain records of the beneficial interests in the Global Notes. Holders will be able to trade their beneficial interests only through DTC or a participant of DTC such as Euroclear or Clearstream. The laws of some jurisdictions, including some states in the United States, may require that certain purchasers of securities take physical

delivery of such securities in certificated form. The foregoing limitations may impair a holder's ability to own, transfer or pledge its beneficial interests. A holder of beneficial interests in the Global Notes in one of these jurisdictions will not be considered the owner or "holder" of the notes.

We will discharge our payment obligations under the notes by making payments to the custodian for distribution to the holders of beneficial interests at DTC or a participant of DTC with respect to interests of indirect participants. We and the initial purchasers of the notes will not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. A holder of beneficial interests must rely on the procedures of DTC or DTC's participants, through which holders hold their interests, to receive payments under the notes. We cannot assure holders that the procedures of DTC or DTC's nominees, participants or indirect participants will be adequate to ensure that holders receive payments in a timely manner.

A holder of beneficial interests in the Global Notes will not have a direct right under the indenture governing these Notes to act upon solicitations we may request. Instead, holders will be permitted to act only to the extent they receive appropriate proxies to do so from DTC or, if applicable, DTC's participants or indirect participants. Similarly, if we default on our obligations under the notes, as a holder of beneficial interests in the Global Notes, holders will be restricted to acting through DTC, or, if applicable, DTC's participants or indirect participants. We cannot assure holders that the procedures of DTC or DTC's nominees, participants or indirect participants will be adequate to allow them to exercise their rights under the notes in a timely manner.

***If we have the right to redeem any Notes at our option, this may limit the market value of the notes concerned.***

An optional redemption feature is likely to limit the market value of Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

***If we redeem any notes at our option, or are required to redeem any notes, an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.***

We may be expected to redeem notes with an optional redemption feature when our cost of borrowing is lower than the interest rate on the notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the notes being redeemed and may only be able to do so at a significantly lower rate. Additionally, we may redeem the notes at times when prevailing interest rates are relatively low, and accordingly investors may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the notes. Potential investors should consider reinvestment risk in light of other investments available at that time.

***If we have the right to convert the interest rate on any notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the notes concerned.***

Floating Rate/Fixed Rate Notes may bear interest at a rate that we may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of such Notes since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a floating rate, the spread on the Floating Rate/Fixed Rate Notes may be less favorable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If we convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

***Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.***

The market values of Notes issued at a substantial discount or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing Notes. Generally, the longer the remaining term of the notes, the greater the price volatility as compared to conventional interest-bearing Notes with comparable maturities.

***The value of the notes could be adversely affected by a change in the laws of the State of New York, English law or administrative practice.***

The conditions of the notes are based on the laws of the State of New York in effect as at the date of this Base Prospectus, except that the subordination provisions in each of the indenture and the subordinated notes are based on the laws of England and Wales in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

***The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.***

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

## **USE OF PROCEEDS**

We will use the net proceeds of each issue of notes for general corporate purposes and, with regard to subordinated notes, to strengthen our capital base. We may also use a portion of the net proceeds from any note issuance to acquire companies or assets that are complementary to our business, although we do not currently have any acquisitions planned. See the section entitled “*Description of Business*” for a detailed description of our funding needs.

## EXCHANGE RATES

The following table sets forth, for the periods indicated, the high, low, average and period-end noon-buying rates in the City of New York for cable transfers in sterling as announced by the Federal Reserve Bank of New York for customs purposes, in each case for the purchase of U.S. dollars, all expressed in U.S. dollars per pound sterling (the “Market Exchange Rate”):

For the financial year ended	U.S. Dollars Per Pound Sterling			
	High	Low	Average <sup>(1)</sup> (U.S. dollars per pound sterling)	Year End
April 4, 2013.....	1.63	1.49	1.58	1.52
April 4, 2012.....	1.67	1.53	1.60	1.59
April 4, 2011.....	1.64	1.43	1.56	1.61
April 4, 2010 <sup>(2)</sup> .....	1.70	1.45	1.60	1.52
April 4, 2009 <sup>(3)</sup> .....	2.00	1.37	1.70	1.48

For the month of	U.S. Dollars Per Pound Sterling			
	High	Low	Average <sup>(4)</sup> (U.S. dollars per pound sterling)	Month End
January 2013.....	1.63	1.57	1.60	1.59
February 2013.....	1.58	1.51	1.55	1.52
March 2013.....	1.52	1.49	1.51	1.52
April 2013.....	1.55	1.51	1.53	1.55
May 2013.....	1.56	1.50	1.53	1.52
June 2013.....	1.57	1.52	1.55	1.52

Notes:

(1) The average of the noon-buying rates on the last business day of each month during the relevant period.

(2) The last business day preceding the financial year end was April 2, 2010.

(3) The last business day preceding the financial year end was April 3, 2009.

(4) The average of the daily noon-buying rates during the relevant period.

Solely for the convenience of the reader, this Base Prospectus presents translation of income statement and balance sheet data from pounds sterling into U.S. dollars at the rate of £1.00 to \$1.5168, the Market Exchange Rate on April 4, 2013. These translations should not be construed as representations that pound sterling amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as of any of the dates mentioned in this Base Prospectus, or at all.

## CAPITALIZATION AND INDEBTEDNESS

The following is a summary of our consolidated capitalization and indebtedness extracted from our audited consolidated financial statements as at April 4, 2013:

	<u>As at April 4, 2013</u>
	<u>(£ millions)</u>
<b>Consolidated Indebtedness<sup>(1)</sup></b>	
Deposits from banks .....	3,230
Amounts due to customers and other deposits .....	12,707
Debt securities in issue .....	33,429
<b>Total Senior Debt</b> .....	<b>49,366</b>
<b>Subordinated Debt<sup>(1)(2)</sup></b>	
Comprising one issue maturing in 2014, one issue maturing in 2015, one issue maturing in 2018, one issue maturing in 2019, two issues maturing in 2020, one issue maturing in 2022 and one issue maturing in 2023. ....	2,580
<b>Total Senior and Subordinated Debt</b> .....	<b>2,580</b>
<b>Permanent Interest Bearing Shares<sup>(1)(3)</sup></b>	
Comprising nine issues of permanent interest bearing shares callable (subject to relevant supervisory consent) in 2015, 2016, 2019, 2021, 2024, 2026 and 2030, respectively. The floating rate shares are only repayable in the event of the winding up of the Society. ....	1,317
<b>Members' Funds</b>	
General reserve .....	6,765
Revaluation reserve .....	67
Other reserves .....	(252)
UK retail member deposits <sup>(1)(4)</sup> .....	125,574
<b>Total members' funds</b> .....	<b>132,154</b>
<b>Total capitalization<sup>(5)</sup></b> .....	<b>185,417</b>

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) For consistency with other indebtedness, accrued interest of £40 million is included.
- (3) For consistency with other indebtedness, accrued interest of £13 million is included.
- (4) 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 (the “**Board**”) has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.
- (5) The nominal value of mortgages pledged as security on debt issuances as at April 4, 2013 totaled £46,850 million, while additional mortgages of £4,891 million have been pledged as a pool as part of the FLS.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalization, indebtedness, guarantees or contingent liabilities since April 4, 2013.

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been extracted from our audited consolidated financial statements as of April 4, 2013, 2012 and 2011 for the financial years then ended.

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 financial year ended April 4,			
	2013 <sup>(1)</sup>	2013	2012	2011
	(\$ millions)	(£ millions)	(audited)	
<b>Income Statement Data:</b>				
Interest receivable and similar income.....	8,465	5,581	5,353	4,643
Interest expense and similar charges <sup>(2)</sup> .....	(5,404)	(3,563)	(3,730)	(3,107)
<b>Net interest income<sup>(2)</sup></b> .....	<b>3,061</b>	<b>2,018</b>	<b>1,623</b>	<b>1,536</b>
Fee and commission income <sup>(2)</sup> .....	845	558	515	492
Fee and commission expense <sup>(2)</sup> .....	(171)	(113)	(96)	(92)
Income from investments.....	20	13	10	4
Other operating income <sup>(2)</sup> .....	70	46	91	7
Gains/(losses) on derivatives and hedge accounting.....	(250)	(165)	35	120
<b>Total income<sup>(2)</sup></b> .....	<b>3,575</b>	<b>2,357</b>	<b>2,178</b>	<b>2,067</b>
Administrative expenses <sup>(2)</sup> .....	(1,818)	(1,199)	(1,205)	(1,123)
Depreciation and amortization expenses..	(328)	(216)	(180)	(150)
Impairment losses on loans and advances to customers	(893)	(589)	(390)	(359)
Provisions for liabilities and charges .....	(214)	(141)	(162)	(52)
Impairment losses on investment securities .....	(3)	(2)	(38)	(66)
<b>Profit before tax</b> .....	<b>319</b>	<b>210</b>	<b>203</b>	<b>317</b>
Analyzed as:				
Underlying profit before tax and the following items: .....	720	475	304	276
Financial Sector Compensation Scheme..	(103)	(68)	(59)	(50)
Restructuring costs.....	(24)	(16)	(61)	(29)
Bank levy.....	(24)	(16)	(16)	-
Gains from derivatives and hedge accounting.....	(250)	(165)	35	120
Statutory profit before tax.....	319	210	203	317
Taxation.....	-	-	(24)	(69)
<b>Profit</b> .....	<b>319</b>	<b>210</b>	<b>179</b>	<b>248</b>

Notes:

(1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements for the year ended April 4, 2013 using the exchange rate of \$1.5168 to £1.00.

(2) The amounts for the year ended April 4, 2011 have been reclassified or adjusted as described in note 1 of the audited consolidated financial statements for the year ended April 4, 2012.

**For the financial year ended  
April 4,**

	<b>2013<sup>(1)</sup></b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	(\$ millions)	(£ millions)		
	(unaudited)	(audited)		
<b>Balance Sheet Data</b>				
<b>Assets:</b>				
Cash .....	11,961	7,886	8,126	6,130
Loans and advances to banks .....	3,825	2,522	2,914	4,181
Investment securities available for sale ...	20,357	13,421	23,325	21,540
Derivative financial instruments .....	6,389	4,212	4,176	3,961
Fair value adjustment for portfolio hedged risk <sup>(2)</sup> .....	1,323	872	1,330	1,634
Loans and advances to customers <sup>(3)</sup> .....	242,062	159,587	154,169	149,417
Investments in equity shares .....	42	28	29	103
Intangible assets .....	1,356	894	681	529
Property, plant and equipment .....	1,344	886	945	948
Investment properties .....	12	8	9	9
Accrued income and expenses prepaid ....	223	147	129	215
Deferred tax assets <sup>(2)</sup> .....	234	154	229	218
Current tax assets .....	23	15		
Other assets .....	130	86	67	68
<b>Total assets<sup>(2)</sup></b> .....	<b>289,281</b>	<b>190,718</b>	<b>196,129</b>	<b>188,953</b>
<b>Liabilities:</b>				
UK retail member deposits .....	190,470	125,574	125,617	122,552
Deposits from banks .....	4,899	3,230	3,370	2,746
Other deposits <sup>(2)</sup> .....	10,234	6,747	6,899	5,809
Due to customers <sup>(2)</sup> .....	9,040	5,960	5,833	5,762
Fair value adjustment for portfolio hedged risk <sup>(2)</sup> .....	228	150	278	19
Debt securities in issue .....	50,704	33,429	38,854	37,808
Derivative financial instruments .....	5,893	3,885	4,287	3,234
Other liabilities .....	381	251	349	376
Provisions for liabilities and charges <sup>(2)</sup> ....	482	318	295	165
Accruals and deferred income <sup>(2)</sup> .....	555	366	369	376
Subordinated liabilities .....	3,853	2,540	1,644	1,973
Subscribed capital .....	1,978	1,304	1,625	1,510
Deferred tax liabilities <sup>(2)</sup> .....	46	30	28	36
Current tax liabilities <sup>(2)</sup> .....	-	-	5	45
Retirement benefit obligations .....	537	354	517	300
General reserve <sup>(2)</sup> .....	10,261	6,765	6,450	6,659
Revaluation reserve .....	102	67	65	70
Available-for-sale reserve <sup>(2)</sup> .....	(382)	(252)	(356)	(487)
<b>Total reserves and liabilities<sup>(2)</sup></b> .....	<b>289,281</b>	<b>190,718</b>	<b>196,129</b>	<b>188,953</b>

Notes:

(1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements for the year ended April 4, 2013 using the exchange rate of \$1.5168 to £1.00.

(2) The amounts for the year ended April 4, 2011 have been reclassified or adjusted as described in note 1 of the audited consolidated financial statements for the year ended April 4, 2012.

(3) Loans and advances to customers include loans to corporate bodies, such as independent UK housing organizations 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 January 2, 1998. The classification of these assets is not consistent with the treatment of similar loans made after January 2, 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 financial year ended April 4,		
	2013	2012 (unaudited)	2011
<b>Other Financial Data:</b>			
Return on average total assets <sup>(1)</sup> .....	0.11%	0.09%	0.13%
Net interest margin <sup>(2)</sup> .....	1.04%	0.83%	0.81%
Wholesale funding ratio.....	22.5%	25.3%	25.9%
Loan to deposit ratio .....	115.4%	111.4%	111.4%
Loan to deposit ratio (including long term wholesale funding) .....	99.1%	93.8%	94.8%
<b>Ratio of earnings to fixed charges<sup>(3)</sup></b> .....			
Including interest on retail deposits .....	1.06%	1.05%	1.10%
Excluding interest on retail deposits .....	1.30%	1.25%	1.62%
<b>Capital ratios</b> .....			
Tier 1 capital.....	15.5%	16.0%	15.7%
Total capital .....	19.1%	18.9%	19.5%
Ratio of administrative expenses to mean total assets <sup>(4)</sup> .....	0.73%	0.72%	0.67%

Notes:

(1) 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.

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

(3) 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.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on, and should be read in conjunction with, our selected consolidated financial and operating information and our audited consolidated financial statements incorporated by reference herein. We prepared our financial statements in accordance with IFRS, which differs in certain significant respects from generally accepted accounting principles in the United States.

### Overview

We are a building society, regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. Our core business is providing personal financial services, primarily residential mortgage lending funded largely through retail savings. As a mutual organization, 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 organizations. As a mutual organization, 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 Group—Capital Resources*" below.

### Financial Performance

Our results for the year ended April 4, 2013 demonstrate the strength of our core business franchise, including strong growth in mortgage volumes, a significant improvement in our net interest margin, a material reduction in our cost income ratio and continued delivery against our strategy to grow our share of the personal banking market. These positive developments have combined to drive an 18% rise in total income to £2.52 billion for the year ended April 4, 2013 (year ended April 4, 2012: £2.14 billion).

Our underlying profit for the year ended April 4, 2013 was up 56% at £475 million (year ended April 4, 2012: £304 million), and statutory profit before tax was up 3% at £210 million (year ended April 4, 2012: £203 million). Our statutory profit before tax for the year ended April 4, 2013 includes hedge accounting and valuation adjustments of £165 million for our risk hedging instruments (year ended April 4, 2012: £35 million gain) and £84 million for the impact of the FSCS and bank levy (year ended April 4, 2012: £75 million).

We believe that our retail credit quality remains high, with arrears rates well below industry averages and a reduction in provision charge of 32%, but our legacy CRE assets continue to pose challenges to our short-term profitability. Loans secured against commercial property have been affected by weak tenant demand and a resumption of declines in property values. Consequently, the provision charge has increased to £493 million for the year ended April 4, 2013 (year ended April 4, 2012: £247 million). We are working with our borrowers over the medium term to keep them in business and to protect members' interests.

### Impact of Economic Conditions in the United Kingdom Generally and Outlook

We do not expect any significant change in the strength of the UK economy over the next 12 months, with continuing low interest rates required to support economic growth. This low-rate environment, combined with relative stability in unemployment, will support mortgage affordability but represents an unfavorable environment for savers. House prices have flatlined throughout 2012 and the first quarter of 2013, and this trend looks set to continue with the broad balance between weak demand and constrained supply resulting in no strong price movements in either direction.

Against this weak but stable backdrop we expect that the fundamentals of our performance during the year ended April 4, 2013 will continue in the coming year. We expect the strong margin recovery evident in our results to continue, albeit potentially at a slower pace, as the impact of mortgage repricing and balanced growth is supported by low-cost funding in both retail and wholesale markets. As a member-owned institution we seek to protect our loyal savers from low rates as much as possible, but recognize that we cannot defy market conditions. The general economic outlook will continue to hold back recovery in CRE for at least the next financial year, although we believe that our core business performance will allow us to comfortably absorb this impact.

### Net Interest Income

Net interest income of £2,018 million in the year ended April 4, 2013 was £395 million higher than in the year ended April 4, 2012.

	<u>For the year ended April 4,</u>	
	<u>2013</u>	<u>2012</u>
(£ millions, except percentages)		
Net interest income .....	2,018	1,623
Weighted average total assets .....	193,832	195,612
<b>Net interest margin .....</b>	<b>1.04%</b>	<b>0.83%</b>

The Group's net interest margin improved 21 basis points to 1.04% from 0.83% in the year ended April 4, 2013 compared with the prior year. Net interest income in the year ended April 4, 2013 includes £139 million of gains arising from the management of our liquidity portfolio (year ended April 4, 2012: £98 million), release of excess fair value adjustments of £48 million (year ended April 4, 2012: £5 million) and an additional £44 million (year ended April 4, 2012: £102 million) from an update of our effective interest rate assumptions with respect to the recognition of mortgage and savings income.

The margin was supported in the year ended April 4, 2013 by the repricing of fixed rate mortgages and growth in customer balances reverting to our Standard Mortgage Rate ("SMR"). Margins have also been supported by the FLS, which has driven down the market price of both new lending and funding since its introduction. This is beneficial to margins given the more rapid reprice profile of liabilities relative to assets. In addition, balance growth in both consumer banking and personal loans, and lower core liquidity holdings, have contributed to the improved margin performance.

FLS utilization as at April 4, 2013 amounted to £2.5 billion and the average utilization during the year amounted to £960 million. The direct interest cost saving, relative to the Group's average cost of funding, as a result of this utilization amounted to approximately £14 million and represented an impact of approximately 0.7 basis points on our net interest margin for the year ended April 4, 2013.

### **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 BoE base rates for the financial years ended April 4, 2013, 2012 and 2011:

	<u>For the year ended April 4,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Daily average three-month sterling LIBOR .....	0.68%	0.94%	0.74%
Average BoE base rate.....	0.5%	0.5%	0.5%

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 BoE 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.

Low and flat interest rates have continued to dominate, driven by reduced expectations for economic growth. Base rates remain unchanged, but underlying rates in longer term debt securities markets, principally gilts, have fallen.

A significant proportion of our mortgages are at our BMR, which we have guaranteed will never be more than 2% above the BoE base rate. This rate is significantly lower than the equivalent standard variable rate charged by peers, or the SMR onto which our more recent mortgage advances mature. This has the effect of compressing our mortgage margins and reducing the flexibility with which these margins can be managed. However, the BMR portfolio is well seasoned, has low loan to value, low arrears rates and low possession rates. The low risk nature of the portfolio partly compensates for the low margin it yields.

The eurozone debt crisis has had the additional effect of restricting inter-bank lending, widening the net margin between base rate and LIBOR, and widening foreign exchange basis spreads. This is as a result of the concerns over the exposure of European financial institutions' and governments' creditworthiness.

Competition for retail funding may increase the margins that have to be paid to attract and retain retail deposits.

## **Results of Operations for the Year Ended April 4, 2013 Compared with the Year Ended April 4, 2012**

### ***Introduction***

We believe that our results indicate a strong performance for the year ended April 4, 2013 despite the challenging economic environment. The Group has delivered an underlying profit before tax (as explained below) of £475 million, and a statutory profit before tax of £210 million.

Underlying profit before tax (as explained below) for the year ended April 4, 2013 is up 56% at £475 million from £304 million for the year ended April 4, 2012. For the year ended April 4, 2013 compared to the year ended April 4, 2012, total income is up 18% at £2,522 million.

Underlying expenses increased by 6% for the year ended April 4, 2013, driven primarily by continued investment in the Group's operational infrastructure. A significant element of this investment is necessary to meet new regulatory requirements, but it also includes discretionary investment focused on projects designed to broaden our product range and improve customer service such as our new banking platform, mortgage origination systems and internet bank. The strategic investment has resulted primarily in increases in technology depreciation and related run costs. This trend is expected to continue as many of these projects will incur a full annual charge in the 2013/2014 financial year for the first time.

The Group's cost base also reflects inflationary pay awards of 2.5% and 4.4% with effect from July 1 in each of the last two years, respectively.

Costs for the year ended April 4, 2013 also included £35 million of administration costs for invalid PPI claims. This represents an incremental cost in the year ended April 4, 2013, which was the result of an accounting change to recognize these costs in administrative expenses as incurred rather than as part of our provision for customer redress as was the case in prior years. Our decision has been upheld in 75% of cases where claims were referred to the FOS, and 43% of all claims received have been in respect of customers to whom we have never sold a policy.

Our three-year Cost Optimisation Programme was completed in the financial year ended April 4, 2013, and is currently delivering annualized gross cost savings in excess of £200 million from business restructuring, revision of pension terms and increased efficiency. The program is expected to deliver an estimated £30 million of incremental savings in the 2013/2014 financial year from further efficiency initiatives. In addition, we expect that these reductions have enabled the business to absorb a significant proportion of the increase in sales and service volumes that have supported income growth in the year ended April 4, 2013.

The Group has continued to invest in new cost reduction initiatives such as the ongoing changes to our sourcing arrangements and the integration of our regional brands as announced on May 2, 2013. This strategic integration program will migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single-branded Nationwide organization. The program is expected to allow for the smooth transition of approximately one million account holders and the disposal of redundant infrastructure assets that we expect to deliver ongoing cost savings of £35 million per annum from the 2015/2016 financial year.

We have continued our progress towards achieving our medium-term target of an underlying cost income ratio of less than 50% in a normalized interest rate environment. Our cost income ratio on an underlying basis for the year ended April 4, 2013 was 54.8% (year ended April 4, 2012: 61.0%).

The charge for impairment losses on loans and advances to customers of £589 million in the year ended April 4, 2013 is 51% higher than the £390 million charge for the year ended April 4, 2012. Retail impairments have fallen by 32% to £95 million in the year ended April 4, 2013 compared to £139 million in the year ended April 4, 2012. The low retail impairment charge during the year reflects the consistently high-quality lending which is a feature of our business model, the stable housing price environment, the low interest rate environment and relatively stable unemployment trends which are offsetting the pressure on household budgets. Commercial impairments have increased to £493 million for the year ended April 4, 2013 compared to £247 million for the year ended April 4, 2012. The commercial impairments related exclusively to our Property Finance portfolio (as defined below). The increased impairment charge for the year reflects the continuation of negative sentiment toward CRE and the uncertainty surrounding the economic outlook in the UK.

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

	<b>For the year ended April 4, 2013</b>				
	<b>As reported</b>	<b>FSCS and bank levy</b>	<b>Restructuring Costs</b>	<b>Movements on derivatives and hedge accounting</b>	<b>Underlying profit before tax</b>
(£ millions)					
Net interest income .....	2,018	-	-	-	2,018
Other income .....	504	-	-	-	504
Movements on derivatives and hedge accounting .....	(165)	-	-	165	-
<b>Total income</b> .....	<b>2,357</b>	<b>-</b>	<b>-</b>	<b>165</b>	<b>2,522</b>
Administrative expenses .....	(1,199)	16	16	-	(1,167)
Depreciation and amortisation .....	(216)	-	-	-	(216)
<b>Pre-provision underlying profit...</b>	<b>942</b>	<b>16</b>	<b>16</b>	<b>165</b>	<b>1,139</b>
Impairment losses .....	(591)	-	-	-	(591)
Provisions for liabilities and charges .....	(141)	68	-	-	(73)
<b>Profit before tax</b> .....	<b>210</b>	<b>84</b>	<b>16</b>	<b>165</b>	<b>475</b>
	<b>For the year ended April 4, 2012</b>				
	<b>As reported</b>	<b>FSCS and bank levy</b>	<b>Restructuring Costs</b>	<b>Movements on derivatives and hedge accounting</b>	<b>Underlying profit before tax</b>
(£ millions)					
Net interest income .....	1,623	-	-	-	1,623
Other income .....	520	-	-	-	520
Movements on derivatives and hedge accounting .....	35	-	-	(35)	-
<b>Total income</b> .....	<b>2,178</b>	<b>-</b>	<b>-</b>	<b>(35)</b>	<b>2,143</b>
Administrative expenses .....	(1,205)	16	61	-	(1,128)
Depreciation and amortisation .....	(180)	-	-	-	(180)
<b>Pre-provision underlying profit</b> .....	<b>793</b>	<b>16</b>	<b>61</b>	<b>(35)</b>	<b>835</b>
Impairment losses .....	(428)	-	-	-	(428)
Provisions for liabilities and charges .....	(162)	59	-	-	(103)
<b>Profit before tax</b> .....	<b>203</b>	<b>75</b>	<b>61</b>	<b>-</b>	<b>304</b>

The following discussion considers our results for the year ended April 4, 2013 compared to our results for the year ended April 4, 2012:

**Total income**

Our total income increased to £2,357 million in the year ended April 4, 2013 compared to £2,178 million in the year ended April 4, 2012. The following table sets forth the components of income for the years ended April 4, 2013 and 2012, respectively:

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(£ millions)</b>	
Net interest income .....	2,018	1,623
Net fees and commissions .....	445	419
Income from investments .....	13	10
Other operating income .....	46	91
Gains/(losses) from derivatives and hedge accounting .....	(165)	35
<b>Total</b> .....	<b>2,357</b>	<b>2,178</b>

*Net interest income*

Net interest income increased by 24% to £2,018 million for the year ended April 4, 2013 compared with £1,623 million for the year ended April 4, 2012.

The following table sets forth the components of net interest income for the years ended April 4, 2013 and 2012, respectively:

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(£ millions)</b>	
<b>Interest and similar income:</b>		
On residential mortgages .....	4,851	4,924
On other loans .....	1,130	1,158
On investment securities .....	1,280	1,071
On other liquid assets .....	49	56
Net (expense) on financial instruments hedging assets.....	(1,915)	(2,051)
Expected return on pension assets .....	186	195
<b>Total interest and similar income</b> .....	<b>5,581</b>	<b>5,353</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(2,741)	(2,826)
On subscribed capital .....	(89)	(96)
On deposits and other borrowings:		
Subordinated liabilities .....	(96)	(108)
Other .....	(210)	(252)

Debt securities in issue .....	(944)	(1,093)
Foreign exchange differences	-	(12)
Net income on financial instruments hedging liabilities .....	(689)	823
Pension interest cost .....	(172)	(166)
<b>Total interest expense and similar charges .....</b>	<b>(3,563)</b>	<b>(3,730)</b>
<b>Net interest income .....</b>	<b>2,018</b>	<b>1,623</b>

Interest and similar income increased by 4.3% to £5,581 million in the year ended April 4, 2013 from £5,353 million in the year ended April 4, 2012.

*On residential mortgages*

Interest on residential mortgages decreased slightly by 1.5% to £4,851 million in the year ended April 4, 2013 from £4,924 million in the year ended April 4, 2012. We have seen a 4.6% increase in the size of our average residential mortgage portfolio to £132,332 million in the year ended April 4, 2013 from £126,507 million in the year ended April 4, 2012. This has been offset by a decrease in average interest rates between the two periods from 3.9% for the year ended April 4, 2012 to 3.7% for the year ended April 4, 2013.

*On other loans*

Interest on other loans includes interest income that we earn from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans marginally decreased by 2.5% to £1,130 million in the year ended April 4, 2013 from £1,158 million in the year ended April 4, 2012.

*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 liquidity portfolios and net realized gains and losses on our sales of these instruments.

Interest and other income from investment securities increased by 20% to £1,280 million for the year ended April 4, 2013 compared with £1,071 million for the year ended April 4, 2012. Net of foreign exchange differences and net of expenses on financial instruments hedging assets there has been an decrease from £406 million for the year ended April 4, 2012 to £302 million for the year ended April 4, 2013. Average balances decreased by 24.5% to £17,576 million in the year ended April 4, 2013 from £23,281 million for the year ended April 4, 2012, while interest rates earned on such assets remained stable at 1.72% in the year ended April 4, 2013, compared to 1.74% in the year ended April 4, 2012.

*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 year ended April 4, 2013, we incurred a net expense of £1,915 million on financial instruments used to hedge our fixed rate assets compared with a net expense of £2,051 million in the year ended April 4, 2012.

*Expected return on pension assets*

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

*Underlying Other Income*

	<u>For the year ended April 4,</u>	
	<u>2013</u>	
	<u>2012</u>	
<i>(£ millions)</i>		
Current account.....	125	123

Protection and investments .....	122	106
General insurance .....	126	103
Mortgage.....	41	143
Credit card .....	28	33
Commercial .....	18	19
Other ....	44	(7)
<b>Total</b> .....	<b>504</b>	<b>520</b>

Underlying other income of £504 million for the year ended April 4, 2012 is marginally lower than for the year ended April 4, 2012. However, the year ended April 4, 2012 includes a gain of £96 million in relation to the acquisition of a portfolio of UK-based prime residential mortgages. Income from protection and investments and from general insurance has continued to grow in line with our strategic focus to diversify our income stream. The “Other” category in the year ended April 4, 2013 largely relates to a gain of £43 million in connection with the repurchase of the Society’s permanent interest bearing shares. It also includes personal loan and other central fee income, offset by third-party servicing fees in relation to the MySave savings product.

Excluding the impact of the repurchase of the permanent interest bearing shares in the year ended April 4, 2013 and the mortgage portfolio acquisition in the year ended April 4, 2012, underlying other income rose by 9% year-on-year.

#### ***Interest expense and similar charges***

Interest expense and similar charges decreased by 4.5% in the year ended April 4, 2013 to £3,563 million from £3,730 million in the year ended April 4, 2012.

#### ***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 decreased to £2,741 million in the year ended April 4, 2013 from £2,826 million in the year ended April 4, 2012.

The average interest rate that we paid to depositors decreased slightly to 2.2% for the year ended April 4, 2013 compared with 2.3% for the year ended April 4, 2012. This accounted for the majority of the decrease in interest paid. There was additionally a small decrease of 0.2% in the average balance of UK retail member deposits held to £125,264 million in the year ended April 4, 2013 from £125,456 million in the year ended April 4, 2012.

The past year has seen us make a huge stride forward in diversifying our business through the expansion of our personal banking services. We have launched two new personal current accounts, FlexDirect and FlexPlus, and opened over 365,000 new current accounts (year ended April 4, 2012: 359,000). We have seen approximately 123,000 customers switching their main banking relationships to us, up 58% from the year ended April 4, 2012. As at April 4, 2013, our total current account base had risen to 5.2 million and our market share of main current accounts was 5.7% (April 4, 2012: 5.1%).

#### ***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 year ended April 4, 2013, interest on subordinated liabilities decreased to £96 million from £108 million in the year ended April 4, 2012. This decrease is a result of changes in the mix of subordinated debt and average balances between the two periods. Average balances decreased to £1,691 million in the year ended April 4, 2013 from £1,858 million in the year ended April 4, 2012. The balance of subordinated debt increased in the final month of the year with the issuance of €1,250 million at 4.125%. This had little impact on the average balance during the year and the interest expense. The 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 includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended April 4, 2013, other interest expense on deposits and other borrowings decreased by 16.6% to £210 million from £252 million in the year ended April

4, 2012. This reduction is due to decreases in market rates in the year ended April 4, 2013, compared with the year ended April 4, 2012.

*Debt securities in issue*

Debt securities in issue includes interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the year ended April 4, 2013, interest expense on debt securities in issue decreased by 15.8% to £944 million from £1,093 million in the year ended April 4, 2012. This decrease reflects a 5.9% decrease in the average monthly balance of debt securities in issue to £35,703 million in the year ended April 4, 2013, compared with £37,955 million in the year ended April 4, 2012. In addition, the average interest rate paid before adjusting for income/expense on financial instruments hedging liabilities decreased to 2.64% for the year ended April 4, 2013, compared with 2.88% for the year ended April 4, 2012.

*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 year ended April 4, 2013, net income on financial instruments used to hedge our fixed rate liabilities was £689 million, compared with a net income of £823 million in the year ended April 4, 2012.

*Net fees and commissions*

The following table sets forth the components of net fees and commissions for the years ended April 4, 2013 and 2012 respectively:

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(£ millions)</i>	
<b>Fee and commission income:</b>		
Mortgage related fees .....	34	37
Banking and savings fees.....	242	235
General insurance fees .....	160	140
Other insurance fees .....	43	32
Other fees and commissions .....	79	71
<b>Total fee and commission income</b> .....	<b>558</b>	<b>515</b>
<b>Fee and commission expense:</b>		
Banking and savings fees.....	95	(88)
Other fees and commissions .....	18	(8)
<b>Total fee and commission expense</b> .....	<b>113</b>	<b>(96)</b>
<b>Net fee and commission income</b> .....	<b>445</b>	<b>419</b>

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 year ended April 4, 2013, net fees and commissions increased by 6.2% to £445 million compared with £419 million in the year ended April 4, 2012. This increase has been driven by increases in general insurance fees, reflecting our strategic focus to grow the range and scale of our banking products and to diversify our income stream.

*Other operating income*

In the year ended April 4, 2013, other operating income decreased to £46 million, compared with £91 million in the year ended April 4, 2012.

### ***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 the 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”.

Losses from derivatives and hedge accounting were £165 million in the year ended April 4, 2013 compared to gains of £35 million in the year ended April 4, 2012. Even though the Group uses derivatives exclusively for risk management purposes, income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

The two main components of the loss in the year ended April 4, 2013 were:

- a £74 million loss (April 4, 2012: £63 million gain) as a result of continued volatility in the currency markets, particularly relating to sterling:euro basis risk which is economically hedged but where hedge accounting treatment is not available. In substance, the loss in the year ended April 4, 2013 reflects a reversal of the currency movements which led to a gain in the year ended April 4, 2012; and
- a fair value hedge accounting loss of £113 million (April 4, 2012: £61 million loss); within this amount was a gain of £84 million on micro hedge relationships and a loss of £203 million (April 4, 2012: £25 million) principally arising from the amortization of balances relating to past ineffectiveness on fixed rate mortgages. A significant element of these balances related to derivatives used to hedge pre-crisis five-year fixed rate mortgages. These balances have now been fully amortized.

During the year ended April 4, 2013, the Group has enhanced its valuation methodology to reflect the latest market practice in calculating debit valuation adjustments (“DVA”) on fair valued liabilities and credit valuation adjustments (“CVA”) on fair valued assets within derivatives. A CVA of £22 million in the year ended April 4, 2013 was largely offset by a DVA of £21 million, recognized in the income statement to reflect the movement in counterparty credit risk on fair valued derivative assets and own credit risk on fair valued derivative liabilities.

### ***Operating expenses and similar charges***

Operating expenses and similar charges increased by 8.7% in the year ended April 4, 2013 to £2,147 million from £1,975 million in the year ended April 4, 2012. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2013 and 2012, respectively:

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(£ millions)</b>	
Administrative expenses .....	1,199	1,205
Depreciation and amortization .....	216	180
Impairment losses on loans and advances to customers .....	589	390
Provisions for liabilities and charges .....	141	162
Impairment losses on investment securities .....	2	38
<b>Total .....</b>	<b>2,147</b>	<b>1,975</b>

### *Administrative expenses*

Administrative expenses were stable in the year ended April 4, 2013 at £1,199 million compared to £1,205 million in the year ended April 4, 2012. Included within the total of administrative expenses is a £16 million charge for the bank levy (year ended April 4, 2013: £16 million).

Administrative expenses for the year ended April 4, 2013 include £16 million (year ended April 4, 2012: £61 million) of restructuring costs, which relate to restructuring parts of our business as part of our ongoing cost optimization program and other initiatives and £35 million relating to the costs of administering invalid PPI claims, which have been expensed as incurred.

The underlying cost income ratio for the year ended April 4, 2013 was 54.8% compared to 61.0% for the year ended April 4, 2012.

The following table sets forth the components of administrative expenses for the years ended April 4, 2013 and 2012, respectively:

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
<b>(£ millions)</b>		
Employee costs:		
Salaries and social security costs .....	527	522
Pension costs.....	72	62
Other administrative costs .....	600	621
<b>Total</b> .....	<b>1,199</b>	<b>1,205</b>

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

The Group operates both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund (the “**Fund**”). This is a contributory defined benefit arrangement, with both final salary and career average revalued earnings (“**CARE**”) sections. The Fund was closed to new entrants in 2007, and since then new employees have been able to join a defined contribution arrangement. The final salary section of the Fund was closed to future service on March 31, 2011. Service already built up in the final salary section will continue to be linked to final salary, while future benefits now accrue within the CARE section.

In the year ended April 4, 2013, salaries and social security costs increased by 1% to £527 million from £522 million in the year ended April 4, 2012. There were inflationary pay awards of 2.5% and 4.4% with effect from July 1 in each of the last two years, respectively.

Within employee costs, the pension charge increased by 16.1% to £72 million for the year ended April 4, 2013 from £62 million in the year ended April 4, 2012. The increase in pension costs is primarily due to a decrease in the discount rate resulting from a fall in corporate bond yields.

Other administrative costs decreased by 3.4% to £600 million for the year ended April 4, 2013 from £621 million for the year ended April 4, 2012. The decrease in other administrative expenses is a result of a fall in restructuring costs partly offset by the costs of continued investment in the Group’s operational infrastructure. A significant element of this investment is necessary to meet new regulatory requirements, but it also includes discretionary investment focused on projects designed to broaden our product range and improve customer service, such as our new banking platform, mortgage origination systems and internet bank. The strategic investment has resulted primarily in increases in technology depreciation and related run costs. This trend is expected to continue as many of these projects will incur a full annual charge in the 2013/2014 financial year for the first time.

The cost of processing invalid PPI claims amounts to approximately £35 million per year. This represented an incremental cost in the year ended April 4, 2013, which was the result of an accounting change to recognize these costs in administrative expenses as incurred rather than as part of our provision for customer redress as was the case in prior

years. Our decision has been upheld in 75% of cases where claims were referred to the FOS, and 43% of all claims received have been in respect of customers to whom we have never sold a policy.

The three-year Cost Optimisation Programme was completed in the year ended April 4, 2013, and is currently delivering annualized gross cost savings in excess of £200 million from business restructuring, revision of pension terms and increased efficiency. The program is expected to deliver an estimated £30 million of incremental savings in the 2013/2014 financial year from further efficiency initiatives. In addition, we expect that these reductions have enabled the business to absorb a significant proportion of the increase in sales and service volumes that have supported income growth in the year ended April 4, 2013.

The Group has continued to invest in new cost-reduction initiatives such as the ongoing changes to our sourcing arrangements and the integration of our regional brands as announced on May 2, 2013. This strategic integration program will migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single-branded Nationwide organization. The program will ensure the smooth transition of approximately one million account holders and the disposal of redundant infrastructure assets that we expect to deliver ongoing cost savings of £35 million per annum from the 2015/2016 financial year. The regional brands integration program is expected to result in total restructuring costs of £77 million, including a transformation charge of approximately £28 million in the first half of the 2013/2014 financial year and £3 million in the 2014/2015 financial year relating to the write-down of assets, onerous leases and a reduction in headcount of 500 roles and costs of implementing the program of approximately £21 million in the 2013/2014 financial year and £25 million in the 2014/2015 financial year.

We have continued our progress towards achieving our medium-term target of an underlying cost income ratio of less than 50% in a normalized interest rate environment. Our cost income ratio on an underlying basis for the year ended April 4, 2013 was 54.8% (year ended April 4, 2012: 61.0%).

The £16 million bank levy charge in the year ended April 4, 2013 compares with £16 million for the year ended April 4, 2012, which included £3 million for the three-month period January 1, 2011 to April 4, 2011. No charge was provided in the accounts for the year to April 4, 2011 as the 2011 Finance Bill which introduced the bank levy had not been enacted by the balance sheet date. Two different rates were applied during the year ended April 4, 2013 (year ended April 4, 2012: three different rates). The average of these rates was 0.098% for short-term chargeable liabilities (year ended April 4, 2012: 0.082%) and 0.05% for long-term chargeable liabilities (year ended April 4, 2012: 0.041%). The Chancellor has announced a further increase in the rates from January 1, 2014 to 0.142% for short-term chargeable liabilities and 0.071% for long-term chargeable liabilities. The Group expects this to increase the levy chargeable in the 2013/2014 financial year by £0.5 million.

#### *Depreciation and amortization*

For the year ended April 4, 2013, depreciation and amortization expenses increased by £36 million to £216 million compared to £180 million for the year ended April 4, 2012. This is primarily driven by the continued investment in key restructuring projects.

#### *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 is experiencing significant financial difficulty or default or delinquency in interest or principal payments.

Impairment losses on loans and advances to customers for the year ended April 4, 2013 increased by 51% to £589 million from £390 million for the year ended April 4, 2012.

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2013 and 2012, respectively:

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
( <b>£ millions</b> )		
Residential mortgages.....	16	70

Commercial lending.....	493	247
Consumer banking .....	79	69
Other lending .....	1	4
<b>Total .....</b>	<b>589</b>	<b>390</b>

Retail impairments for the year ended April 4, 2013 have fallen by 32% to £95 million compared to £139 million for the year ended April 4, 2012. Nationwide has maintained a consistent philosophy to retail lending over many years with a focus on prudent underwriting criteria. We place a heavy emphasis on managing the loan-to-value ("LTV") profile of new secured lending, including restricting the volume of higher LTV lending and ensuring such loans are only advanced to customers with a high credit score and strong affordability assessments. As a result of our approach over a sustained period our mortgage arrears have outperformed industry averages by a significant margin and this continues to be the case. The low retail impairment charge during the year reflects the consistently high quality lending which is a feature of our business model, the stable house price environment, the low interest rate environment and relatively stable unemployment trends which are offsetting the pressure on household budgets.

Commercial loan impairments of £493 million for the year ended April 4, 2013 (year ended April 4, 2012: £247 million) related exclusively to our Property Finance portfolio (as defined below). The increased impairment charge for the year reflects the continuation of negative sentiment toward CRE and the uncertainty surrounding the economic outlook in the UK. We have noted our expectation that conditions for this market will not improve in the near term in our last two results announcements, and this continues to be our position with no evidence of recovery in tenant demand or capital values on the horizon. Availability of both equity and debt financing to support restructurings continues to be extremely limited and so resolution of problem cases increasingly revolves around long-term asset management plans for potentially viable cases and better quality properties, combined with shorter-term divestment strategies for weaker exposures.

Recovery prospects are case specific, although the general trend of the London and prime property markets faring significantly better than regional locations and secondary properties is being maintained.

Our impairment losses during the year ended April 4, 2013 are attributable to both new provisions on cases which have become impaired during the year and additional amounts provided on already impaired cases, usually due to updated valuations, withdrawal of equity sponsor support or tenant maturities or failures.

The charge for the year ended April 4, 2013 includes an increase in the collective provision against unidentified impairments of £83 million reflecting the higher incidence of loss experienced over the last year and a management overlay of £50 million to reflect inherent uncertainty over future cash flow estimates, particularly in relation to the timing and realizable value of property disposals.

#### *Impairment losses on investment securities*

Impairment losses on investment securities of £2 million for the year ended April 4, 2013 (year ended April 4, 2012: £38 million) comprise a loss of £23 million on a single UK CMBS, offset by £21 million of gains which predominantly comprises reversals of prior impairments in connection with asset disposals during the second half of the year ended April 4, 2013.

#### *Provisions for liabilities and charges*

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
( <i>£ millions</i> )		
FSCS.....	68	59
PPI provision .....	73	103
<b>Total .....</b>	<b>141</b>	<b>162</b>

The charge of £73 million for the year ended April 4, 2013 in relation to customer redress included an increase in PPI provision of £53 million. In line with the wider industry, we continued to experience a high volume of PPI complaints throughout the financial year ended April 4, 2013, a significant proportion of which related to cases where

there had been either no sale of a policy or no evidence of mis-selling. In light of this experience we reassessed the ultimate level of complaints expected and the appropriateness of the PPI provision and, despite significant uncertainty over future volumes of claims, made a further provision of £53 million in the year ended April 4, 2013.

Nationwide pays levies to the FSCS based upon its share of protected deposits. The charge of £68 million in the year ended April 4, 2013 in respect of the levy for the 2013/2014 scheme year included the first payment of the Group's share of the expected shortfall. Further information is provided in Note 27 to the audited consolidated financial statements for the year ended April 4, 2013.

The Group is also potentially exposed to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such levies have yet to be determined, and hence no provision has been recognized.

#### *Taxes*

Tax on our profit on ordinary activities for the year ended April 4, 2013 amounted to a credit of £nil.

The tax charge arising on profits earned in the year ended April 4, 2013 is £51 million (year ended April 4, 2012: £63 million). This represents an effective tax rate of 24.3% (year ended April 4, 2012: 31.0%), which is in line with the statutory corporate tax rate of 24% (year ended April 4, 2012: 26%).

During the year ended April 4, 2013, the Group settled two outstanding tax matters relating to prior periods. Consequently, excess tax provisions of £43 million have been released in the year ended April 4, 2013 and this accounts for £43 million of the total prior year credit of £44 million for the year (year ended April 4, 2012: £27 million).

The Chancellor announced on March 20, 2013 that the corporation tax rate would be reduced from 24% to 23%. As a result, in the year ended April 4, 2013, the Group wrote off £7 million of its deferred tax asset, which resulted in a £7 million credit to the income statement and a £14 million charge to other comprehensive income.

This resulted in an overall statutory tax charge for the year ended April 4, 2013 of £nil (year ended April 4, 2012: £24 million) as set out in the table below:

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(£ millions)</b>	
Charge on profits for the year .....	51	63
Adjustment in respect of prior years.....	(44)	(27)
Effect of corporation tax rate change.....	(7)	(12)
<b>Statutory tax charge .....</b>	<b>-</b>	<b>24</b>

#### *Balance Sheet Review*

##### *Loans and advances to customers*

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 85% of our total loans and advances to customers at April 4, 2013. The composition of lending has remained broadly consistent with that reported at April 4, 2012:

	<b>As at April 4,</b>			
	<b>2013</b>		<b>2012</b>	
	<b>(£ billions, except percentages)</b>			
Prime residential mortgages.....	110.6	69.4%	105.6	68.7%
Specialist residential mortgages.....	25.0	15.6%	23.2	15.1%
<b>Total residential mortgages.....</b>	<b>135.6</b>	<b>85.0%</b>	<b>128.8</b>	<b>83.8%</b>

Commercial lending.....	19.9	12.5%	21.5	14.0%
Other lending .....	0.4	0.3%	0.5	0.3%
Consumer banking .....	3.5	2.2%	3.0	1.9%
<b>Gross balances.....</b>	<b>159.4</b>	<b>100.0%</b>	<b>153.8</b>	<b>100.0%</b>
Impairment provisions .....	(1.2)		(0.8)	
Fair value adjustments for micro hedged risk.....	1.4		1.2	
<b>Total .....</b>	<b><u>159.6</u></b>		<b><u>154.2</u></b>	

### Residential mortgage portfolio

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels.

Over the year ended April 4, 2013, we played a major role in supporting the UK housing market, increasing our lending by 17% to £21.5 billion as at April 4, 2013 (April 4, 2012: £18.4 billion), and accounting for 15.1% of all mortgage lending (year ended April 4, 2012: 13.0%), our highest ever market share (Source: BoE). Our net lending for the year ended April 4, 2013 was £6.5 billion, well over double that achieved in the previous year (year ended April 4, 2012: £2.7 billion) and equivalent to 108% of total net lending in the UK. In addition, our net lending of £6.5 billion for the year ended April 4, 2013 was significantly in excess of the £2.5 billion we drew down under the FLS.

We placed a particular emphasis on providing mortgages to first time buyers, consistent with our mutual heritage, as well as stimulating the housing market. During the year ended April 4, 2013 we helped over 42,000 people to take their first steps into home ownership, a 75% increase from last year (year ended April 4, 2012: 24,000). This means that one in every three of our new prime mortgages during the year ended April 4, 2013 was to a first time buyer and we accounted for almost one in five of all first time buyer mortgages in the UK. We have continued to make loans available for up to 95% of the value of the property through our Save to Buy scheme, and are active participants in government schemes aimed at boosting the supply of new properties and access to home finance.

With patterns of tenure evolving, our subsidiary The Mortgage Works (“**TMW**”) is an important provider of high-quality loans to the buy-to-let sector. Over the year ended April 4, 2013, TMW’s gross advances were £3.3 billion (year ended April 4, 2012: £4.4 billion), representing a 19.5% market share (Source: CML), with net lending of £1.6 billion (year ended April 4, 2012: £2.8 billion). Our total specialist mortgage book was £25.0 billion as at April 4, 2013 (April 4, 2012: £23.2 billion).

Specialist residential mortgages are made up of £22.4 billion of advances made through our specialist lending brands, TMW and UCB Home Loans Corporation Limited (“**UCB**”), and £2.6 billion as at April 4, 2013 arising from the acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios in prior years. As at April 4, 2013, buy-to-let mortgages made up 80% of total specialist lending, 13% related to self-certification mortgages, 5% related to near prime and just 2%, amounting to £0.4 billion, related to sub prime. New specialist lending is restricted to buy-to-let.

Over the past year, a number of lenders have unilaterally increased their standard variable mortgage rates for existing customers. We have maintained our BMR at 2% above BoE base rate. We estimate the member benefit of our BMR pledge has been in the region of £800 million during the year ended April 4, 2013, equating to an average of over £1,100 net benefit for each account per year when compared with the average standard variable rate charged by other lenders, conservatively estimated at 4%.

The Group is committed to supporting the housing market and first time buyers in particular, and as a result the average LTV of residential mortgages completed has increased to 67% as at April 4, 2013 (April 4, 2012: 63%). This strategy is supported by a robust affordability assessment and credit scoring process that ensures asset quality remains within the Group’s risk appetite. Within TMW there has been increased focus on attracting more experienced landlords. This has resulted in the proportion of applications from first time landlords reducing from approximately 23% to approximately 10% as at April 4, 2013. The average indexed LTV of residential mortgages as at April 4, 2013 has remained broadly stable at 51% as a result of little change in housing prices during the year.

		<b>As at April 4,</b>	
		<b>2013</b>	<b>2012</b>

(percentages)

**LTV portfolio of residential mortgages:**

<50%.....	47	50
50% - 60% .....	10	10
60% - 70% .....	12	11
70% - 80% .....	15	13
80% - 90% .....	11	10
90% - 100% .....	4	4
> 100%.....	1	2
	<b>100</b>	<b>100</b>

Average loan to value of stock (indexed) .....	51	50
Average loan to value of new business.....	67	63

**New business profile:**

First-time buyers.....	27	17
Home movers.....	29	25
Remortgagers.....	23	27
Buy to let .....	21	31
	<b>100</b>	<b>100</b>

The analysis of the new business profile and the average LTV for new business excludes further advances.

Total residential balance sheet provisions at April 4, 2013 are £165 million, compared with £202 million at April 4, 2012.

The table below shows that arrears on the Group's prime lending have reduced slightly, with a larger reduction in specialist arrears as a result of reducing arrears volumes and strong book growth in TMW. Our arrears performance remains very favorable relative to the Council of Mortgage Lenders (the "CML") industry average, and our specialist lending arrears are below the overall industry measure that is inclusive of prime lending:

	<b>As at April 4,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cases three months or more in arrears as % of total book of residential mortgages</b>		
	<i>(percentages)</i>	
<b>Group residential mortgages:</b>		
Prime.....	0.53	0.54
Specialist.....	1.75	1.87
<b>Total Group residential mortgages .....</b>	<b>0.72</b>	<b>0.73</b>
<b>CML industry average .....</b>	<b>1.89</b>	<b>1.95*</b>

Note:

\* Restated by the CML

Total residential balance sheet provisions were £165 million as at April 4, 2013, compared with £202 million as at April 4, 2012, giving a coverage ratio against total balances of 0.12% (April 4, 2012: 0.16%) and against balances more than three months in arrears of 12.8 % (April 4, 2012: 15.0%).

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 monthly 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 so 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 are only available on performing cases, and a credit score assessment is included as part of the eligibility criteria to manage the risk to the Group.

If a customer demonstrates they are able to meet a payment schedule at a normal commercial rate for a period of six months, or if they are able to overpay such that six months' full payments are made in a four month period, and only if they request it, we may 'capitalize' the arrears on their account. This will result in an increased outstanding balance but no arrears, and consequently these cases will no longer be reported as in arrears.

The number of properties in possession has fallen significantly over the year ended April 4, 2013 to 600 (year ended April 4, 2012: 1,129) due to strong property sales and reduced intake of possessions. This represents 0.04% of our book as at April 4, 2013, which compares well with the industry measure of 0.10% (Source: CML). The table below shows possessions as a percentage of book:

	As at April 4,	
	2013	2012
<b>Possessions as % of total book of residential mortgages (number of properties)</b>		<i>(percentages)</i>
<b>Group residential mortgages:</b>		
Prime.....	0.02	0.02
Specialist.....	0.19	0.41
<b>Total Group residential mortgages .....</b>	<b>0.04</b>	<b>0.08</b>

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 illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2013, the properties taken into possession has decreased to 1,479, representing only 4.6% of properties taken in by the industry as a whole (Source: CML).

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

	As at April 4, 2013				As at April 4, 2012			
	Prime lending	Specialist lending	Consumer banking	Total	Prime lending	Specialist lending	Consumer banking	Total
	<i>(£ billions, except percentages)</i>							

**Not  
impaired:**

Neither past due nor impaired.....	108.2	23.1	3.3	<b>134.6</b>	97%	103.1	21.3	2.9	<b>127.3</b>	97%
Past due up to 3 months but	1.8	1.2	0.1	<b>3.1</b>	2%	1.9	1.2	0.0	<b>3.1</b>	2%

not impaired.

Impaired.....	0.6	0.7	0.1	<b>1.4</b>	1%	0.6	0.7	0.1	<b>1.4</b>	1%
<b>Total</b> .....	<b>110.6</b>	<b>24.9</b>	<b>3.5</b>	<b>139.1</b>	<b>100</b>	<b>105.6</b>	<b>23.2</b>	<b>3.0</b>	<b>131.8</b>	<b>100%</b>

The status “past due up to 3 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 categorized 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 which are not in possession have collective impairment provisions set aside to cover credit losses.

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. 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 April 4, 2013					As at April 4, 2012				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
	(£ millions, except percentages)									
<b>Impaired status:</b>										
Past due 3 to 6 months .....	260	297	41	<b>598</b>	44%	268	279	37	<b>584</b>	41%
Past due 6 to 12 months .....	190	208	24	<b>422</b>	31%	184	200	23	<b>407</b>	29%
Past due over 12 months .....	96	134	-	<b>230</b>	17%	85	138	-	<b>223</b>	16%
Possessions .....	18	87	-	<b>105</b>	8%	30	167	-	<b>197</b>	14%
<b>Total</b> .....	<b>564</b>	<b>726</b>	<b>65</b>	<b>1,355</b>	<b>100%</b>	<b>567</b>	<b>784</b>	<b>60</b>	<b>1,411</b>	<b>100%</b>

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Possession is only enforced once all other recovery options have been exhausted, and this, together with the quality of our portfolio, is reflected in the Group’s possession rate which is approximately 40% of the market average at April 4, 2013 (Source: CML). For performing accounts, a behavioral scorecard is used to assign default probabilities and takes into consideration internal and external performance in addition to historical positions. The default probabilities are adjusted to reflect performance of accounts which are currently or have recently experienced forbearance activity.

The Group offers a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended April 4, 2013 to ensure alignment to good practice as defined by the regulator. The options offered may be classified into three categories:

- Change in terms
- Forbearance
- Repair

#### **Change in terms**

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The options available include:

- Payment holidays
- Interest-only conversions
- Term extensions

#### *Payment holidays*

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at April 4, 2013, 1,306 accounts (April 4, 2012: 1,848 accounts) were subject to a payment holiday. The performance of customers who have taken a payment holiday is reflected within the Group's provisioning methodology.

#### *Interest-only conversions*

Interest-only conversions allow performing customers meeting required criteria to apply for an interest-only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy in relation to interest-only conversions in the year ended April 4, 2012, the facility was completely withdrawn in March 2012. The performance of interest-only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### *Term extensions*

The Group allows performing customers to apply to extend the term of their mortgage. During the year ended April 4, 2013, 17,290 accounts (year ended April 4, 2012: 15,032 accounts) extended their term. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### *Forbearance*

The only forbearance option which the Group offers customers in financial distress is an interest-only concession. Interest-only concessions are offered to customers on a temporary basis with formal periodic review subject to an affordability assessment. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase and will remain as at the beginning of the concession.

As at April 4, 2013, 1,913 accounts (April 4, 2012: 2,474 accounts) representing 0.2% (April 4, 2012: 0.2%) of total prime mortgage balances as at April 4, 2013 were on this concession. The Group's provisioning methodology reflects the latest performance on these accounts.

#### *Repair*

When a customer emerges from financial difficulty, the Group offers the ability to capitalize arrears, resulting in the account being repaired. Customers are only permitted to capitalize arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. During the year ended April 4, 2013, 187 accounts (April 4, 2012: 546 accounts) had an arrears capitalization. Once capitalized the loans are categorized as not impaired as long as contractual repayments are maintained. Capitalized accounts have a higher than average propensity to roll into arrears and this is recognized within the Group's provisioning methodology.

Customers who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible, while ensuring the monthly payments remain manageable to the customer. During the year ended April 4, 2013, 1,794 accounts (year ended April 4, 2012: 2,417 accounts) had an extension at term expiry. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. The table below shows the stock of loans still on the books at April 4, 2013 that have been subject to forbearance at some point:

As at April 4, 2013	As at April 4, 2012	
(Unaudited)	(Unaudited)	
% of total prime	£ million	% of total

	£ million	loans and advances		prime loans and advances
Change in terms.....	19,830	18	20,048	19
Forbearance.....	1,536	1	1,441	1
Repair.....	519	-	504	-

\* The three categories above are not mutually exclusive. The information above has been extracted from our management information systems.

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

	As at April 4, 2013				As at April 4, 2012			
	Prime lending		Specialist lending		Prime lending		Specialist lending	
	(£ million, except percentages)							
Past due but not impaired.....	1,827	100%	1,141	99%	1,867	100%	1,172	99%
Impaired.....	541	99%	618	97%	532	99%	595	96%
Possessions .....	17	94%	72	83%	29	96%	138	83%
<b>Total</b> .....	<b>2,385</b>	<b>100%</b>	<b>1,831</b>	<b>97%</b>	<b>2,428</b>	<b>100%</b>	<b>1,905</b>	<b>97%</b>

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 April 4, 2013				As at April 4, 2012			
	Prime lending		Specialist lending		Prime lending		Specialist lending	
	(£ million)							
Past due but not impaired.....	5		13		6		17	
Impaired.....	5		21		5		22	
Possessions .....	1		15		1		29	
<b>Total</b> .....	<b>11</b>		<b>49</b>		<b>12</b>		<b>68</b>	

### Commercial loan portfolio

Our commercial lending portfolio of £19.9 billion as at April 4, 2013 (April 4, 2012: £21.5 billion) comprises £10.2 billion secured on commercial property (“**Property Finance**”) (April 4, 2012: £11.6 billion), £8.2 billion advanced to Registered Social Landlords (April 4, 2012: £8.4 billion) and £1.5 billion advanced under Project Finance, principally via the Private Finance Initiative (“**PFI**”) (April 4, 2012: £1.5 billion). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

Following completion and letting of properties in relation to two large residual development finance loans, we now have modest exposure to development finance, while the direct non-UK element of our commercial property portfolio amounted to £1.0 billion as at April 4, 2013 (April 4, 2012: £1.0 billion), this exposure is principally in Germany, with only a single exposure to Ireland.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with the Group’s

forbearance policies or other circumstances indicated the likelihood of a material change in cash flow expectations. Impaired Property Finance loans amounted to £2,715 million as at April 4, 2013 (April 4, 2012: £1,758 million) and provisions held against the portfolio amounted to £958 million (April 4, 2012: £547 million) representing a coverage ratio of 35% (April 4, 2012: 31%).

The proportion of our Property Finance balances classified as impaired and the provision coverage against these balances are shown below:

	<b>As at April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(£ million, except percentages)</i>	
<b>Gross balances.....</b>	<b>10,192</b>	<b>11,580</b>
Impaired balances .....	2,715	1,758
Impaired balances as a % of gross balances .....	27%	15%
<b>Commercial provisions:</b>		
Individual.....	810	482
Collective.....	148	65
Total provisions .....	958	547
<b>Provision coverage ratios:</b>		
Individual provisions as a % of impaired balances.....	30%	27%
Total provisions as a % of impaired balances.....	35%	31%
Total provisions as a % of total gross balances .....	9%	5%

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amounted to £1,743 million (64% of impaired balances) as at April 4, 2013 and £1,157 million (66% of impaired balances) as at April 4, 2012. There are no cases classified as impaired or with payment arrears in our Registered Social Landlord or PFI portfolios.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for CRE lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cash flow performance or capital value is unlikely. Our strategy remains one of prudent loss mitigation over the medium term in a market which is both cyclical and currently experiencing extremely low investor demand. We make refinancing available for existing exposures where we are satisfied that we continue to have a constructive relationship with the borrower which recognizes our interests, and can achieve a level of expected return which reflects current funding costs or where there is a realistic likelihood that recovery over the medium term in the hands of the borrower represents a better prospect than short-term disposal. To the extent this strategy leads to forbearance on loans which are renewed at “off-market” interest rates or where the most likely outcome remains an ultimate financial loss, impairment provisions are then recognized in accordance with relevant accounting requirements.

#### **Other operations loan portfolio**

Other lending operations as at April 4, 2013 includes £219 million (April 4, 2012: £262 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior asset backed security (“ABS”) reference portfolio, and unsecured lending of £217 million (April 4, 2012: £231 million) relating to a student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the Head Office functions business segment.

Subsequent to the year end, the Group disposed of the investment in a £217 million student loan portfolio. This disposal will result in a £3 million gain in the Group’s results for the year ended April 4, 2014.

The table below provides further information on commercial and other lending operations by payments due status:

	As at April 4, 2013				As at April 4, 2012			
	Commercial		Other operations		Commercial		Other operations	
	(£ billion, except percentages)							
Neither past due nor impaired.....	16.6	83%	0.4	91%	19.1	89%	0.4	91%
Past due up to 3 months but not impaired.....	0.6	3%	-	1%	0.7	3%	-	1%
Impaired.....	2.7	14%	-	8%	1.8	8%	0.1	8%
<b>Total</b> .....	<b>19.9</b>	<b>100%</b>	<b>0.4</b>	<b>100%</b>	<b>21.5</b>	<b>100%</b>	<b>0.5</b>	<b>100%</b>

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.

Impaired balances in other operations total £33 million as at April 4, 2013 (April 4, 2012: £41 million). This consists of £27 million (April 4, 2012: £30 million) relating to a European commercial loan portfolio and £6 million (April 4, 2012: £11 million) relating to the unsecured student loan portfolio.

Impaired commercial and other lending operations assets are further analyzed as follows:

	As at April 4, 2013				As at April 4, 2012								
	Commercial		Other operations		Commercial		Other operations						
	(£ million, except percentages)												
<b>Impaired status:</b>													
Past due 0 to 3 months .....	1,581	58%	-	-	836	47%	-	-					
Past due 3 to 6 months .....	218	8%	1	3%	139	8%	1	2%					
Past due 6 to 12 months .....	295	11%	2	6%	295	17%	2	5%					
Past due over 12 months .....	620	23%	30	91%	487	28%	38	93%					
Possessions .....	1	-	-	-	1	-	-	-					
<b>Total</b> .....	<b>2,715</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>1,758</b>	<b>100%</b>	<b>41</b>	<b>100%</b>					

Commercial assets totaling £2,629 million as at April 4, 2013 (April 4, 2012: £1,450 million) have individual provisions against some or all of the balance.

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Assets over which possession has been taken are realized in an orderly manner via open market or auction sales to derive the maximum benefit for all interested parties, and any surplus proceeds are distributed in accordance with the relevant insolvency regulations. The Group does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

Although collateral can be an important mitigant of credit risk, it is the Group’s practice to lend on the basis of the customer’s ability to meet their obligations out of cash flow resources rather than rely on the value of the security offered. In the event of default, the firm may use the collateral as a source of repayment.

Primary collateral is a fixed charge over freeholder or long leasehold properties, but may be supported by other liens, floating charges over company assets and, occasionally, unsupported guarantees. The collateral will have a significant effect in mitigating our exposure to credit risk.

The table below quantifies the value of fixed charges held against non-performing or impaired assets:

	As at April 4,			
	2013		2012	
	(£ million, except percentages)			
Past due but not impaired.....	623	97%	631	94%
Impaired.....	1,743	64%	1,157	66%
<b>Total</b> .....	<b>2,366</b>	<b>70%</b>	<b>1,788</b>	<b>74%</b>

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 indexed value of the collateral is based on the most recent formal valuation. The index used is the Investment Property Databank (“IPD”) monthly index for the relevant property sector. Nationwide reserves the right to request a revaluation of any property currently charged in support of facilities advanced or upon an act of default. Although a revaluation is not automatically obtained, the merits of obtaining a revaluation are considered at each facility review and whenever a report is submitted to the Risk Management Division.

Particular attention is paid to the status of the facilities, for instance whether it is or is likely to require an impairment review, where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

A borrower-level analysis by LTV ratio of the Group’s Property Finance portfolio is provided below. Housing, Project Finance and one commercial loan secured on floating charges are excluded from this analysis.

The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The IPD monthly index is used.

LTV band	As at April 4,			
	2013		2012	
	(£ million, except percentages)			
<75% .....	4,506	44%	4,925	43%
75% – 90% .....	936	9%	1,475	13%
90% – 100% .....	907	9%	1,155	10%
100% – 125% .....	1,823	18%	2,471	21%
>125% .....	2,020	20%	1,554	13%
<b>Total</b> .....	<b>10,192</b>	<b>100%</b>	<b>11,580</b>	<b>100%</b>

The level of negative equity based upon the indexation of property values for the non-performing and impaired assets is detailed below:

	As at April 4,	
	2013	
	(£ million)	
Past due but not impaired.....	21	38

Impaired.....	972	600
Possessions .....	1	-
<b>Total .....</b>	<b>994</b>	<b>638</b>

### Consumer banking

In consumer banking, the balance of accounts more than 30 days in arrears has shown improvement in personal loans, but increased marginally on FlexAccounts and credit cards. All books have increased in size year-on-year, and where published data is available our performance compared with the industry remains favorable.

	<b>As at April 4, 2013</b>	
	<b>Delinquent balances</b>	<b>Balances before provisions</b>
(£ million)		
FlexAccount (overdraft balances) .....	23.4	238.0
Personal loans .....	52.4	1,783.9
Credit cards.....	47.5	1,465.8
<b>Total .....</b>	<b>123.3</b>	<b>3,487.7</b>

The following table presents the percentage of FlexAccounts, personal loans and credit card accounts more than 30 days in arrears:

	<b>As at April 4,</b>	
	<b>2013</b>	<b>2012</b>
(percentages)		
FlexAccount (overdraft balances).....	9.81	9.18
Personal loans .....	2.94	2.98
Credit cards.....	3.24	3.34

The basis for the calculation of personal loans more than 30 days in arrears for the 2012 financial year has been amended to present the information on a consistent basis with the 2013 financial year.

Unsecured customers have limited forbearance options. Credit card customers experiencing financial distress may agree a payment plan, which is typically less than the minimum payment. Additionally, credit card and personal loan customers who have maintained the required payment performance over a sustained period may be re-aged. The volume of payment plans and re-aging is low and therefore no specific treatment is made within the Group's provisioning methodology.

### Country exposure

The following section summarizes our direct exposure to institutions, corporates, and other issued securities domiciled in the peripheral eurozone countries. The exposures are shown at their balance sheet carrying values.

	<b>As at April 4, 2013</b>					
	<b>Greece</b>	<b>Ireland</b>	<b>Italy</b>	<b>Portugal</b>	<b>Spain</b>	<b>Total</b>
(£ million)						

Mortgage backed securities .....	-	144	90	50	335	619
Covered bonds .....	-	71	-	22	326	419
Senior debt .....	-	-	25	-	17	42
Other assets .....	-	-	3	-	2	5
Other corporate .....	-	11	3	-	-	14
<b>Total .....</b>	<b>-</b>	<b>226</b>	<b>121</b>	<b>72</b>	<b>680</b>	<b>1,099</b>

As at April 4, 2012						
	Greece	Ireland	Italy	Portugal	Spain	Total
(£ million)						
Mortgage backed securities .....	-	134	105	39	348	626
Covered bonds .....	-	71	-	17	334	422
Senior debt .....	-	31	36	-	96	163
Other assets .....	1	-	6	-	4	11
Other corporate .....	-	8	3	-	-	11
<b>Total .....</b>	<b>1</b>	<b>244</b>	<b>150</b>	<b>56</b>	<b>782</b>	<b>1,233</b>

Movements in our exposure to peripheral eurozone countries since April 4, 2012 relate to disposals, maturities and fair value movements and there has been no new investment in the current financial year.

During the year ended April 4, 2012, our remaining £1 million of Greek exposure was sold. In addition, £82 million of Spanish senior debt, £41 million of Spanish covered bonds, £31 million of Irish senior debt and £12 million of Italian senior debt matured during the year.

As at April 4, 2013, Nationwide has further indirect exposure to peripheral eurozone countries as a result of a €100 million loan to a Luxembourg special purpose vehicle (“SPV”), which has first loss exposure to a €2 billion portfolio of senior ranking European ABS assets. The sterling equivalent as at April 4, 2013 is £84.7 million (April 4, 2012: £82.7 million). The geographical breakdown of this portfolio is consistent with the position as at April 4, 2012 and is as follows: UK 53%, Germany 16%, Spain 13%, Italy 7%, Netherlands 6%, Greece 3% and Portugal 2% (April 4, 2012: UK 51%, Germany 16%, Spain 14%, Italy 8%, Netherlands 6%, Greece 3% and Portugal 2%).

None of our exposures to the peripheral eurozone countries are in default, and we did not incur any impairment on these assets in the year ended April 4, 2013. We continue to monitor closely the exposures to these countries.

In addition, the Group’s exposure in respect of other eurozone countries and the rest of the world is shown below at their balance sheet carrying value.

As at April 4, 2013										
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world	Total	
(£ million)										
Government bonds .....	-	505	1,039	-	1,677	672	-	2,349		
Mortgage backed securities .....	133	28	273	273	-	417	147	86	650	

Covered bonds.....	21	-	18	18	-	128	29	21	178
Senior debt....	21	33	50	50	9	113	57	42	212
Loans to banks.....	-	164	-	-	-	294	460	620	1,374
Other assets...	-	109	-	-	-	109	1,085	1,001	2,195
Other corporate .....	10	33	840	16	-	910	-	-	910
<b>Total .....</b>	<b>185</b>	<b>378</b>	<b>1,680</b>	<b>1,396</b>	<b>9</b>	<b>3,648</b>	<b>2,450</b>	<b>1,770</b>	<b>7,868</b>

As at April 4, 2012

	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Netherlands</b>	<b>Other eurozone</b>	<b>Total eurozone</b>	<b>USA</b>	<b>Rest of the world</b>	<b>Total</b>
	(£ million)								
Government bonds.....	75	-	169	1,049	-	1,293	1,104	-	2,397
Mortgage backed securities .....	-	34	114	239	41	428	110	147	685
Covered bonds	21	-	84	45	-	150	26	61	237
Senior debt.....	20	118	100	125	10	373	205	305	883
Loans to banks	-	127	41	-	-	168	490	766	1,424
Other assets.....	-	-	35	-	-	35	1,335	1,441	2,811
Other corporate .....	10	46	984	25	-	1,065	28	11	1,104
<b>Total .....</b>	<b>126</b>	<b>325</b>	<b>1,527</b>	<b>1,483</b>	<b>51</b>	<b>3,512</b>	<b>3,298</b>	<b>2,731</b>	<b>9,541</b>

As at April 4, 2013, the “Other eurozone” column represents exposures to Belgium £nil (April 4, 2012: £44 million) and Luxembourg £9 million (April 4, 2012: £7 million). As at April 4, 2013, the “Rest of the world” column represents exposures to the following countries: Australia £96 million (April 4, 2012: £290 million), Canada £404 million (April 4, 2012: £532 million), Denmark £4 million (April 4, 2012: £24 million), Iceland £nil (April 4, 2012: £6 million), Norway £nil (April 4, 2012: £36 million), Sweden £nil (April 4, 2012: £4 million), Switzerland £278 million (April 4, 2012: £410 million) and Supranationals £988 million (April 4, 2012: £1,429 million).

## Funding and Liquidity

### Funding strategy

The Group has a strong and well-diversified funding base, which continues to be predominantly funded by retail savings. Over the course of the year ended April 4, 2013, we have continued to manage our balance sheet in response to conditions in both the retail and wholesale markets.

The Group aims to align the sources and uses of funding. As such, retail customer loans and advances are largely funded by customer deposits. Other assets including commercial customer loans, core liquidity and other treasury assets are funded by long-term wholesale debt and equity.

These funding relationships are summarized below as at the balance sheet date:

As at April 4,			
<b>2013</b>	<b>2012</b>	<b>2011</b>	

	(£ millions)		
<b>Liabilities:</b>			
Retail funding .....	132	132	128
Wholesale funding .....	43	49	46
Capital and reserves .....	10	10	10
Other .....	6	5	5
<b>Total .....</b>	<b>191</b>	<b>196</b>	<b>189</b>
<b>Assets:</b>			
Retail funding .....	137	130	125
Other lending .....	23	24	24
Core liquidity .....	17	25	19
Non-core treasury liquidity .....	7	9	13
Other .....	7	8	8
<b>Total .....</b>	<b>191</b>	<b>196</b>	<b>189</b>

We continue to maintain a high quality liquid asset portfolio consisting primarily of deposits at central banks and government bonds. In June 2012 the BoE activated the Extended Collateral Term Repo (“**ECTR**”) facility with the aim of mitigating prospective risks to financial stability. In July 2012, the BoE and H.M. Treasury introduced the FLS, which, along with the ECTR, accepts the same broad range of collateral as the BoE’s Discount Window Facility (“**DWF**”). In addition, the FSA notified firms of a relaxation to their stance on the definition of assets that count towards the Liquid Asset Buffer (“**LAB**”), which now allows a proportion of a firm’s regulatory liquidity requirements to be met by collateral pre-positioned at the DWF. These developments have allowed the Group to reduce the volume of liquidity held such that the core liquidity ratio as at April 4, 2013 is 11.1% (April 4, 2012: 13.7%).

In terms of volumes, Nationwide has made relatively limited use of the FLS, having drawn £2.5 billion as at April 4, 2013. Based on our lending to date and our current expectations for the remainder of 2013, we estimate our capacity under the scheme to be in the region of £15 billion to £20 billion. Although we would not currently expect to utilize our full capacity, we do expect to make continued use of the scheme during the remainder of the 2013/2014 financial year. See “—*Net Interest Income*” above for further discussion of the impact of the FLS on our mortgage and savings business.

### **Liquidity**

Liquidity represents a key area of risk management for financial institutions. In recent years there has been an increased focus on liquidity from the regulatory authorities. The Group continues to enhance and strengthen its liquidity management systems and approach. See “*Risks Related to Our Business—Our business and financial performance have been and will continue to be affected by general economic conditions in the UK, the eurozone and elsewhere, and other adverse developments in the UK or global financial markets could cause our earnings and profitability to decline*” for additional information on funding and liquidity risk.

In December 2010, the Basel Committee announced proposals to introduce two new liquidity metrics as part of the implementation of Basel III. These are a short-term liquidity stress metric, the Liquidity Coverage Ratio (“**LCR**”) and a longer-term funding metric, the Net Stable Funding Ratio (“**NSFR**”). In January 2013, the Basel Committee announced revised guidelines in respect of the LCR and confirmed that work continues on the NSFR. The LCR is now expected to be implemented for reporting purposes from January 2015 with the full requirement for it to be met by January 2018 (originally full implementation was scheduled for January 2015). The NSFR is also expected to be implemented from January 2018. These measures remain subject to ongoing refinement and have not as yet been translated into UK regulation, so there remains uncertainty as to their final form. Nationwide continues to monitor its position relative to the anticipated requirement of both the LCR and NSFR. Based on current interpretations of the

requirements, Nationwide currently holds sufficiently high quality liquid assets and stable funding to meet the new measures.

High-quality liquid assets needed to meet the LCR requirement generally comprise deposits held with central banks, unencumbered securities or whole loan pools that may be freely sold or are capable of generating funding through repurchase agreements (“**repos**”) or other similar arrangements, either directly with those central banks to which the Group has access or with market counterparties.

Nationwide ensures sufficient resources are available for day-to-day cash flow needs while enabling the Group to meet internal and regulatory liquidity requirements, which are calibrated to be resilient even in the event of unexpected outflows that could be seen across a range of stress scenarios. Liquid assets are managed centrally by the Treasury Division. All liquidity is held centrally to meet cash outflows seen in any entity across the Group with the exception of a small portfolio of assets held in our Irish branch, Nationwide (UK) Ireland (“**NUKI**”). These assets (£131 million sterling equivalent as at April 4, 2013 (April 4, 2012: £137 million)) are held at NUKI to ensure compliance with local liquidity regulations.

The stock of liquid assets managed by Nationwide’s Treasury Division fall into the following four categories:

#### *Core Liquidity*

The Group maintains its high-quality core liquidity portfolio through continued investment in highly liquid assets in line with the LAB as defined by the PRA in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“**BIPRU**”) 12, which comprises:

- deposits held at, and securities issued by, the BoE; and
- highly rated debt securities of varying maturities issued by a restricted range of governments or multi-lateral development banks.

The calculation is made net of any core liquidity holdings that are subject to repurchase arrangements and includes assets held under reverse repurchase arrangements. It also excludes contingent liquidity available through capacity to draw against central bank funding schemes.

#### *Other Eligible Central Bank Assets*

In addition to the core portfolio the Group holds a stock of unencumbered securities that are eligible collateral for use in the funding operations of those central banks to which we have access. This figure does not include the value of self-issued RMBS and covered bonds that could also be drawn against in certain central bank operations. In terms of their relative liquidity characteristics, these assets may be viewed as the secondary liquidity portfolio.

#### *Other Securities*

Nationwide holds other third-party assets (such as fixed rate investments) that are not eligible for central bank operations but may be capable of financing through third-party repurchase agreements.

#### *Self-Issued RMBS and Covered Bonds*

The Group holds undrawn AAA-rated notes issued under the Group’s asset-backed funding programs. These self-issued securities represent eligible collateral for use in repurchase agreements with third parties or in central bank operations.

#### *Whole Mortgage Loan Pools Pre-Positioned at the BoE*

The BoE began accepting loan portfolios as eligible collateral in the DWF from April 2011. Following confirmation that assets pre-positioned at the BoE would count as eligible collateral in the LAB, Nationwide commenced pre-positioning whole loan pools with the BoE during 2012.

The table below sets out the fair value of each of the above liquidity types as at April 4, 2013. The table is not a representation of the accounting balance sheet position as it includes off-balance sheet liquidity (including self-issued RMBS and covered bonds) but excludes any encumbered assets.

		<b>As at April 4,</b>	
		<b>2013</b>	<b>2012</b>
		<b>(£ billion)</b>	

Core liquidity <sup>(1)</sup> .....	19.2	24.5
Other central bank eligible assets .....	1.4	2.5
Other securities .....	2.7	4.0
Self-issued RMBS and covered bonds.....	14.0	16.3
Whole mortgage loan pools pre-positioned at the BoE .....	1.4	-
<b>Total</b> .....	<b>38.7</b>	<b>47.3</b>

Note:

(1) Core liquidity includes off-balance sheet items, primarily treasury bills held through FLS participation. The average month-end balance for core liquidity during the year ended April 4, 2013 was £21.0 billion.

The table below sets out the sterling equivalent of the liquidity portfolio categorized by issuing currency:

	As at April 4, 2013			
	GBP	EUR	USD	Total
	(£ billion)			
Core liquidity <sup>(1)</sup> .....	16.8	1.6	0.8	<b>19.2</b>
Other central bank eligible assets .....	0.1	1.3	-	<b>1.4</b>
Other securities .....	0.6	0.6	1.5	<b>2.7</b>
Self-issued RMBS and covered bonds.....	14.0	-	-	<b>14.0</b>
Whole mortgage loan pools pre-positioned at the BoE .....	1.4	-	-	<b>1.4</b>
<b>Total</b> .....	<b>32.9</b>	<b>3.5</b>	<b>2.3</b>	<b>38.7</b>

Note:

(1) Core liquidity includes off-balance sheet items, primarily treasury bills held through FLS participation. The average month-end balance for core liquidity during the year ended April 4, 2013 was £21.0 billion.

### Wholesale funding

An analysis of the Group's 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 April 4,			
	2013			
	(£ billion, except percentages)			
Repo and other secured agreements.....	1.2	2.8%	3.7	7.5%
Deposits .....	8.7	20.0%	7.8	15.9%
Certificates of deposit .....	3.8	8.8%	4.3	8.7%
Commercial paper.....	4.0	9.2%	3.7	7.5%
Covered bonds .....	11.4	26.3%	13.0	26.5%

Medium-term notes.....	4.7	10.8%	7.1	14.5%
Securitizations.....	7.6	17.5%	7.4	15.1%
Other .....	2.0	4.6%	2.1	4.3%
<b>Total .....</b>	<b>43.4</b>	<b>100.0%</b>	<b>49.1</b>	<b>100.0%</b>

The table below sets out an analysis of the currency composition of the Group's wholesale funding:

	As at April 4, 2013				
	GBP	EUR	USD	Other	Total
	(£ billion)				
Repo and other secured arrangements .....	1.0	0.2	-	-	1.2
Deposits .....	7.4	1.1	0.2	-	8.7
Certificates of deposit .....	3.5	0.1	0.2	-	3.8
Commercial paper .....	0.2	0.4	3.4	-	4.0
Covered bonds .....	1.7	9.4	-	0.3	11.4
Medium-term notes .....	1.2	2.3	1.0	0.2	4.7
Securitizations .....	2.6	0.9	4.1	-	7.6
Other.....	0.8	1.1	0.1	-	2.0
<b>Total as at April 4, 2013.....</b>	<b>18.4</b>	<b>15.5</b>	<b>9.0</b>	<b>0.5</b>	<b>43.4</b>
<b>Total as at April 4, 2012.....</b>	<b>19.9</b>	<b>18.2</b>	<b>10.6</b>	<b>0.4</b>	<b>49.1</b>

During the year ended April 4, 2012 we were particularly active in the long-term debt markets, issuing £7.9 billion against £3.5 billion of maturing long-term deals, allowing us to pre-fund long-term funding maturities of £4.9 billion during the year ended April 4, 2013. This pre-funding, combined with the advent of the FLS and reduced regulatory liquidity requirements has resulted in a minimal long-term funding requirement for the Group during the year ended April 4, 2013.

Short-term funding instruments in issue have decreased to £11.5 billion as at April 4, 2013 (April 4, 2012: £11.9 billion). The average initial term of outstanding short-term balances as at April 4, 2013 was 162 days (April 4, 2012: 131 days).

The residual maturity profile of the Group's wholesale funding portfolio has shown a modest decline from 37 months as at April 4, 2012 to 35 months as at April 4, 2013. Despite this, as a result of maturing long-term deals and a fall in the overall wholesale funding portfolio, the proportion of funding that is categorized as long-term (>1 year to maturity) has increased slightly to 62.2% (April 4, 2012: 60.7%).

The table below sets out the residual maturity of the wholesale funding book as at April 4, 2013:

	As at April 4,	
	2013	2012
(£ billion, except percentages)		
Less than one year .....	16.4	37.8%
One to two years .....	7.3	16.8%

Two to five years .....	11.8	27.2%	16.8	34.2%
More than five years .....	7.9	18.2%	9.0	18.3%
<b>Total .....</b>	<b>43.4</b>	<b>100.0%</b>	<b>49.1</b>	<b>100.0%</b>

The table below sets out a more detailed breakdown of the residual maturity on the wholesale funding book:

	As at April 4, 2013							
	Not more than one month	Over one month	Over three months	Over six months	Sub- total	Over one year but not more than two years	Over two years	Total
		but not more than three months	but not more than six months	but not more than one year	less than one year	than two years	Over two years	(£ billion)
Repo and other secured arrangements.....	-	-	0.2	-	0.2	1.0	-	1.2
Deposits, including protected equity bond ("PEB")								
balances .....	3.1	1.3	0.9	0.5	5.8	0.1	2.8	8.7
Certificates of deposit .....	0.8	1.0	1.6	0.4	3.8	-	-	3.8
Commercial paper.....	1.0	2.0	1.0	-	4.0	-	-	4.0
Covered bonds .....	-	-	-	1.7	1.7	0.8	8.9	11.4
Medium-term notes.....	-	0.1	-	0.2	0.3	1.6	2.8	4.7
Securitizations.....	-	-	-	0.4	0.4	3.4	3.8	7.6
	0.2	-	-	-	0.2	0.4	1.4	2.0
<b>Total .....</b>	<b>5.1</b>	<b>4.4</b>	<b>3.7</b>	<b>3.2</b>	<b>16.4</b>	<b>7.3</b>	<b>19.7</b>	<b>43.4</b>
Of which secured .....	0.2	-	-	2.1	2.3	5.5	14.1	21.9
Of which unsecured .....	4.9	4.4	3.7	1.1	14.1	1.8	5.6	21.5

	As at April 4, 2012								
	Not more than one month	Over one month	Over three months	Over six months	Sub- total	Over one year but not more than two years	Over two years	Total	
		but not more than three months	but not more than six months	but not more than one year	less than one year	than two years	Over two years	(£ billion)	
Repo and other secured arrangements.....	-	-	-	-	-	-	1.7	2.0	3.7
Deposits, including PEB									
2.8	1.3	0.8	0.4	5.3	-	2.5	-	7.8	

balances .....								
Certificates of deposit .....	1.2	2.0	0.9	0.2	4.3	-	-	<b>4.3</b>
Commercial paper .....	2.3	0.9	0.5	-	3.7	-	-	<b>3.7</b>
Covered bonds .....	-	0.2	1.9	-	2.1	1.6	9.3	<b>13.0</b>
Medium-term notes .....	-	1.6	1.3	-	2.9	0.1	4.1	<b>7.1</b>
Securitizations .....	-	-	-	-	-	0.3	7.1	<b>7.4</b>
	-	-	-	1.3	1.3	-	0.8	<b>2.1</b>
<b>Total .....</b>	<b>6.3</b>	<b>6.0</b>	<b>5.4</b>	<b>1.9</b>	<b>19.6</b>	<b>3.7</b>	<b>25.8</b>	<b>49.1</b>
Of which secured .....	-	0.2	1.9	1.3	3.4	3.4	17.5	<b>24.3</b>
Of which unsecured .....	6.3	5.8	3.5	0.6	16.2	0.3	8.3	<b>24.8</b>

### External Credit Ratings

Our short- and long-term credit ratings from the major rating agencies as at May 21, 2013 are as follows:

	<u>Long-Term</u>	<u>Short-Term</u>	<u>Subordinated</u>	<u>Date of last rating action<sup>(1)</sup></u>
S&P .....	A+	A-1	BBB+	December 2012
Moody's .....	A2	P-1	Baa1	February 2013
Fitch .....	A+	F1	A	October 2012

Note:

(1) The outlook for Moody's is Stable; the outlook for S&P and Fitch is Negative.

### Treasury Assets

Treasury liquid assets include cash, loans and advances to banks and investment securities available for sale. Treasury assets are categorized between core liquidity and non-core portfolios to better reflect the management of the portfolios and bring the analysis in line with PRA definitions in BIPRU 12.

Core liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks. The non-core portfolio comprises available-for-sale assets held for investment purposes, plus balances in clearing amounts.

Group treasury assets as at April 4, 2013 were £23.8 billion (April 4, 2012: £34.3 billion). As at April 4, 2013, the core liquidity portfolio totaled £16.9 billion (April 4, 2012: £24.8 billion) with the non-core portfolio totaling £6.9 billion (April 4, 2012: £9.5 billion). The £7.9 billion decrease in the core liquidity portfolio as at April 4, 2013 compared to April 4, 2012 was predominantly due to the sale of UK gilts following relaxation of regulatory liquidity rules permitting wider use of contingent liquidity.

Analysis of each of these portfolios by credit rating and geographical location of the issuers is set out in the table below.

<u>As at April 4, 2013</u>								
	<u>Credit Rating</u>				<u>Geography</u>			
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Other</u>	<u>UK</u>	<u>USA</u>	<u>Europe</u>	<u>Other</u>
	(£ billion)				(percentages)			

	As at April 4, 2013								
	Credit Rating					Geography			
	AAA	AA	A	Other	UK	USA	Europe	Other	
	(£ billion)				(percentages)				
Cash .....	7.9	100	-	-	-	100	-	-	-
Gilts .....	5.6	100	-	-	-	100	-	-	-
Non-domestic government bonds.....	2.3	71	29	-	-	-	29	71	-
Supranational bonds.....	1.0	100	-	-	-	-	5	93	2
Domestic government bonds.....	0.1	100	-	-	-	100	-	-	-
<b>Core liquidity portfolio total .....</b>	<b>16.9</b>	<b>96</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>81</b>	<b>4</b>	<b>15</b>	<b>-</b>
Loans and advances to banks.....	2.5	13	23	64	-	46	18	22	14
RMBS .....	1.6	25	23	31	21	35	5	56	4
CMBS .....	0.4	-	29	39	32	42	19	39	-
Covered bonds .....	0.6	11	28	34	27	-	5	92	3
Collateralized loan obligations ("CLOs") .....	0.7	17	79	4	-	31	69	-	-
Financial institution bonds.....	0.3	-	-	58	42	30	16	43	11
U.S. student loans .....	0.5	22	52	14	12	-	100	-	-
Other .....	0.3	19	24	16	41	24	29	42	5
<b>Non-core portfolio total .....</b>	<b>6.9</b>	<b>16</b>	<b>31</b>	<b>40</b>	<b>13</b>	<b>33</b>	<b>26</b>	<b>35</b>	<b>6</b>
<b>Total .....</b>	<b>23.8</b>	<b>73</b>	<b>12</b>	<b>12</b>	<b>3</b>	<b>66</b>	<b>11</b>	<b>21</b>	<b>2</b>

	As at April 4, 2012								
	Credit Rating					Geography			
	AAA	AA	A	Other	UK	USA	Europe	Other	
	(£ billion)				(percentages)				
Cash .....	8.1	100	-	-	-	100	-	-	-
Gilts .....	12.8	100	-	-	-	100	-	-	-
Non-domestic government bonds.....	2.4	54	46	-	-	-	46	54	-
Supranational bonds.....	1.4	100	-	-	-	9	4	86	1
Domestic government bonds	0.1	100	-	-	-	100	-	-	-

As at April 4, 2012										
	Credit Rating					Geography				
	AAA	AA	A	Other	UK	USA	Europe	Other		
	(£ billion)				(percentages)					
<b>Core liquidity portfolio total .....</b>	<b>24.8</b>	<b>96</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>85</b>	<b>5</b>	<b>10</b>	<b>-</b>	<b>-</b>
Loans and advances to banks.....	2.9	-	23	77	-	31	17	17	35	
RMBS .....	2.1	41	27	23	9	45	4	41	10	
CMBS .....	0.5	-	24	58	18	67	-	33	-	
Covered bonds .....	0.9	54	23	12	11	28	3	63	6	
CLOs.....	0.6	6	89	5	-	31	69	-	-	
Financial institution bonds.....	1.4	-	9	64	27	20	14	50	16	
U.S. student loans .....	0.7	40	28	22	10	-	100	-	-	
Other .....	0.4	32	20	18	30	25	61	14	-	
<b>Non-core portfolio total.</b>	<b>9.5</b>	<b>19</b>	<b>27</b>	<b>45</b>	<b>9</b>	<b>32</b>	<b>22</b>	<b>30</b>	<b>16</b>	
<b>Total .....</b>	<b>34.3</b>	<b>74</b>	<b>10</b>	<b>13</b>	<b>3</b>	<b>70</b>	<b>10</b>	<b>16</b>	<b>4</b>	

All assets shown above, other than cash and loans and advances to banks, are classified as available-for-sale investment securities.

Ratings are obtained from S&P in the majority of cases, or from Moody's if there is no S&P rating available, and internal ratings are used if neither is available.

The quality and liquidity of treasury assets has been maintained with over 71% of the total portfolio as at April 4, 2013 held in core liquidity exposures (April 4, 2013: 72%). As at April 4, 2013, 97% of the total portfolio is rated A or better, with 85% rated AA or above (April 4, 2012: 97% rated A or better, 84% rated AA or above).

As at April 4, 2013, we retain £1.1 billion of securities within the non-core portfolio domiciled in the "peripheral" eurozone countries. Of the £1.1 billion, 30% is rated AA or above and 58% is rated A or above. This exposure has reduced by 11% in the year ended April 4, 2013 (including the impact of exchange rate movements). Further details can be found in the "Country exposures" section.

A monthly review is undertaken of the current and expected future performance of all treasury assets. A governance structure exists to identify and review under-performing assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are impaired where there is objective evidence that current events and/or performance will result in a loss.

In assessing impairment, the 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. An impairment loss of £2 million (April 4, 2012: £31 million) net of gains representing reversals of prior write downs has been recognized in the income statement in respect of the non-core portfolios for the year ended April 4, 2013.

Collateral held as security for treasury assets is determined by the nature of the instrument. Core liquidity and non-core portfolios are generally unsecured with the exception of reverse repos, ABS and similar instruments, which are secured by pools of financial assets. Within loans and advances as at April 4, 2013 is a reverse repo of £0.1 billion (April 4, 2012: £0.1 billion), which is secured by gilts and cash pledges of £1.6 billion (April 4, 2012: £2.3 billion) to Credit Support Annex counterparties in relation to derivative liabilities to mitigate their credit exposure to the Group.

#### Asset encumbrance

Group assets can be used to support funding or collateral requirements for secured funding, central bank operations or third-party repurchase transactions. Assets that have been utilized for such purposes are classified as encumbered and pledged assets and cannot be utilized for other purposes. This includes excess collateral and collateral held in respect of undrawn self-issued notes in secured funding vehicles and cash collateral posted.

Other encumbered assets are assets that cannot be utilized for secured funding due to legal reasons. For example, this includes cash reserves supporting secured funding structures.

All other assets are defined as unencumbered assets. These comprise assets that are readily available to secure funding or meet collateral requirements and other unencumbered assets that are not subject to any restrictions but are not readily available for use.

Loans and advances to customers are only classified as available as collateral if they are already in such form that they can be used to raise funding without further management actions. All other loans and advances are conservatively classified as unencumbered other, although a proportion would be suitable for use in secured funding transactions.

An analysis of the Group's encumbered and unencumbered on-balance sheet assets as at April 4, 2013 is set out below:

	As at April 4, 2013				
	Encumbered		Unencumbered		
	Pledged as collateral	Other	Available as collateral	Other	Total
(£ million)					
Cash .....	-	3,788	3,848	250	<b>7,886</b>
Loans and advances to banks .....	1,588	-	-	934	<b>2,522</b>
Investment securities—AFS .....	231	-	13,076	114	<b>13,421</b>
Loans and advances to customers .....	51,741	-	54,323	53,523	<b>159,587</b>
Derivative financial instruments .....	-	-	-	4,212	<b>4,212</b>
Other financial assets .....	-	-	-	900	<b>900</b>
Non-financial assets .....	-	-	-	2,190	<b>2,190</b>
<b>Total .....</b>	<b>53,560</b>	<b>3,788</b>	<b>71,247</b>	<b>62,123</b>	<b>190,718</b>

In addition to the above, Nationwide holds other third-party liquid assets and self-issued notes off-balance sheet that may be capable of financing through third-party sale and repurchase agreements.

#### Available-for-sale reserve

Out of a total of £23.8 billion of assets held in the core liquidity and non-core portfolios as at April 4, 2013, £13.4 billion are held as available-for-sale ("AFS") and under IFRS they are marked to market through other comprehensive income and fair value movements are accumulated in reserves. The non-AFS assets are loans and advances to banks or deposits with the BoE. Of the £13.4 billion of AFS assets, only £60 million are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7.

Impairment losses on investment securities of £2 million for the year ended April 4, 2013 (for the year ended April 4, 2012: £31 million) comprise a loss of £23 million on a single UK CMBS, which was reported in our results for the six months ended September 30, 2012, offset by £21 million of gains which predominantly comprise reversals of prior impairments in connection with asset disposals during the second half of the year ended April 4, 2013. The fair value movement of AFS assets that are not impaired currently has no effect on the Group's profit or its regulatory capital.

As at April 4, 2013, the balance on the AFS reserve had improved to £252 million negative, net of tax (April 4, 2012: £356 million negative). The improvement in the AFS reserve reflects general market movements, partly offset by the sale of core liquidity and non-core assets which have shown a favorable movement in market value, resulting in gains which are recognized in the Group's net interest income.

The following table shows the breakdown of AFS reserves as at April 4, 2013 and April 4, 2012:

	As at April 4,			
	2013		2012	
	Fair value on-balance sheet	Cumulative AFS reserve	Fair value on-balance sheet	Cumulative AFS reserve
(£ billion)				
Cash .....	7.9	-	8.1	-
Gilts .....	5.6	(0.7)	12.8	(1.0)
Non-domestic government bonds .....	2.3	(0.1)	2.4	-
Supranational bonds.....	1.0	(0.1)	1.4	(0.1)
U.S. medium-term notes	0.1	-	0.1	-
<b>Core liquidity portfolio total .....</b>	<b>16.9</b>	<b>(0.9)</b>	<b>24.8</b>	<b>(1.1)</b>
Loans and advances to banks.....	2.5	-	2.9	-
RMBS .....	1.6	0.3	2.1	0.4
CMBS .....	0.4	0.1	0.5	0.1
Covered bonds .....	0.6	-	0.9	-
CLOs.....	0.7	-	0.6	-
Financial institutions bonds .....	0.3	-	1.4	-
U.S. student loan.....	0.5	-	0.7	0.1
Other investments .....	0.3	-	0.4	-
<b>Non-core portfolio total .....</b>	<b>6.9</b>	<b>0.4</b>	<b>9.5</b>	<b>0.6</b>
(Positive)/negative AFS reserve before hedge accounting and taxation .....		(0.5)		(0.5)
Hedge accounting adjustment for interest rate risk .....		0.9		1.0
Taxation .....		(0.1)		(0.1)
<b>Total value of AFS assets/negative AFS reserve .....</b>	<b>23.8</b>	<b>0.3</b>	<b>34.3</b>	<b>0.4</b>

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

	As at April 4, 2013			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
	(£ million)			

Investment securities—AFS .....	8,641	4,720	60	13,421
Investments in equity shares .....	-	-	28	28
Derivative financial instruments .....	-	3,828	384	4,212
Other financial assets <sup>(4)</sup> .....	-	8	-	8
<b>Financial assets</b> .....	<b>8,641</b>	<b>8,556</b>	<b>472</b>	<b>17,669</b>
Derivative financial instruments .....	-	(3,875)	(10)	(3,885)
Other deposits—PEB .....	-	-	(2,985)	(2,985)
<b>Financial liabilities</b> .....	<b>-</b>	<b>(3,875)</b>	<b>(2,995)</b>	<b>(6,870)</b>

	As at April 4, 2012			
	Level 1	Level 2	Level 3	Total
(£ million)				
Investment securities—AFS .....	16,493	6,756	76	23,325
Investments in equity shares .....	9	-	20	29
Derivative financial instruments .....	-	3,942	234	4,176
<b>Financial assets</b> .....	<b>16,502</b>	<b>10,698</b>	<b>330</b>	<b>27,530</b>
Derivative financial instruments .....	-	(4,250)	(37)	(4,287)
Other deposits—PEB .....	-	-	(2,890)	(2,890)
<b>Financial liabilities</b> .....	<b>-</b>	<b>(4,250)</b>	<b>(2,927)</b>	<b>(7,177)</b>

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, ABS, certain collateralized debt obligations ("CDOs"), CLOs and over-the-counter ("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 ABS and bonds.
- (4) Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. The Group recommenced the practice of fair valuing a portion of the mortgage commitments on the balance sheet during the year ended April 4, 2013.

The Group's Level 1 portfolio comprises highly rated government securities for which traded prices are readily available. During the year ended April 4, 2013, the Group has reduced this portfolio in response to the changing regulatory environment created by the FLS. There were no significant transfers between the Level 1 and 2 portfolios during the year ended April 4, 2013.

Asset valuations for Level 2 AFS investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 AFS assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

The main constituents of the Level 3 portfolio are as follows:

#### *Investment securities—AFS*

The Group's £60 million Level 3 AFS investment securities as at April 4, 2013 comprise mainly £59 million of CDOs, including CDOs with a fair value of £13 million that are subject to impairment. Substantially all of these securities are priced from internal models based on observable and unobservable performance assumptions.

#### *Investments in equity shares*

The Level 3 investments in equity shares of £28 million as at April 4, 2013 consist primarily of an interest in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of the instrument.

#### *Derivative financial instruments*

Level 3 assets and liabilities in this category are equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in the PEB product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party.

#### *Other deposits—PEB*

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEB's liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivative as valued by an external third party.

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

### **Results of Operations for the Year Ended April 4, 2012 Compared with the Year Ended April 4, 2011**

#### *Introduction*

We believe that our results indicate a strong performance for the year ended April 4, 2012 despite the challenging economic environment. The Group has delivered an underlying profit before tax (as explained below) of £304 million, and a statutory profit before tax of £203 million.

Underlying profit before tax (as explained below) for the year ended April 4, 2012 is up 10% at £304 million from £276 million for the year ended April 4, 2011. For the year ended April 4, 2012 compared to the year ended April 4, 2011, total income is up 10% at £2.14 billion, including a £96 million gain on the acquisition of a prime mortgage portfolio and an additional £70 million resulting from an update of our effective interest rate assumptions to reflect our latest mortgage profile expectations. Costs increased by 5%, which was driven by continuing strategic investment in our business, increasing regulatory costs, transactional volume growth and inflation. Credit impairments in the year ended April 4, 2012 were broadly stable at £428 million, with a rise in commercial provisions being largely offset by an improvement in retail and treasury provisions. Our PPI provision has been increased by a further charge of £103 million in the year ended April 4, 2012, which reflects the significant increase in complaints across the industry over the past six months, encouraged by the aggressive activities of claims management companies.

We have a balance sheet that we believe is amongst the strongest of its kind in the industry. Our asset quality is strong, with residential arrears significantly lower than industry levels. In addition, we maintain market leading capital ratios, with a Core Tier 1 ratio of 12.5%, high levels of liquidity and a diverse funding platform.

As discussed in Note 1 to the audited consolidated financial statements for the year ended April 4, 2012, certain comparative numbers for the year ended April 4, 2011 have been reclassified to be presented on a basis that is consistent with the classification used in the year ended April 4, 2012 rather than that used in the year ended April 4, 2011. These reclassifications have not impacted profit before tax and are primarily related to the classification of the fees and commission income and expense and administrative expense. The discussion below reflects these reclassifications. Accordingly, certain numbers in this section for the year ended April 4, 2011 are different from the numbers appearing in the same lines in the discussion of the results of operations for the year ended April 4, 2011 compared with the year ended April 4, 2010.

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

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**For the year ended April 4, 2012**

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	<u>As reported</u>	<b>Movements on derivatives and hedge accounting</b>	<b>FSCS and bank levy</b>	<b>Restructuring costs</b>	<b>Underlying profit before tax</b>
(£ millions)					
Net interest income .....	1,623	-	-	-	1,623
Other income .....	520	-	-	-	520
Movements on derivatives and hedge accounting .....	35	(35)	-	-	-
<b>Total income</b> .....	<b>2,178</b>	<b>(35)</b>	<b>-</b>	<b>-</b>	<b>2,143</b>
Administrative expenses .....	(1,205)	-	16	61	(1,128)
Depreciation and amortization .....	(180)	-	-	-	(180)
Impairment losses .....	(428)	-	-	-	(428)
Provisions for liabilities and charges .....	(162)	-	59	-	(103)
 <b>Profit before tax</b> .....	 <b>203</b>	 <b>(35)</b>	 <b>75</b>	 <b>61</b>	 <b>304</b>

	<b>For the year ended April 4, 2011</b>				
	<u>As reported</u>	<b>Movements on derivatives and hedge accounting</b>	<b>FSCS and bank levy</b>	<b>Restructuring costs</b>	<b>Underlying profit before tax</b>
(£ millions)					
Net interest income .....	1,536	-	-	-	1,536
Other income .....	411	-	-	-	411
Movement on derivatives and hedge accounting .....	120	(120)	-	-	-
<b>Total income</b> .....	<b>2,067</b>	<b>(120)</b>	<b>-</b>	<b>-</b>	<b>1,947</b>
Administrative expenses .....	(1,123)	-	-	29	(1,094)
Depreciation and amortization .....	(150)	-	-	-	(150)
Impairment losses .....	(425)	-	-	-	(425)
Provisions for liabilities and charges .....	(52)	-	50	-	(2)
 <b>Profit before tax</b> .....	 <b>317</b>	 <b>(120)</b>	 <b>50</b>	 <b>29</b>	 <b>276</b>

The following discussion considers our results for the year ended April 4, 2012 compared to our results for the year ended April 4, 2011:

#### **Total income**

Our total income increased by 5% to £2,178 million in the year ended April 4, 2012 compared to £2,067 million in the year ended April 4, 2011. The following table sets forth the components of income for the years ended April 4, 2012 and April 4, 2011, respectively:

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
(£ millions)		
Net interest income .....	1,623	1,536
Net fees and commissions .....	419	400
Income from investments .....	10	4
Other operating income .....	91	7
Gains from derivatives and hedge accounting .....	35	120
<b>Total</b>	<b>2,178</b>	<b>2,067</b>

*Net interest income*

Net interest income increased by 5.7% to £1,623 million for the year ended April 4, 2012 compared with £1,536 million for the year ended April 4, 2011.

The following table sets forth the components of net interest income for the years ended April 4, 2012 and 2011, respectively:

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
(£ millions)		
<b>Interest and similar income:</b>		
On residential mortgages .....	4,924	5,004
On other loans .....	1,158	1,148
On investment securities .....	1,071	1,029
On other liquid assets .....	56	32
Net (expense) on financial instruments hedging assets.....	(2,051)	(2,738)
Expected return on pension assets .....	195	168
<b>Total interest and similar income.....</b>	<b>5,353</b>	<b>4,643</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(2,826)	(2,511)
On subscribed capital .....	(96)	(96)
On deposits and other borrowings:		
Subordinated liabilities .....	(108)	(110)
Other .....	(252)	(258)
Debt securities in issue .....	(1,093)	(915)
Foreign exchange differences .....	(12)	(3)
Net income on financial instruments hedging liabilities .....	823	952
Pension interest cost .....	(166)	(166)
<b>Total interest expense and similar charges .....</b>	<b>(3,730)</b>	<b>(3,107)</b>
<b>Net interest income .....</b>	<b>1,623</b>	<b>1,536</b>

Interest and similar income increased by 15.3% to £5,353 million in the year ended April 4, 2012 from £4,643 million in the year ended April 4, 2011.

#### *On residential mortgages*

Interest on residential mortgages decreased by 1.6% to £4,924 million in the year ended April 4, 2012 from £5,004 million in the year ended April 4, 2011. Although we have seen a 0.7% increase in the size of our average residential mortgage portfolio to £136,260 million in the year ended April 4, 2012 from £135,256 million in the year ended April 4, 2011. This has been offset by a small decrease in average interest rates between the two periods from 3.70% for the year ended April 4, 2011 to 3.61% for the year ended April 4, 2012. The increase in the size of our average residential mortgage portfolio has been driven mostly by increases in lending in the specialist lending sector and the acquisition of a Bank of Ireland mortgage book of £1.2 billion in December 2011.

#### *On other loans*

Interest on other loans includes interest income that we earn from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans remained relatively stable increasing by 0.9% to £1,158 million in the year ended April 4, 2012 from £1,148 million in the year ended April 4, 2011.

#### *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 liquidity portfolios and net realized gains and losses on our sales of these instruments.

Interest and other income from investment securities increased by 4.1% to £1,071 million for the year ended April 4, 2012 compared with £1,029 million for the year ended April 4, 2011. Net of foreign exchange differences and net expenses on financial instruments hedging assets there has been an increase from £314 million for the year ended April 4, 2011 to £406 million for the year ended April 4, 2012. This net increase is due to an increase of 5.23% in the average balance of securities held in both the investment and liquidity portfolios to £23,281 million in the year ended April 4, 2012 from £22,123 million for the year ended April 4, 2011 combined with an increase in the average interest rate earned on such assets to 1.74% in the year ended April 4, 2012, compared to 1.42% in the year ended April 4, 2011. The increase in average interest rates is a direct result of increases 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 year ended April 4, 2012, we incurred a net expense of £2,051 million on financial instruments used to hedge our fixed rate assets compared with a net expense of £2,738 million in the year ended April 4, 2011. As LIBOR rates have remained at very low levels during the years ended April 4, 2012 and April 4, 2011, the floating rate income on these financial instruments has reduced, resulting in an increase to the Group.

#### *Expected return on pension assets*

Under IFRS, interest earned on pension fund assets is recognized in interest and similar income and the release of discounts on pension fund liabilities is recognized 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 increased by 20.1% in the year ended April 4, 2012 to £3,730 million from £3,107 million in the year ended April 4, 2011.

#### *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 increased to £2,826 million in the year ended April 4, 2012 from £2,511 million in the year ended April 4, 2011.

This reflects an increase in the average interest rate that we paid to depositors to 2.253% for the year ended April 4, 2012 compared with 2.05% in the year ended April 4, 2011 and an increase of 2.6% in the average balance of UK retail member deposits held to £125,456 million in the year ended April 4, 2012 from £122,259 million in the year ended April 4, 2011.

The low rate environment that has supported mortgage holders continues to pose challenges for savers, but we have maintained our policy of offering excellent savings products to new and existing members. Our success is evident in our ability to attract new money into the Group: net receipts in the year ended April 4, 2012 of £1.0 billion represent an increase of 67% as compared to the year ended April 4, 2011, while total balance growth of £3.1 billion is an increase of 2.5% in the year. This success means that we have retained our position as the second largest savings provider in the UK market.

We believe that we have made excellent progress in our strategy of diversifying our business through the expansion of our personal banking products. Over the year ended April 4, 2012 we have opened 359,000 full facility current accounts (year ended April 4, 2011: 353,000). A total of 78,000 customers have taken advantage of our Account Transfer Promise by switching their main accounts to Nationwide, an increase of 90% on 2011. Our total current account base is just under five million at April 4, 2012, taking our market share of main standard accounts to approximately 7.0% (April 4, 2011: 6.2%), based on Nationwide estimates.

#### *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 year ended April 4, 2012, interest on subordinated liabilities remained broadly consistent, decreasing slightly to £108 million from £110 million in the year ended April 4, 2011. This decrease is a result of changes in the mix of subordinated debt between the two periods. The 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 includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended April 4, 2012, other interest expense on deposits and other borrowings decreased by 2.3% to £252 million from £258 million in the year ended April 4, 2011. This small reduction is due to decreases in market rates in the year ended April 4, 2012, compared with the year ended April 4, 2011.

#### *Debt securities in issue*

Debt securities in issue includes interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the year ended April 4, 2012, interest expense on debt securities in issue increased by 19.5% to £1,093 million from £915 million in the year ended April 4, 2011. This increase reflects a 5.92% increase in the average monthly balance of debt securities in issue to £37,955 million in the year ended April 4, 2012, compared with £35,834 million in the year ended April 4, 2011. In addition, the average interest rate paid before adjusting for income/expense on financial instruments hedging liabilities increased to 2.88% for the year ended April 4, 2012, compared with 2.55% for the year ended April 4, 2011.

#### *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 year ended April 4, 2012, net income on financial instruments used to hedge our fixed rate liabilities was £823 million, compared with a net income of £952 million in the year ended April 4, 2011.

#### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the years ended April 4, 2012 and 2011, respectively:

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
	<i>(£ millions)</i>	
<b>Fee and commission income:</b>		
Mortgage related fees .....	37	36
Banking and savings fees.....	235	218
General insurance fees.....	140	142
Other insurance fees	32	32

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
	<i>(£ millions)</i>	
Other fees and commissions .....	71	64
<b>Total fee and commission income .....</b>	<b>515</b>	<b>492</b>
<b>Fee and commission expense:</b>		
Banking and savings fees.....	88	86
Other fees and commissions .....	8	6
<b>Total fee and commission expense.....</b>	<b>96</b>	<b>92</b>
<b>Net fee and commission income .....</b>	<b>419</b>	<b>400</b>

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 year ended April 4, 2012, net fees and commissions increased by 4.8% to £419 million compared with £400 million in the year ended April 4, 2011. This increase has been driven by strong income growth from current accounts and protection and investment products in the period, reflecting our strategic focus to grow the range and scale of our banking products and to diversify our income stream.

#### *Other operating income*

In the year ended April 4, 2012, other operating income increased to £91 million, compared with £7 million in the year ended April 4, 2011. The increase was due to a gain on the acquisition of a portfolio of UK-based prime residential mortgages from the Bank of Ireland of £96 million in December 2011.

#### *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 the 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 derivatives and hedge accounting were £35 million in the year ended April 4, 2012, compared to £120 million in the year ended April 4, 2011.

#### *Operating expenses and similar charges*

Operating expenses and similar charges increased by 12.9% in the year ended April 4, 2012 to £1,975 million from £1,750 million in the year ended April 4, 2011. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2012 and 2011, respectively:

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
	<i>(£ millions)</i>	

Administrative expenses .....	1,205	1,123
Depreciation and amortization .....	180	150
Impairment losses on loans and advances to customers.....	390	359
Provisions for liabilities and charges .....	162	52
Impairment losses on investment securities .....	38	66
	<b>1,975</b>	<b>1,750</b>

*Administrative expenses*

Administrative expenses increased by 7.3% in the year ended April 4, 2012 to £1,205 million from £1,123 million in the year ended April 4, 2011. Included within the total of administrative expenses is a £16 million charge for the bank levy. The bank levy was enacted on July 19, 2011 through the Finance Act 2011 with effect from January 1, 2011, and bank levy costs are being reported for the first time in the year ended April 4, 2012. The £16 million charge includes a charge of £3 million for the three months to April 4, 2011. This was not applied in the year ended April 4, 2011 as the Finance Act 2011 had not been enacted. See “*Description of Business—Bank levy*” for further information concerning the bank levy.

We are now in the final year of our three year cost optimization program and remain on track to deliver gross cost savings in excess of £200 million over the life of the project, with a number of new initiatives being identified. The program has delivered cost reduction through business restructuring, revision of pension terms and increased efficiency. These reductions have enabled the business to absorb a significant proportion of the cost increases relating to growth in our sales and service volumes.

The underlying cost income ratio for year ended April 4, 2012 was 61.0%, compared to 63.9% for the year ended April 4, 2011. We remain committed to a medium term target for an underlying cost income ratio of less than 50% in a normalized interest rate environment.

The following table sets forth the components of administrative expenses for the years ended April 4, 2012 and 2011, respectively:

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
(£ millions)		
Employee costs:		
Salaries and social security costs .....	522	501
Pension costs .....	62	82
Other administrative costs .....	621	540
<b>Total .....</b>	<b>1,205</b>	<b>1,123</b>

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

The Group operates both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Fund. This is a contributory defined benefit arrangement, with both final salary and career average revalued earnings (“CARE”) sections. The Fund was closed to new entrants in 2007, and since then new employees have been able to join a defined contribution arrangement. The final salary section of the Fund was closed to future service on March 31, 2011. Service already built up in the final salary section will continue to be linked to final salary, while future benefits now accrue within the CARE section.

In the year ended April 4, 2012, salaries and social security costs increased by 4.2% to £522 million from £501 million in the year ended April 4, 2011. The increase is a result of typical annual salary increases and merit-based salary increases to some employees.

Within employee costs, the pension charge decreased by 24.4% to £62 million for the year ended April 4, 2012 from £82 million in the year ended April 4, 2011. The decrease in pension costs is due primarily to a revised benefit structure that was implemented with effect from April 1, 2011, which has reduced the Group's service cost. In addition, following the closure of the defined benefit arrangements to new employees in 2007, there is a continued shift in membership from defined benefit to less expensive defined contribution pension arrangements.

The Group's net retirement benefit liability was £517 million as at April 4, 2012 (April 4, 2011: £300 million). The increase in the net liability at April 4, 2012 is due to an actuarial loss of £494 million for the year ended April 4, 2012 that was primarily caused by a reduction in the discount rate used which has placed a higher value on the liabilities. Under IAS 19, the discount rate used to value Fund liabilities is based on the yield of AA rated corporate bonds, which have decreased significantly to 4.8% as at April 4, 2012, compared to 5.6% as at April 4, 2011. The impact of the actuarial loss was partly offset by additional contributions of £241 million paid in the year ended April 4, 2012 (year ended April 4, 2011: £99 million).

Other administrative costs increased by 15% to £621 million for the year ended April 4, 2012 from £540 million for the year ended April 4, 2011. The increase in other administrative expenses is as a result of the newly introduced bank levy charge of £16 million, the continued investment in key restructuring projects, and external factors such as VAT, national insurance and regulatory costs.

#### *Depreciation and amortization*

For the year ended April 4, 2012, depreciation and amortization expenses increased by £30 million to £180 million compared to £150 million for the year ended April 4, 2011. This is primarily driven by the continued investment in key restructuring projects.

#### *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 year ended April 4, 2012 increased by 8.6% to £390 million from £359 million for the year ended April 4, 2011.

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2012 and 2011, respectively:

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
	<i>(£ millions)</i>	
Residential mortgages.....	70	101
Commercial lending.....	247	175
Unsecured lending .....	69	83
Other lending .....	4	-
<b>Total.....</b>	<b>390</b>	<b>359</b>

The charge for impairment losses on residential mortgages of £70 million for the year ended April 4, 2012 is 30.7% lower than the £101 million charge for the year ended April 4, 2011.

Retail impairments (residential mortgages and unsecured lending combined) for the year ended April 4, 2012 have fallen by 24% to £139 million compared to £184 million for the year ended April 4, 2011. This reduction reflects strong performance across all of the retail portfolios resulting from a combination of stable house prices, a low interest rate environment and relatively robust employment trends. These factors have contributed to stable or improving arrears trends on our residential portfolios and levels of delinquency in consumer banking which have improved year on year and remain ahead of industry norms. The decline of only 0.9% in the Nationwide house price index during the year ended April 4, 2012, together with consistently prudent LTV lending policies over many years, has restricted negative equity within the residential portfolios and ensured that loss severity for those cases that are in arrears is not increasing.

Commercial loan impairments were £247 million for the year ended April 4, 2012, compared to £175 million for the year ended April 4, 2011, representing an increase of 41%. This has been driven by a return to recessionary conditions in the UK and widespread eurozone concerns, both undermining investor confidence and appetite for the sector. Consequently, after some recovery during the year ended April 4, 2011, the market is now experiencing falls in CRE valuations with an expectation that, while not severe, this trend will persist at least throughout 2012. Secondary office and retail sites and certain regional centers are particularly affected and an overall mood of uncertainty is affecting valuations and restricting even further the availability of both equity and debt finance to support restructurings.

The increased impairment in the year ended April 4, 2012 is largely attributable to new and additional provisions on existing watch list cases where valuations have been eroded or the commitment of equity providers to further investment has been withdrawn. In addition we have reflected a more negative outlook for commercial property over the next 12 months with an increase of approximately £23 million in our collective provision which accounts for approximately 32% of the year on year increase in the impairment charge.

The number of Nationwide originated commercial property cases more than three months in arrears decreased from 235 cases at April 4, 2011 to 210 cases at April 4, 2012. The total value of arrears on these cases is £59 million (April 4, 2011: £48 million) reflecting the recessionary market conditions and more restricted ability to resolve certain longer term cases. The overall level of provision for commercial lending as a percentage of Nationwide originated assets is 2.65% (April 4, 2011: 2.18%), and the provision coverage ratio against balances more than three months in arrears is 67% (April 4, 2011: 69%).

In relation to other lending, a net increase in the provision held for restructured loans in the secured portfolio of £3.3 million, in addition to an increase in the collective provision of £0.4 million, resulted in a charge of £3.7 million in the year ended April 4, 2012. Overall, with a £0.5 million charge for the student loan portfolio, there is a total impairment charge of £4.2 million reported in other lending for the year ended April 4, 2012. This lending is included within the Head Office functions business segment, as the portfolios were acquired by our Treasury Division.

*Provisions for liabilities and charges*

	<u>For the year ended April 4,</u>	
	<u>2012</u>	<u>2011</u>
	<i>(£ millions)</i>	
Payment protection insurance (PPI) .....	103	16
Other provisions.....	-	(14)
FSCS.....	59	50
<b>Total .....</b>	<b>162</b>	<b>52</b>

Provisions for liabilities and charges were £162 million for the year ended April 4, 2012, compared to £52 million for the year ended April 4, 2011. Provisions for the year ended April 4, 2012 relate to PPI (£103 million) and FSCS (£59 million).

The increase in PPI provision follows significant developments since the initial PPI provision was estimated. The FSA released its policy statement PS10/12: The assessment and redress of PPI complaints on August 10, 2010, and the Group has been monitoring the subsequent level of complaints. In line with the wider industry, we have experienced a significant increase in complaints during the second half of the year ended April 4, 2012, driven by media focus and claims management company activity. This has resulted in a reassessment of the volume of complaints that we ultimately expect to receive, including significant levels of complaints where a customer has not been sold a product by us.

The overall PPI provision is calculated based upon management's estimate of complaint volumes, the proportion of cases relating to no product sold, referral rates to the FOS, uphold rates internally and with the FOS, response rates from customer contact activity relating to our previous sales of PPI, average redress payments and complaint handling costs. In addition to higher expected volumes, the expected cost of processing the complaints has increased as a result of the decision by FOS to increase its cost of reviewing escalated PPI cases from £550 to £900. We incur this cost on every referred complaint, regardless of the outcome. Management's estimate of the level of redress that we expect to pay has also increased, reflecting the FSA and FOS stances on PPI.

The release of other provisions in the year ended April 4, 2011 related to a provision for historic customer bonus schemes which was no longer required.

#### *Impairment losses on investment securities*

Impairment losses on investment securities of £38 million for the year ended April 4, 2012 compared to £66 million for the year ended April 4, 2011 relates to treasury assets and equity shares impairment charges and includes £17 million for a CDO of U.S. residential mortgage backed securities (“RMBS”), £9 million on a UK commercial mortgage backed security (“CMBS”), £5 million on Portuguese bank subordinated debt and £7 million in respect of our private equity portfolio. The charge of £66 million in the year ended April 4, 2011 was driven by a £22 million impairment of a number of U.S. RMBS exposures, £15 million on a CMBS, £18 million from restructuring of subordinated debt from Irish banks and £11 million on notes of a restructured structured investment vehicle.

#### *Taxes*

Tax on our profit on ordinary activities for the year ended April 4, 2012 amounted to £24 million based on our reported profit on ordinary activities before tax of £203 million, reflecting an effective tax rate of 11.8% as compared with the prevailing UK corporation tax rate of 26.0%.

For the year ended April 4, 2011, tax on our profit on ordinary activities amounted to £69 million based on our reported profit on ordinary activities of £317 million, reflecting an effective tax rate of 21.8% as compared with the prevailing UK corporation tax rate of 28.0%.

The lower rate is due principally to adjustments with respect to prior periods and the effect of the change in the UK corporation tax rate from 26% to 24%, partially offset by the charge for the bank levy which is not an allowable deduction for corporation tax. The main items included within the adjustments with respect to prior periods are the release of £21 million of provisions held in respect of previously uncertain liabilities on historic transactions which are no longer required.

#### *Balance Sheet Review*

##### *Loans and advances to customers*

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 83.8% of our total loans and advances to customers at April 4, 2012. The composition of lending has remained broadly consistent with that reported at April 4, 2011:

	<b>As at April 4,</b>			
	<b>2012</b>		<b>2011</b>	
	<i>(£ billions, except percentages)</i>			
Prime residential mortgages.....	105.6	68.7%	104.3	69.7%
Specialist residential mortgages.....	23.2	15.1%	20.3	13.6%
<b>Total residential mortgages.....</b>	<b>128.8</b>	<b>83.8%</b>	<b>124.6</b>	<b>83.3%</b>
Commercial lending.....	21.5	14.0%	22.0	14.7%
Other lending	0.5	0.3%	0.5	0.3%
Consumer banking .....	3.0	1.9%	2.5	1.7%
<b>Gross balances.....</b>	<b>153.8</b>	<b>100.0%</b>	<b>149.6</b>	<b>100.0%</b>
Impairment provisions .....	(0.8)		(0.8)	
Fair value adjustments for micro hedged risk.....	1.2		0.6	
<b>Total .....</b>	<b><u>154.2</u></b>		<b><u>149.4</u></b>	

##### **Residential mortgage portfolio**

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet includes prime mortgages totaling £3.4 billion as at April 4, 2012

that were brought onto our balance sheet in prior years following our acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios and £1.2 billion in relation to the acquisition of the Bank of Ireland mortgage book in December 2011, as well as a small element of prime residential lending originated through our specialist lending brand, TMW.

Specialist residential mortgages are made up of £20.5 billion of advances made through our specialist lending brands, TMW and UCB Home Loans Corporation Limited (“UCB”), and £2.7 billion as at April 4, 2012 arising from the acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios in prior years. Loans were advanced primarily in the buy-to-let and self-certification markets. As at April 4, 2012, buy-to-let mortgages made up 77% of total specialist lending, 16% related to self-certification mortgages, 5% related to near prime and just 2%, amounting to £0.4 billion, related to sub prime. New specialist lending is restricted to buy-to-let with the Group having withdrawn from the self-certified lending market in 2009.

We have continued to focus on affordability and LTV ratios in underwriting loans during the year. The average LTV of residential mortgages completed has reduced to 63% at April 4, 2012 compared to 66% at April 4, 2011 as we have increased our proportion of lending to the remortgage market. The average indexed LTV of residential mortgages at April 4, 2012 has remained broadly stable at 50%, compared to 49% at April 4, 2011.

We increased our gross lending by 44% to £18.4 billion in the year to April 4, 2012, compared to £12.8 billion for the year ended April 4, 2011. Our net mortgage lending was £2.7 billion (April 4, 2011: negative £3.5 billion) and, in addition, we acquired £1.2 billion of high quality prime residential loans during the year ended April 4, 2012.

We have been particularly supportive of first-time buyers, providing mortgages that helped over 24,000 people to buy their first home, an increase of 9% year on year (April 4, 2011: 22,200). This was underpinned by a number of product initiatives, and we were one of the founding lenders participating in the launch of the recent NewBuy scheme.

Nationwide is a leading provider of specialist mortgages in the UK through our subsidiary, TMW, supporting an expanding rental sector. We have increased our lending in high quality buy-to-let loans to £4.4 billion (April 4, 2011: £3.0 billion), taking our specialist lending book to over £23 billion (April 4, 2011: £20 billion).

We have continued to focus on affordability and LTV ratios in underwriting loans during the year. The average LTV of residential mortgages completed has decreased to 63% in the year ended April 4, 2012 (April 4, 2011: 66%) as we have increased our proportion of lending to the remortgage market. The average indexed LTV of residential mortgages at April 4, 2012 has remained broadly stable at 50% (April 4, 2011: 49%).

	<b>As at April 4,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(percentages)</i>	
<b>Total portfolio of residential mortgages:</b>		
<50%.....	50	52
50% - 60% .....	10	9
60% - 70% .....	11	11
70% - 80% .....	13	11
80% - 90% .....	10	10
90% - 100% .....	4	5
> 100%.....	2	2
	<b>100</b>	<b>100</b>
Average loan to value of stock (indexed) .....	50	49
Average loan to value of new business.....	63	66
<b>New business profile:</b>		

	<b>As at April 4,</b>	
	<b>2012</b>	<b>2011</b>
<i>(percentages)</i>		
First-time buyers.....	17	23
Home movers.....	25	34
Remortgagers.....	27	12
Buy to let .....	31	31
	<b>100</b>	<b>100</b>

The analysis of the new business profile and average loan to value of new business above excludes further advances.

The table below shows that arrears on the Group's prime lending remained stable at 0.54%, whilst there has been a reduction in specialist arrears as a result of reducing arrears volumes and strong book growth in TMW. Our arrears performance remains very favorable relative to the CML industry average, and our specialist lending arrears are now below the overall industry measure that is inclusive of prime lending.

	<b>As at April 4,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cases three months or more in arrears as % of total book of residential mortgages</b>		
<i>(percentages)</i>		
<b>Group residential mortgages:</b>		
Prime.....	0.54	0.54
Specialist.....	1.87	2.47
<b>Total Group residential mortgages .....</b>	<b>0.73</b>	<b>0.77</b>
<b>CML industry average .....</b>	<b>1.96</b>	<b>2.09</b>

Total residential balance sheet provisions at April 4, 2012 are £202 million, compared with £201 million at April 4, 2011, giving a coverage ratio against total originated balances of 0.16% (April 4, 2011: 0.17%) and against originated balances more than three months in arrears of 18.6% (April 4, 2011: 17.6%).

Residential mortgage assets acquired with the Derbyshire, Cheshire and Dunfermline brands were fair valued on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £71 million of losses have been written off and, as reported at April 4, 2012, £33 million of surplus fair value credit risk adjustment on mortgage books has been released to margin. It is believed that the remaining £95 million is sufficient to cover all expected future losses on these acquired residential portfolios.

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 monthly 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 so 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 or if they are able to overpay such that six months' full payments are made in a four month period, and only if they request it, we may 'capitalize' 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 properties in possession at April 4, 2012 was 1,129 properties, representing 0.08% of our book, which compares well with the industry measure of 0.12%. The table below shows possessions as a percentage of book.

	<b>As at April 4,</b>	
	<b>2012</b>	<b>2011</b>
<b>Possessions as % of total book of residential mortgages (number of properties)</b>		<i>(percentages)</i>
Prime.....	0.02	0.03
Specialist.....	0.40	0.38
<b>Total Group residential mortgages .....</b>	<b>0.08</b>	<b>0.07</b>

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 illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2012, the properties taken into possession has decreased to 1,885, representing 5.0% of properties taken in by the industry as a whole, against our par share of all cases of 12.4% (2011: 11.4%).

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

	<b>As at April 4, 2012</b>				<b>As at April 4, 2011</b>					
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>		
	<i>(£ billions, except percentages)</i>									
<b>Not impaired:</b>										
Neither past due nor impaired.....	103.1	21.3	2.9	<b>127.3</b>	97%	101.8	18.4	2.4	<b>122.3</b>	96%
Past due up to 3 months but not impaired..	1.9	1.2	0.0	<b>3.1</b>	2%	1.9	1.4	0.0	<b>3.3</b>	3%
Impaired.....	0.6	0.7	0.1	<b>1.4</b>	1%	0.6	0.8	0.1	<b>1.5</b>	1%
<b>Total .....</b>	<b>105.6</b>	<b>23.2</b>	<b>3.0</b>	<b>131.8</b>	<b>100%</b>	<b>104.3</b>	<b>20.3</b>	<b>2.5</b>	<b>127.1</b>	<b>100%</b>

The status “past due up to 3 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 categorized 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 3 months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. 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 April 4, 2012				As at April 4, 2011					
	Prime lending	Specialist lending	Consumer banking	Total	Prime lending	Specialist lending	Consumer banking	Total		
	(£ millions, except percentages)									
<b>Impaired status:</b>										
Past due 3 to 6 months .....	268	279	37	<b>584</b>	41%	271	290	50	<b>611</b>	41%
Past due 6 to 12 months .....	184	200	23	<b>407</b>	29%	187	228	44	<b>459</b>	30%
Past due over 12 months .....	85	138	-	<b>223</b>	16%	81	185	-	<b>266</b>	18%
Possessions .....	30	167	-	<b>197</b>	14%	33	130	-	<b>163</b>	11%
<b>Total</b> .....	<b>567</b>	<b>784</b>	<b>60</b>	<b>1,411</b>	<b>100%</b>	<b>572</b>	<b>833</b>	<b>94</b>	<b>1,499</b>	<b>100%</b>

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Possession is only enforced once all other recovery options have been exhausted. This is reflected in the Group's possession rate which is approximately half of the market average.

When a customer emerges from financial difficulty, we offer the ability to capitalize arrears, resulting in the account being repaired. £118 million of loans that would otherwise be past due or impaired have had their arrears capitalized in the year ended April 4, 2012 (year ended April 4, 2011: £127 million). Customers are only permitted to capitalize arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period or by over paying such that six months full payments are made over a four month period. During the year ended April 4, 2012, 546 accounts (April 4, 2011: 785 accounts) had an arrears capitalization. Once capitalized the loans are categorized as not impaired as long as contractual repayments are maintained. Capitalized accounts have a higher than average propensity to roll into arrears and this is recognized within the Group's provisioning methodology.

Customers who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible while ensuring the monthly payment remains manageable to the customer. During the year ended April 4, 2012, 2,417 accounts (April 4, 2011: 1,739 accounts) had an extension at term expiry. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The options available include payment holidays, interest only conversions and term extensions.

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at April 4, 2012, 1,848 accounts (April 4, 2011: 2,313 accounts) were subject to a payment holiday. The performance of customers who have taken a payment holiday is reflected within our provisioning methodology.

Interest only conversions allow performing customers meeting required criteria to apply for an interest only conversion, normally reducing their monthly commitment. Our policy has progressively tightened during the year ended April 4, 2012, with LTV initially capped at 75% in April 2011, following which repayment vehicle options were restricted to sale of residence only (minimum £150,000 equity and maximum LTV 66%) in July 2011. This facility was completely withdrawn in March 2012. During the year ended April 4, 2012, 7,083 accounts (April 4, 2011: 8,442 accounts) converted to interest only. The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to our provisioning methodology for these loans.

We allow performing customers to apply to extend the term of their mortgage. During the year ended April 4, 2012, 15,032 accounts (April 4, 2011: 13,964 accounts) extended their term. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to our provisioning methodology for these loans.

The only forbearance option which we offer customers in financial distress is an interest only concession. Interest only concessions are offered to customers on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase, remaining as at the beginning of the concession. As at April 4, 2012, 2,474 accounts (April 4, 2011: 2,802 accounts) representing 0.2% (April 4, 2011: 0.3%) of total prime mortgage balances were on this concession. The Group's provisioning methodology was adjusted during the year ended April 4, 2012 to reflect latest performance on these accounts.

The provision methodology recognizes previous arrears as a driver of future default; therefore, capitalized accounts typically attract a higher provision than the rest of the not impaired portfolio for the 12 months following capitalization. The underlying performance of interest only concessions and payment holidays are also reflected in the provisioning methodology. For within term extensions, subsequent arrears performance is significantly better than for other concessions and therefore no specific provision is applied. Similarly, a provisions adjustment is not applied for end of term extensions which tend to be of limited exposure.

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

	As at April 4, 2012				As at April 4, 2011			
	Prime lending		Specialist lending		Prime lending		Specialist lending	
	(£ million, except percentages)							
Past due but not impaired.....	1,867	100%	1,172	99%	1,928	100%	1,334	99%
Impaired.....	532	99%	595	96%	535	99%	676	96%
Possessions .....	29	96%	138	83%	31	94%	116	89%
<b>Total .....</b>	<b>2,428</b>	<b>100%</b>	<b>1,905</b>	<b>97%</b>	<b>2,494</b>	<b>100%</b>	<b>2,126</b>	<b>97%</b>

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 April 4, 2012		As at April 4, 2011	
	Prime lending		Specialist lending	Prime lending
	(£ million)			
Past due but not impaired.....	6	17	6	14
Impaired.....	5	22	4	27
Possessions .....	1	29	2	14
<b>Total .....</b>	<b>12</b>	<b>68</b>	<b>12</b>	<b>55</b>

#### Commercial loan portfolio

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under PFIs. Our commercial lending portfolio of £21.5 billion (April 4, 2011: £22.0 billion) consists of £20.4 billion (April 4, 2011: £20.8 billion) of self originated lending and £1.1 billion (April 4, 2011: £1.2 billion) of assets acquired from the Derbyshire, Cheshire and Dunfermline building societies. Our originated portfolio comprises

£11.2 billion secured on commercial property (Property Finance), £7.7 billion advanced to Registered Social Landlords and £1.5 billion advanced under Project Finance (principally via PFIs). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

On self originated lending we have only modest exposure to development finance, with total balances of £142 million (April 4, 2011: £172 million). The non-UK element of our commercial property portfolio of £1.0 billion as at April 4, 2012 (April 4, 2011: £1.1 billion) does not contain any exposure to Greece, Italy, Portugal or Spain and only a single exposure to Ireland.

The number of Nationwide originated commercial property cases more than three months in arrears decreased from 235 cases at April 4, 2011 to 210 cases at April 4, 2012. This equates to 2.33% of commercial originated accounts (April 4, 2011: 2.41%). Total arrears balances on these cases as at April 4, 2012 were £59 million (April 4, 2011: £48 million) reflecting the recessionary market conditions. Robust arrears management continues to focus on close and proactive management of arrears and loan maturities and there are currently no arrears of three months or more on the Registered Social Landlord or PFI portfolios.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for CRE lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cash flow performance or capital value is unlikely. Our strategy remains one of prudent loss mitigation over the medium term in a market which is both cyclical and currently experiencing extremely low investor demand. We make refinancing available for existing exposures where we are satisfied that we continue to have a constructive relationship with the borrower which recognizes our interests, and can achieve a level of expected return which reflects current funding costs or where there is a realistic likelihood that recovery over the medium term in the hands of the borrower represents a better prospect than short-term disposal. To the extent this strategy leads to forbearance on loans which are renewed at "off-market" interest rates or where the most likely outcome remains an ultimate financial loss, then impairment provisions are recognized in accordance with relevant accounting requirements.

Commercial mortgage assets totaling £1 billion as at April 4, 2012 acquired through mergers with Cheshire and Derbyshire have been fair valued in the same way as described for residential assets above, including a credit risk adjustment of £179 million for expected losses over the remaining life of the loans. To date, £19 million of additional provisions have been raised on individually assessed cases that have an impairment provision requirement in excess of the original fair value adjustment. In most cases, however, the credit risk adjustment exceeds the current impairment provision requirement. The acquisition of the Dunfermline's social housing portfolio was similarly fair valued and has seen no credit losses to date.

#### Other operations loan portfolio

Other lending as at April 4, 2012 includes £262 million (April 4, 2011: £241 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio, and unsecured lending of £231 million (April 4, 2011: £251 million) relating to a student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the Head Office functions business segment.

The tables below provide further information on commercial and other lending operations by payments due status:

	As at April 4, 2012				As at April 4, 2011			
	Commercial		Other operations		Commercial		Other operations	
	(£ billion, except percentages)							
Neither past due nor impaired.....	19.1	89%	0.4	91%	20.2	92%	481	98%
Past due up to 3 months but not impaired.....	0.7	3%	0.0	1%	0.4	2%	4	1%
Impaired.....	1.8	8%	0.1	8%	1.4	6%	7	1%
<b>Total</b> .....	<b>21.5</b>	<b>100%</b>	<b>0.5</b>	<b>100%</b>	<b>22.0</b>	<b>100%</b>	<b>492</b>	<b>100%</b>

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. The analysis includes commercial mortgage assets totaling £1.1 billion as at April 4, 2012 (April 4, 2011: £1.2 billion) acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies. These loans were fair valued on a basis that made allowances for anticipated losses over the life of the loans. Impaired loans totaling £138 million as at April 4, 2012 (April 4, 2011: £141 million) in the above analysis have been fair valued in this way and are therefore unlikely to contribute any significant further losses to the Group.

The £41 million as at April 4, 2012 (April 4, 2011: £52 million) of impaired balances in other operations includes £30 million (April 4, 2011: £41 million) relating to a European commercial loan portfolio and £11 million (April 4, 2011: £11 million) relating to the unsecured student loan portfolio.

Impaired commercial and other lending operations assets are further analyzed as follows:

	As at April 4, 2012				As at April 4, 2011						
	Commercial		Other operations		Commercial		Other operations				
	(£ million, except percentages)				(£ million, except percentages)						
<b>Impaired status:</b>											
Past due 0 to 3 months .....	836	47%	-	-	695	49%	-	-			
Past due 3 to 6 months .....	139	8%	1	2%	111	8%	1	14%			
Past due 6 to 12 months .....	295	17%	2	5%	235	16%	3	43%			
Past due over 12 months .....	487	28%	38	93%	378	27%	3	43%			
Possessions .....	1	-	-	-	1	-	-	-			
<b>Total .....</b>	<b>1,758</b>	<b>100%</b>	<b>41</b>	<b>100%</b>	<b>1,420</b>	<b>100%</b>	<b>7</b>	<b>100%</b>			

Commercial assets totaling £1,450 million as at April 4, 2012 (April 4, 2011: £1,152 million) not subject to fair value adjustments have individual provisions against them. Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Assets over which possession has been taken are realized in an orderly manner via open market or auction sales to derive the maximum benefit for all interested parties, and any surplus proceeds are distributed in accordance with the relevant insolvency regulations. The Group does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

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

	As at April 4,			
	2012		2011	
	(£ million, except percentages)			
Past due but not impaired.....	631	94%	363	93%
Impaired.....	1,157	66%	1,050	74%
<b>Total .....</b>	<b>1,788</b>	<b>74%</b>	<b>1,413</b>	<b>78%</b>

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 April 4,

	<b>2012</b>	<b>2011</b>
	(£ million)	
Past due but not impaired.....	38	28
Impaired.....	600	369
Possessions .....	-	1
<b>Total .....</b>	<b>638</b>	<b>398</b>

#### Consumer banking

In consumer banking, the balance of accounts more than 30 days in arrears has shown an improvement across all products. The following table presents the percentage of FlexAccounts, personal loans and credit card accounts more than 30 days in arrears:

	As at April 4,	
	<b>2012</b>	<b>2011</b>
	%	
FlexAccount.....	9.18	10.46
Personal loans .....	3.14	5.45
Credit Cards.....	2.72	3.36

Unsecured customers have limited forbearance options. Credit card customers experiencing financial distress may agree to a payment plan, which is typically less than the minimum payment. Additionally, credit card and personal loan customers who have maintained the required payment performance over a sustained period may receive extensions on payments. The volume of payment plans and extensions is low and therefore no specific treatment is made within our provisioning methodology.

#### Country exposure

The following section summarizes our direct exposure to institutions, corporates and other issued securities domiciled in the peripheral eurozone countries. The exposures are shown at their balance sheet carrying values.

	As at April 4, 2012					
	Greece	Ireland	Italy	Portugal	Spain	Total
	£m	£m	£m	£m	£m	£m
Mortgage backed securities .....	-	134	105	39	348	626
Covered bonds .....	-	71	-	17	334	422
Senior debt.....	-	31	36	-	96	163
Other assets.....	1	-	6	-	4	11
Other corporate .....	-	8	3	-	-	11
<b>Total .....</b>	<b>1</b>	<b>244</b>	<b>150</b>	<b>56</b>	<b>782</b>	<b>1,233</b>

	As at April 4, 2011					
	Greece	Ireland	Italy	Portugal	Spain	Total
	£m	£m	£m	£m	£m	£m
Mortgage backed securities .....	-	155	149	64	442	810

Covered bonds .....	-	63	-	19	373	455
Senior debt.....	-	98	117	63	485	763
Subordinated bonds .....	-	-	11	17	-	28
Other assets.....	3	-	12	-	6	21
Other corporate .....	-	8	4	-	2	14
<b>Total.....</b>	<b>3</b>	<b>324</b>	<b>293</b>	<b>163</b>	<b>1,308</b>	<b>2,091</b>

Since April 4, 2012, the £163 million senior debt exposures above have further decreased by £82 million of Spanish, £31 million of Irish and £12 million of Italian senior debt which have been repaid.

Movements in our exposure to peripheral eurozone countries since April 4, 2011 relate to disposals, maturities and fair value movements and there has been no new investment in the year.

We have further indirect exposure to peripheral eurozone countries as a result of a €100 million loan to a Luxembourg SPV, which has first loss exposure to a €2.1 billion portfolio of senior ranking European ABS assets. The sterling equivalent as at April 4, 2012 is £82.7 million (April 4, 2011: £88.7 million). The geographical breakdown of this portfolio is as follows: UK 51%, Germany 16%, Spain 14%, Italy 8%, Netherlands 6%, Greece 3% and Portugal 2% (April 4, 2011: UK 50%, Germany 15%, Spain 15%, Italy 9%, Netherlands 6%, Greece 3% and Portugal 2%).

In addition, our exposure in respect of other non-UK countries is shown below at their balance sheet carrying value.

	As at April 4, 2012						
	Belgium	France	Germany	Netherlands	USA	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Government bonds.....	-	-	169	1,049	1,104	75	2,397
Mortgage-backed securities .....	41	34	114	239	110	147	685
Covered bonds .....	-	-	84	45	26	82	237
Senior debt.....	3	118	100	125	205	332	883
Loans and advances to banks.....	-	127	41	-	490	766	1,424
Other assets.....	-	-	35	-	1,335	1,441	2,811
Other corporate .....	-	46	984	25	28	21	1,104
<b>Total.....</b>	<b>44</b>	<b>325</b>	<b>1,527</b>	<b>1,483</b>	<b>3,298</b>	<b>2,864</b>	<b>9,541</b>

	As at April 4, 2011						
	Belgium	France	Germany	Netherlands	USA	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Government bonds.....	-	-	568	686	867	47	2,168
Mortgage-backed securities .....	42	44	149	258	117	144	754
Covered bonds .....	-	-	128	60	27	92	307
Senior debt.....	74	202	179	246	393	615	1,709
Loans and advances to	-	547	93	-	893	866	2,399

banks.....							
Other assets.....	-	9	11	76	1,495	1,767	3,358
Other corporate .....	2	58	1,053	47	26	27	1,213
<b>Total .....</b>	<b>118</b>	<b>860</b>	<b>2,181</b>	<b>1,373</b>	<b>3,818</b>	<b>3,558</b>	<b>11,908</b>

Note:

(1) The “Other” column represents exposures to the following countries at April 4, 2012: Australia £290 million (April 4, 2011: £423 million), Austria £nil (April 4, 2011: £7 million), Canada £532 million (April 4, 2011: £383 million), Denmark £24 million (April 4, 2011: £44 million), Finland £126 million (April 4, 2011: £123 million), Iceland £6 million (April 4, 2011: £6 million), Luxembourg £7 million (April 4, 2011: £8 million), Norway £36 million (April 4, 2011: £70 million), Sweden £4 million (April 4, 2011: £38 million), Switzerland £410 million (April 4, 2011: £701 million) and supranationals £1,429 million (April 4, 2011: £1,755 million).

## ***Funding and Liquidity***

### *Overview*

The Society has a strong and well diversified funding base, which continues to be predominantly comprised of retail savings. Over the course of the financial year ended April 4, 2012, we have continued to actively manage our balance sheet in response to conditions in both the retail and wholesale markets.

As a building society, we have always maintained a high level of unencumbered liquid assets relative to our banking peers, and our core liquidity remains stable at 13.7% (April 4, 2011: 13.8%). The size of our liquidity buffer, in combination with the improving profile of the wholesale funding portfolio, has continued to improve the Group’s overall liquidity position.

### *Liquidity*

Liquidity represents a key area of risk management for financial institutions. In recent years there has been an increased focus on liquidity from the regulatory authorities. Having successfully met the timeframes for compliance with new regulatory requirements, the Group continues to enhance and strengthen its liquidity management systems and approach.

We have a comprehensive Liquidity Risk Management Framework for managing the Group’s liquidity risk. Stress tests applied under this Framework consider a range of possible wholesale and retail factors leading to loss of financing. Since June 2010, we have reported our liquidity position against backstop Individual Liquidity Guidance provided by the regulator. Calibration of the Group’s Liquidity Risk Management Framework anticipated the final FSA rules and is therefore broadly consistent with current PRA standards.

In December 2010, the Basel Committee issued its proposals for liquidity risk management, standards and monitoring. These included a short-term liquidity stress metric, the Liquidity Coverage Ratio (“LCR”), and a longer term liquidity metric, the Net Stable Funding Ratio (“NSFR”). These proposals are subject to ongoing refinement and have not yet been enacted into UK or European law. We monitor compliance against these internal metrics, and as at April 4, 2012 the LCR was estimated at 124% and the NSFR at 118% against proposed regulatory requirements of 100%. Estimations are made using our interpretation of the draft directive, which has yet to be incorporated into the European and UK regulatory framework and therefore remains subject to change.

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 (“repo”) agreements or other similar arrangements, either direct with those central banks to which we have access, or with market counterparties. The stock of liquid assets managed by Nationwide’s 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 PRA in BIPRU 12 and comprises:

- Deposits held at, and securities issued by, the BoE;
- Highly rated debt securities of varying maturities issued by governments or multi-lateral development banks.

In line with other major UK institutions, the Group made use of the BoE SLS facility at the height of the market dislocation in 2008. As at April 4, 2012 we had substantially repaid our SLS drawings.

As at April 4, 2012, the core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 13.7% (April 4, 2011: 13.8%). This calculation is made net of any core liquidity holdings that are subject to repo arrangements and includes assets held under reverse repo arrangements.

#### *Other Eligible Central Bank Assets*

In addition to the core portfolio, as at April 4, 2012, we held a stock of unencumbered securities that are eligible for use in the funding operations of those central banks that we have access to. This figure does not include the value of self issue securities that could also be included in some central bank operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

#### *Other Securities*

Nationwide holds other third-party liquid assets (such as Floating Rate Notes) that are not eligible at either the BoE's or the ECB's operations but may be capable of financing through third-party repo agreements.

#### *Self-Issued RMBS and Covered Bonds*

The Group holds, undrawn, a total of £16.3 billion (2011: £18.3 billion) of AAA-rated bonds issued under our asset-backed funding programs. These self-issued bonds represent eligible collateral for use in repurchase agreements with third parties or in central bank operations.

The table below sets out the fair value—before any “haircut” deduction—of each of the above liquidity types as at April 4, 2012. The table includes off-balance sheet liquidity (including self-issued RMBS and covered bonds) but excludes any encumbered assets:

	<b>As at April 4,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(£ billion)</b>	
Core liquidity .....	24.5	23.5
Other central bank eligible assets .....	2.5	5.6
Other securities .....	4.0	3.2
Self-issued RMBS and covered bonds.....	16.3	18.3
<b>Total .....</b>	<b>47.3</b>	<b>50.6</b>

#### **Wholesale funding**

An analysis of the Group's 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:

	<b>As at April 4,</b>			
	<b>2012</b>		<b>2011</b>	
	<b>(£ billion, except percentages)</b>			
Repo and other secured agreements.....	3.7	7.5%	2.7	5.8%
Deposits, including PEB balances .....	7.8	15.9%	7.2	15.5%
Certificates of deposit .....	4.3	8.7%	4.7	10.2%
Commercial paper.....	3.7	7.5%	6.2	13.3%
Covered bonds .....	13.0	26.5%	12.3	26.5%
Medium-term notes.....	7.1	14.5%	8.4	18.1%

Securitizations.....	7.4	15.1%	3.7	8.0%
Other non-retail.....	2.1	4.3%	1.2	2.6%
<b>Total .....</b>	<b>49.1</b>	<b>100.0%</b>	<b>46.4</b>	<b>100.0%</b>

We have received new investment premiums of £0.8 billion into PEBs during the year, increasing total PEB balances to £2.9 billion as at April 4, 2012 (April 4, 2011: £2.1 billion).

During the year ended April 4, 2012, we remained active in the long-term markets, utilizing all our platforms to issue a total of £7.9 billion sterling equivalent which was significantly in excess of our maturities of £3.5 billion.

The following public transactions issued during the year ended April 4, 2012 demonstrate the strength of institutional support as well as the breadth of funding available to Nationwide:

- €1.5 billion 5 year covered bond issued in October 2011;
- RMBS issuances raising £3.8 billion sterling equivalent in U.S. dollars and sterling via tranches of 3, 5 and 9 years; both the 5-year and 9-year tranches helped to develop this market which has historically concentrated around shorter maturities;
- €1 billion 5 year senior unsecured issuance; our first euro senior unsecured issuance for over two years; and
- £650 million 3 year floating rate covered bond, further developing the sterling covered bond market which had previously been dominated by longer dated, fixed rate issuance.

In addition to the public transactions, a combined total of £1.3 billion private placements were issued to institutional investors during the year in both secured and unsecured formats. These issuances had durations ranging from 12 months to 21 years and had a weighted average life of over 13 years.

During the year, SLS drawings were fully repaid well ahead of both our contractual commitments and our bilateral agreements with the BoE. In addition we repaid £1.5 billion of CGS drawings during the year and have repaid all of our remaining CGS drawings since the year end.

We have reduced the amount of short-term funding we hold to £12 billion (April 4, 2011: £15 billion and April 4, 2010: £16 billion) and we have been able to maintain a consistent presence in short-term markets during the year. The average term at the point of issuance of outstanding short-term balances as at April 4, 2012 was 131 days (April 4, 2011: 156 days).

We have extended the residual maturity profile of our wholesale funding portfolio from 33 months to 37 months and the proportion of funding that is categorized as long-term (>1 year to maturity) has increased to 62.7% (April 4, 2011: 56.3%).

The table below sets out the residual maturity of the wholesale funding book as at April 4, 2012:

	<u>As at April 4,</u>			
	<u>2012</u>		<u>2011</u>	
	<i>(£ billion, except percentages)</i>			
Less than one year .....	18.3	37.3%	20.3	43.3%
One to two years .....	3.9	7.9%	4.9	10.6%
Two to five years .....	17.6	35.8%	13.6	29.5%
More than five years .....	9.3	19.0%	7.6	16.5%
<b>Total .....</b>	<b>49.1</b>	<b>100.0%</b>	<b>46.4</b>	<b>100.0%</b>

Our short- and long-term credit ratings from the major rating agencies as at May 22, 2012 are as follows:

	Long-Term	Short-Term	Subordinated	Date of last rating action <sup>(1)</sup>
S&P.....	A+	A-1	BBB+	December 2011
Moody's.....	A2	P-1	Baa1	October 2011
Fitch.....	A+	F1	A	February 2012
DBRS.....	AA (low)	R-1 (middle)	A (high)	March 2012

Note:

(1) The outlook for S&P, Moody's and DBRS is Stable, outlook for Fitch is Negative.

#### Treasury Assets

Treasury liquid assets include cash, loans and advances to banks and investment securities available for sale. These are held in two portfolios. The classification of liquid assets has been modified to better reflect the management of the portfolios and bring the analysis in line with PRA definitions in BIPRU 12. The portfolio is now categorized between core liquidity and non-core. Previously, the same portfolio of assets had been classified between liquidity and investment assets, which reflected the legacy investment strategies.

Core liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks. The non-core portfolio comprises available-for-sale assets held for investment purposes and clearing amounts. Analysis of each of these portfolios by credit rating and by location of issuer is given below.

Group treasury assets as at April 4, 2012 were £34.3 billion (April 4, 2011: £31.9 billion) and are held in two separate portfolios: the core liquidity portfolio and the non-core portfolio. As at April 4, 2012, the core liquidity portfolio totaled £24.8 billion (April 4, 2011: £18.7 billion) with the non-core liquidity portfolio totaling £9.5 billion (April 4, 2011: £13.2 billion). The £6.1 billion increase in the core liquidity portfolio comprises high quality, predominantly sovereign or government backed assets. The reporting of asset quality within the treasury portfolio has been modified to reflect the management of the portfolios and to bring the analysis in line with PRA definitions as laid out in BIPRU 12.

The following tables show the breakdown of the prudential portfolio as at April 4, 2012 and April 4, 2011 by credit rating and geography:

As at April 4, 2012									
	Credit Rating					Geography			
	AAA (£ billion)	AA	A	Other	UK	USA	Europe	Other	
Cash .....	8.1	100	-	-	-	100	-	-	-
Gilts .....	12.8	100	-	-	-	100	-	-	-
Non-domestic government bonds.....	2.4	54	46	-	-	-	46	54	-
Supranational bonds.....	1.5	100	-	-	-	9	4	86	1
<b>Core liquidity portfolio total .....</b>	<b>24.8</b>	<b>96</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>85</b>	<b>5</b>	<b>10</b>	<b>-</b>
Loans and advances to banks.....	2.9	-	23	77	-	31	17	17	35
RMBS .....	2.1	41	27	23	9	45	4	41	10
CMBS .....	0.5	-	24	58	18	67	-	33	-
Covered bonds .....	0.9	54	23	12	11	28	3	63	6

As at April 4, 2012

	Credit Rating					Geography			
	AAA	AA	A	Other	UK	USA	Europe	Other	
	(£ billion)	(percentages)							
CLOs.....	0.6	6	89	5	-	31	69	-	-
Financial institution bonds.....	1.4	-	9	64	27	20	14	50	16
U.S. student loans .....	0.7	40	28	22	10	-	100	-	-
Other .....	<u>0.4</u>	32	20	18	30	25	61	14	-
<b>Non-core portfolio total.</b>	<b><u>9.5</u></b>	<b>19</b>	<b>27</b>	<b>45</b>	<b>9</b>	<b>32</b>	<b>22</b>	<b>30</b>	<b>16</b>
<b>Total .....</b>	<b><u>34.3</u></b>	<b>74</b>	<b>10</b>	<b>13</b>	<b>3</b>	<b>70</b>	<b>10</b>	<b>16</b>	<b>4</b>

As at April 4, 2011

	Credit Rating					Geography			
	AAA	AA	A	Other	UK	USA	Europe	Other	
	(£ billion)	(percentages)							
Cash .....	6.1	100	-	-	-	100	-	-	-
Gilts .....	8.6	100	-	-	-	100	-	-	-
Non-domestic government bonds.....	2.2	100	-	-	-	-	40	60	-
Supranational bonds.....	<u>1.8</u>	100	-	-	-	-	-	100	-
<b>Core liquidity portfolio total .....</b>	<b><u>18.7</u></b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79</b>	<b>5</b>	<b>16</b>	<b>-</b>
Loans and advances to banks.....	4.2	-	38	62	-	73	-	15	12
RMBS .....	2.8	75	15	5	5	49	4	43	4
CMBS .....	0.6	39	23	16	22	66	14	20	-
Covered bonds .....	0.7	67	18	8	7	-	4	88	8
Collateralized loan obligations .....	0.6	6	82	12	-	26	74	-	-
Financial institution bonds.....	3.0	11	18	51	20	20	11	56	13
U.S. student loans .....	0.7	68	6	17	9	-	100	-	-
Other .....	<u>0.6</u>	43	14	13	30	68	28	3	1
<b>Non-core portfolio total .....</b>	<b><u>13.2</u></b>	<b>31</b>	<b>25</b>	<b>35</b>	<b>9</b>	<b>46</b>	<b>14</b>	<b>32</b>	<b>8</b>
<b>Total .....</b>	<b><u>31.9</u></b>	<b>71</b>	<b>11</b>	<b>15</b>	<b>3</b>	<b>65</b>	<b>9</b>	<b>23</b>	<b>3</b>

Ratings are obtained from S&P in the majority of cases, or from Moody's if there is no S&P rating available, with internal ratings used if neither is available.

We have continued to manage the treasury asset portfolio to increase the quality and liquidity of the assets with over 72% of the total portfolio held in core liquidity exposures (April 4, 2011: 59%). 97% of the portfolio is rated A or better with 84% rated AA or above (April 4, 2011: 97% rated A or better, 82% rated AA or better).

The portfolio has experienced some negative rating migration as a result of the ongoing implementation of rating agency methodology changes and continued asset quality deterioration, particularly for financial institution subordinated debt and U.S. RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

We have no direct sovereign exposure to so-called 'peripheral' eurozone countries (Portugal, Ireland, Italy, Greece and Spain). Within the treasury assets we have £1.2 billion non-sovereign securities issued in these countries as detailed above. Of this 49% is rated AA or above and 70% is rated A or above. This exposure has decreased by 41% in the year and a further nominal £170 million, primarily senior debt, matures in the 12 months. Belgium is also being closely monitored as part of the eurozone watch list, although our outstanding exposure is modest at £44 million as at April 4, 2012.

An independent monthly review is undertaken on the current and expected future performance of all treasury assets. A governance structure exists to identify and review under-performing assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are impaired where there is objective evidence that current events and/or performance will result in a loss.

Nationwide has £75 million of exposure to monoline insured transactions as at April 4, 2012. We are reliant on the monoline insurance provider for one holding (exposure: £2 million), but in all other cases we anticipate full repayment without any assistance from the insurance provider.

Collateral held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of ABS and similar instruments, which are secured by pools of financial assets.

In assessing impairment, the 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. An impairment loss of £31 million (April 4, 2011: £66 million) has been recognized in the income statement for the year ended April 4, 2012 in respect of the treasury core liquidity and non-core portfolios. In addition, an impairment of £7 million (April 4, 2011: £nil) was recognized for the year ended April 4, 2012 on investments in equity shares.

#### *Available-for-sale reserve*

Out of a total of £34.3 billion of assets held in the core liquidity and non-core portfolios, £23.3 billion are held as available for sale ("AFS") and under IFRS they are marked to market through other comprehensive income and fair value movements are accumulated in reserves. The non-AFS assets are loans to banks or deposits with the BoE. Of the £23.3 billion of AFS assets only £76 million are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7.

The assets have been reviewed based upon the latest performance data and an impairment charge of £31 million has been booked against AFS assets. The fair value movement of AFS assets that are not impaired have no effect on the Group's profit or its regulatory capital.

As at April 4, 2012, the balance on the AFS reserve had improved to £356 million negative, net of tax (April 4, 2011: £487 million negative). The improvement in the AFS reserve reflects the repayment of some of the non-core assets and a gradual pull towards par as the maturity profile of the remaining portfolio shortens. There has also been a strengthening of prices in some asset classes as market sentiment has improved.

The following table shows the breakdown of AFS reserves as at April 4, 2012 and April 4, 2011:

<b>As at April 4,</b>		
	<b>2012</b>	<b>2011</b>

	<b>Fair Value on-balance sheet</b>	<b>Cumulative AFS Reserve</b>	<b>Fair Value on-balance sheet</b>	<b>Cumulative AFS Reserve</b>
	<i>(£ billion)</i>			
Cash .....	8.1	-	6.1	-
Gilts .....	12.8	(1.0)	8.6	0.1
Non-domestic government bonds .....	2.4	-	2.2	(0.1)
Supranational bonds .....	1.5	(0.1)	1.8	(0.1)
<b>Core liquidity portfolio total</b> .....	<b>24.8</b>	<b>(1.1)</b>	<b>18.7</b>	<b>(0.1)</b>
Loans and advances to banks .....	2.9	-	4.2	-
RMBS .....	2.1	0.4	2.8	0.2
CMBS .....	0.5	0.1	0.6	0.1
Covered bonds .....	0.9	-	0.7	-
CLO .....	0.6	-	0.6	0.1
Financial institutions bonds .....	1.4	-	3.0	0.3
U.S. student loans .....	0.7	0.1	0.7	0.1
Other investments .....	0.4	-	0.6	-
<b>Non-core portfolio total</b> .....	<b>9.5</b>	<b>0.6</b>	<b>13.2</b>	<b>0.8</b>
<b>(Positive)/Negative AFS reserve before hedge accounting and taxation</b> .....		(0.5)		0.7
Hedge accounting adjustment for interest rate risk .....		1.0		-
Taxation .....		(0.1)		(0.2)
<b>Total value of AFS assets/Negative AFS reserve (net)</b> .....	<b>34.3</b>	<b>0.4</b>	<b>31.9</b>	<b>0.5</b>

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

	<b>As at April 4, 2012</b>			
	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
	<i>(£ million)</i>			
Investment securities—AFS .....	16,493	6,756	76	23,325
Investments in equity shares .....	9	-	20	29
Derivatives financial instruments .....	-	3,942	234	4,176
<b>Financial assets</b> .....	<b>16,502</b>	<b>10,698</b>	<b>330</b>	<b>27,530</b>
Derivative financial instruments .....	-	(4,250)	(37)	(4,287)
Other deposits—PEB .....	-	-	(2,890)	(2,890)

	As at April 4, 2012			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
	(£ million)			
<b>Financial liabilities</b>	-	(4,250)	(2,927)	(7,177)
Investment securities—AFS	12,319	9,126	95	21,540
Investments in equity shares	5	-	98	103
Derivatives financial instruments <sup>(4)</sup>	-	3,873	88	3,961
<b>Financial assets</b>	<b>12,324</b>	<b>12,999</b>	<b>281</b>	<b>25,604</b>
Derivative financial instruments <sup>(4)</sup>	-	(3,158)	(76)	(3,234)
Other deposits—PEB	-	-	(2,125)	(2,125)
<b>Financial liabilities</b>	<b>-</b>	<b>(3,158)</b>	<b>(2,201)</b>	<b>(5,359)</b>

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, ABS, certain CDOs, 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 ABS and bonds.

The Group's Level 1 portfolio comprises highly rated government securities for which traded prices are readily available and within the year ended April 4, 2012, the Group actively sought to increase this portfolio. There were no significant transfers between the Level 1 and 2 portfolios during the year.

Level 2 investment securities—AFS asset valuations are sourced from consensus pricing or other observable market prices. None of the Level 2 AFS assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

The significant movements in Level 3 positions during the year ended April 4, 2012 are explained below:

The increase in other deposits relates to growth in PEBs driven by strong stock market performance over the past 12 months and further investment into this product.

Investments in equity shares have decreased in the year primarily as a result of the disposal of one of the Group's investments to the Fund.

The reduction in investment securities has been driven by decreases in asset prices, a further impairment relating to a UK CMBS asset and an increase in the availability of observable market prices resulting in the transfer of assets from Level 3 to Level 2.

The main constituents of the Level 3 portfolio are as follows:

*Investment securities—AFS*

The Group's £76 million Level 3 investment securities—AFS as at April 4, 2012 comprise £53 million of CDOs and £23 million of impaired UK CMBS assets. Substantially all of these securities are priced from internal models based on observable and unobservable performance assumptions.

*Investments in equity shares*

Level 3 investments in equity shares consist primarily of an interest in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of the instrument.

### Derivative financial instruments

Level 3 assets and liabilities in this category are equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in the PEB product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party.

### Other deposits—PEB

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEB's liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivative as valued by an external third party.

For further information and analysis of our capital resources, see “*Capitalization and Indebtedness*”.

### Financial Condition of the Group

#### Capital Resources

Capital is held by the 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 Group considers its risk appetite, the material risks to which the Group is exposed, and appropriate management strategies required to manage those risks. The Group is required to manage its capital in accordance with the rules issued by its regulator, the PRA (with individual group entities that are dual-regulated complying with FCA prudential rules). Since January 1, 2008, the Group has complied with the EU Capital Requirements Directive (Basel II).

As at April 4, 2013, and throughout all periods described herein, the Group complied with the capital requirements that were in force. From April 4, 2009, the Group calculated its capital requirements using Internal Ratings Based (“IRB”) approaches for credit risks.

As at April 4, 2013, regulatory capital stood at £8.5 billion compared with £9.0 billion at April 4, 2012.

	As at April 4,	
	2013	2012
<b>BASEL II</b>		
<b>Tier 1</b>		
	(£ millions)	
<b>General reserve</b> .....	<b>6,765</b>	<b>6,450</b>
<b>Regulatory adjustments<sup>(1)</sup>:</b>		
Prudential valuation adjustment <sup>(2)</sup> .....	-	(1)
Defined benefit pension fund adjustment <sup>(3)</sup> .....	263	383
<b>Deductions:</b>		
Intangible assets <sup>(4)</sup> .....	(878)	(665)
Goodwill <sup>(4)</sup> .....	(16)	(16)
Excess of expected losses over impairment (50%) .....	(429)	(57)
Securitization positions (50%) .....	(245)	(152)
Other (50%) .....	(6)	(6)
<b>Total regulatory adjustments and deductions</b> .....	<b>(1,311)</b>	<b>(514)</b>
<b>Core Tier 1 capital</b> .....	<b>5,454</b>	<b>5,936</b>
Permanent interest bearing shares <sup>(5)</sup> .....	1,305	1,625
<b>Total Tier 1 capital<sup>(6)</sup></b> .....	<b>6,894</b>	<b>7,561</b>

	<b>As at April 4,</b>	
	<b>2013</b>	<b>2012</b>
<b>BASEL II</b>		
<b>Tier 2</b>		
Dated subordinated debt <sup>(5)</sup>	2,281	1,475
Revaluation reserve .....	67	65
Collectively assessed impairment allowances .....	70	110
<b>Deductions:</b>		
Excess of expected losses over impairment (50%) <sup>(6)</sup> .....	(565)	(77)
Securitization positions (50%) .....	(245)	(152)
Other (50%) .....	(6)	(6)
<b>Total deductions</b> .....	<b>(816)</b>	<b>(215)</b>
<b>Tier 2 capital</b> .....	<b>1,602</b>	<b>1,435</b>
<b>Total regulatory capital</b> .....	<b>8,496</b>	<b>8,996</b>
<b>Key capital ratios<sup>(7)</sup></b>		
	<i>(percentages)</i>	
Core Tier 1 .....	12.3	12.5
Tier 1 <sup>(6)</sup> .....	15.5	15.9
Total capital .....	19.1	18.9
<b>Risk weighted assets<sup>(8)</sup></b>		
	<i>(£ millions)</i>	
<b>Credit risk:</b>		
Retail mortgages .....	16,953	15,958
Retail unsecured lending .....	6,485	5,755
Commercial loans .....	13,643	17,166
Treasury .....	2,802	3,632
Other .....	1,107	6,890
<b>Total credit risk</b> .....	<b>40,990</b>	<b>43,646</b>
<b>Operational risk</b> .....	<b>3,398</b>	<b>3,760</b>
<b>Market risk</b> .....	<b>52</b>	<b>68</b>
<b>Total risk weighted assets</b> .....	<b>44,440</b>	<b>47,474</b>

Notes:

- (1) Certain deductions from capital are required to be allocated to Tier 1 and to Tier 2 capital. Deductions are subject to different treatment under the IRB approach in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with PRA guidance.
- (2) A prudential valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.

- (3) 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.
- (4) Intangible assets and goodwill do not qualify as capital for regulatory purposes.
- (5) Permanent interest bearing shares and subordinated debt include fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of lower Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity.
- (6) The tax in respect of the Tier 2 element of expected loss over impairment as at April 4, 2012, together with the Tier 1 ratio, has been restated to be consistent with the current treatment.
- (7) Solvency ratios are calculated as relevant capital divided by risk weighted assets.
- (8) The Basel II Pillar 1 capital requirements (risk weights) are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline societies) and unsecured lending; Foundation IRB for treasury and commercial portfolios (other than sovereign exposures); and the Standardised approach for all other credit risk exposures, including some treasury and commercial exposures that are exempt from using the IRB approach.

For further information and analysis of our capital resources, see “*Capitalization and Indebtedness*”.

### **Short-Term Borrowings**

Our short-term borrowings fluctuate considerably depending on our current operating needs. The terms of our short-term borrowings are less than one year.

### **Contractual Commitments**

For details of the amounts of certain of our financial and other contractual liabilities and when payments are due, without taking into account customer deposits and deposits by other financial institutions, please see notes 32 and 33 to our 2013 audited consolidated financial statements incorporated by reference herein.

### **Off-Balance Sheet Arrangements**

For a description of off-balance sheet commitment items under IFRS, please see notes 34 to our 2013 audited consolidated financial statements incorporated by reference herein.

### **Critical Accounting Policies**

For details on our critical accounting policies under IFRS, please see note 2 to our 2013 audited consolidated financial statements incorporated by reference herein.

## DESCRIPTION OF BUSINESS

### OVERVIEW

We are a building society, incorporated in England and Wales under the UK Building Societies Act, as amended, and authorized by the PRA and regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. Our FCA Mutuals Public Register Number is 355B. Our principal office is Nationwide House, Pipers Way, Swindon SN38 1NW (phone number +44 (0) 1793 513 513). We are the largest building society in the United Kingdom in terms of total assets, with £191 billion of assets as at April 4, 2013. We are the third largest residential mortgage lender in the United Kingdom and the second largest UK savings provider (as calculated by Nationwide based on BoE data).

Our core business is providing personal financial services, including:

- residential mortgage loans;
- retail savings;
- general retail banking services;
- personal investment products;
- insurance;
- personal secured and unsecured lending;
- secured commercial lending; and
- offshore deposit-taking.

In addition, we maintain an investment portfolio of debt securities for our own account.

As a mutual organization, we are managed for the benefit of our “members”, our retail savings and residential mortgage customers, rather than for equity shareholders. Our main focus is serving our members’ interests, while retaining sufficient profit to increase and further develop our business and meet regulatory requirements. 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. This returned value is commonly referred to as our member value. As a result of returning value to our members, we earn lower pre-tax profits than our main competitors, which are typically banks or other non-mutual organizations.

Profits on ordinary activities after tax for the year ended April 4, 2013 and the year ended April 4, 2012 were £210 million and £179 million, respectively. Our lending activities are predominantly concentrated on secured lending, with residential mortgages accounting for 85% of our total loans and advances to customers.

### HISTORY AND DEVELOPMENT

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organizations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings customers and residential mortgage customers. Our origins go back to the Northampton Freehold Land Society, which was founded in 1848. Over time, this entity merged with similar organizations to create Nationwide Building Society.

Over the past 30 years, many building societies have merged with other building societies or, in some cases, transferred their businesses to the subsidiary of another mutual organization or demutualized and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen dramatically over the same period. One consequence of this decrease is that the majority of our competitors are banks. We believe that our mutual status allows us to compete successfully with banks, and it is our strategy to remain a building society. At our annual general meeting in 1998, our members voted against a proposal to demutualize and no subsequent motion to demutualize has since been proposed at a general meeting of the Society. However, it is possible that another motion to demutualize could be proposed and voted upon at a future general meeting. For a discussion of the risks associated with a demutualization, see the section entitled *“Risk Factors—Risks Related to Our Business—*

*Demutualization, mutual society transfers and consequences of the UK Building Societies Act may have an adverse impact on the holders of notes”.*

In 1997, when many of our competitors that were building societies demutualized, we experienced a sharp increase in the number of new UK member retail savings accounts. We believe that many of these accounts were opened because customers expected us to demutualize and wanted to receive any associated windfall distributions. To prevent the disruption caused by speculative account opening, we have generally required all new members opening accounts with us since November 1997 to assign to charity any windfall benefits which they might otherwise have received as a result of a future demutualization.

We have been involved in a number of mergers and acquisitions in recent years. We merged with Portman Building Society in August 2007 and with Cheshire Building Society and Derbyshire Building Society in December 2008. In March and June 2009 we also acquired selected assets and liabilities of Dunfermline Building Society. In addition, Nationwide opened its first branch in the Republic of Ireland in March 2009. We believe these developments have added value to Nationwide, improved our distribution footprint and helped to grow the membership and are a testament to the strength of Nationwide and our ability to provide support to other building societies.

## **STRATEGY**

Nationwide's vision is to be the first choice for financial services. The Society is committed to remaining a building society because it believes that this is in the best long-term interests of its current and future members. Nationwide's strategy is based on three independent themes:

- its members;
- its people; and
- its business model.

While Nationwide aims primarily to drive its strategy through organic means, it actively seeks other opportunities that offer scale diversification benefits to add value to its members.

### **Members**

Nationwide is dedicated to building enduring relationships with its members, founded on trust and confidence in its reputation for offering help and good advice, a complete range of financial products, great service, fair prices, honesty and being a good corporate citizen. Nationwide is owned by its members and focused solely on their needs.

Nationwide is currently a leading provider of retail savings and residential mortgage products in the UK. In order to achieve its aim of being the first choice for financial services, Nationwide is positioning itself as a meaningful and viable alternative brand in the provision of current accounts, personal loans and credit cards. In particular, the Directors believe that current accounts are critical in enabling Nationwide to cultivate broader and deeper relationships with new and existing customers. Nationwide's strategic goals over the next five years include growing its current market share in the mortgages sector to 12%, in the savings sector to 10%, in the personal current accounts sector to 10% and expanding its presence in all other personal finance product lines to achieve a market share of at least 5%.

As a national player with the size, scale and distribution capability to compete with the major banks operating in the UK, Nationwide intends to:

- Maintain its position as a leading provider of customer service—In particular, Nationwide intends to increase the profile of its brand and to continue to reinforce its service culture through its “Pride” values, reward structure and continued service monitoring and feedback across all customer interaction points;
- Focus on its current account offering as the gateway product to deeper and broader customer relationships and on building scale across all products, in particular through the development of a holistic financial planning service. The Society's new banking system, a core delivery of its transformation program, has delivered the first products in a new range of current accounts designed to attract new customers and provide greater choice to existing customers;
- Optimize its distribution facilities to ensure it matches changing customer trends, while providing an efficient and effective means of driving revenue—In particular, Nationwide has introduced a new internet bank which became operational in 2011 as part of its transformation program. Nationwide also expects to

- rationalize its branch network to reduce overlap and update its existing branches and to continue to develop its other electronic distribution channels with a view to reducing costs and increasing customer choice; and
- Continue to develop new systems and processes to deliver a range of new banking and savings products and ensure that its processes are orientated to deliver leading customer service—The new banking platform delivered through the transformation program is a key element of this strategy.

Nationwide provides long-term value to the Society's membership through sustainable pricing, actively targeting the delivery of value to its most committed and valuable customers through its status as a mutual. The delivery of pricing benefits to members is balanced by the Directors' belief that it is in the long-term best interests of all of the Society's present and future members to target a level of profit that is sufficient to achieve capital self-sufficiency. The goal complements the need to achieve sufficient profitability to deliver an appropriate level of return to investors in the notes.

Given the current media focus on negative banking practices in the UK, Nationwide intends to continue to emphasise the safety and security its directors believe is offered by the mutual business model. As a building society, Nationwide's heritage and underlying balance sheet strength is based on accepting retail deposits and lending these to members to purchase residential property. Nationwide intends to continue to adopt a conservative risk appetite and to maintain a strong balance sheet with appropriate levels of capital and liquidity and access to a wide range of funding sources, thereby offering safety and security, and to drive deeper relationships with all stakeholders (including consumers, ratings agencies, regulators, investors and providers of wholesale funding).

Reflecting its mutual status and the fact that its customers are also its members, Nationwide intends to continue to provide simple, transparent products and to act as a consumer champion for clarity in financial services.

Nationwide operates in a commercially competitive manner, aiming to be as cost-efficient as its competitors in the banking sector in order to maintain its mutual pricing advantage, while providing industry leading levels of employee engagement and enablement. In this connection, a shared services approach is expected to be implemented across Nationwide with a view to reducing costs and improving efficiency.

## People

Nationwide has a culture, underpinned by its heritage, which drives the right customer outcomes, making it different from the banks. It recruits, develops and rewards the right values, professional standards and behaviors in its people. As mentioned above, Nationwide intends to continue to reinforce its service culture through its "Pride" values, reward structure and continued service monitoring and feedback across all customer interaction points.

## Business model

Nationwide's core business is providing retail personal financial services. Nationwide recognizes that in order to compete ever more effectively with its competitors, it must build a broader business portfolio to complement its existing core business and diversify and expand its income streams. To date, this evolution has largely consisted of making controlled development into areas adjacent to its core, beginning with a move into cross-selling home and life insurance to mortgage customers. This was followed by the launch of FlexAccount, the first interest paying current account in the UK, which attracted large numbers of customers from the established banks. This move into current accounts was later accompanied by investment in the associated banking businesses of credit cards and personal loans, and the provision of protection and investment advice to new and existing customers.

Nationwide's transformation program is a key part of its business diversification strategy with its new banking system, and internet banking in particular, intended to drive greater penetration into the personal current accounts market. For further information on Nationwide's transformation program, see "*—Investments*" below. Nationwide also intends to continue to expand its already strong presence in the residential buy-to-let market and to establish itself more fully in non-retail business streams by offering a wider range of banking services to the small and medium-sized enterprise ("SME") market and broadening its commercial deposit taking activities. Nationwide sees the planned expansion into the SME market as a natural extension of its current business and intends to adopt a cautious approach to its expansion, seeking to limit its risk exposure and to gain experience before broadening its offering to a wider customer base. To that end, it aims to launch a banking proposition for microbusinesses (being businesses with an annual turnover of up to £2 million) in the second half of its financial year ended April 4, 2014, followed by one for medium-sized enterprises (being enterprises with an annual turnover of between £2 million and £10 million) in its financial year ended April 4, 2015. The products are expected to be simpler and more transparent than those currently available to the SME market and the Society intends to use its existing technical and physical infrastructure to offer a market-leading level of service. The proposition will be led by deposit products, with an initial target of raising £6 billion in deposits and increasing lending by £3 billion by the end of the Society's financial year ended April 4, 2018, although the Society's ability to achieve

these targets is dependent on a range of factors outside its control and no assurance is given that the targets will be achieved in the timeframe envisaged.

Nationwide continues to consider potential acquisition opportunities that offer scale, business and diversification benefits that the Directors believe will add value to its members.

### **Strategic goals**

Nationwide's principal five-year strategic goals are to:

- Be the first choice for financial services;
- Be the clear number one in service satisfaction with a demonstrable lead of at least 6% over the next best competitor;
- Grow its base of valuable customer relationships to at least 7.5 million;
- Have a Core Tier 1 capital ratio in the top quartile of its peer group comparison;
- Maintain average risk weighting in the bottom quartile of its peer group comparison;
- Become self-sufficient in capital with a profit of £1 billion per annum;
- Achieve the high performance external benchmark for both employee enablement and engagement as measured by ViewPoint; and
- Run an efficient business with a cost income ratio of between 45% and 50%.

### **Lending**

Our lending activities are primarily concentrated on residential mortgage lending in the United Kingdom. We also engage in a limited amount of commercial secured lending and secured and unsecured consumer lending.

#### ***UK Residential Mortgage Lending to Individuals***

The vast majority of our lending portfolio consists of UK residential mortgage loans to individuals. Residential mortgage loans to individuals are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower breaks the terms and conditions of the loan. Our policy is for all residential mortgage loans to individuals to be fully secured first priority loans on the mortgaged property, to ensure that our claim to the property, in the event of default, is senior to those of other potential creditors. As a result, our residential mortgage lending to individuals carries lower risk than many other types of lending.

As at April 4, 2013, we were the third largest mortgage lender in the United Kingdom (as measured by total loans outstanding) (as calculated by Nationwide based on BoE data). As at April 4, 2013, our total prime and specialist residential mortgage lending amounted to £135.6 billion (£128.8 billion as at April 4, 2012). Our residential mortgages are generally for terms of 20 to 30 years. While many customers remain with Nationwide for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although Nationwide generally retains approximately 85 to 90% of customers when they reach the end of a product.

We have a national franchise within the United Kingdom, with a regional distribution of UK residential mortgage lending to individuals generally matching the regional gross domestic product distribution in the United Kingdom. Below is a table showing the geographical distribution of our UK residential mortgage loans as at April 4, 2013:

**% of UK residential mortgage  
lending to individuals as at April  
4, 2013**

**Region**

Greater London	22%
Central England	22%
Northern England	20%
South East London (excluding London)	11%
South West England	9%
Scotland	8%
Wales and Northern Ireland	7%
<b>Total</b>	<b>100%</b>

*Source:* CACI Limited

We offer fixed rate and tracker rate mortgages. These products establish a set rate or set methodology for determining a variable rate for a set term, after which the rate reverts to one of our two general variable rates. Our fixed-rate products currently offer a term of two, three, four or five years, but we have from time to time offered longer fixed terms, including 10 and 25 years. Our tracker rate products bear interest during the set term (currently two, three or five years) at a variable rate that is a fixed percentage above the BoE base rate. After the end of the set fixed rate or tracker period, the interest rate reverts to either our BMR (if the mortgage was originated on or before April 29, 2009) or our SMR (if the mortgage was originated on or after April 30, 2009). Both our BMR and our SMR are variable rates set at our discretion, except that our BMR is guaranteed not to be more than 2% above the BoE base rate.

To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, we impose early repayment charges on some products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed or tracker rate for the particular product.

Our asset quality has remained strong as a result of our continued prudent approach to lending. The Group is committed to supporting the housing market, and first time buyers in particular, and as a result the average LTV of residential mortgages completed has increased to 67% (April 4, 2012: 63%). The indexed LTV for the whole residential portfolio has remained broadly stable at 51% (April 4, 2012: 50%). Only 7% of our total mortgage book has an LTV in excess of 90% based on value. The proportion of the Group's mortgage accounts three months or more in arrears has reduced to 0.72% as at April 4, 2013 (April 4, 2012: 0.73%), this compares favorably with the CML industry average of 1.89%.

The following table compares our loans in arrears against the UK industry average:

	<b>Nationwide<sup>(1)</sup></b>
<b>Arrears</b>	
3-6 months .....	0.35%
6-12 months .....	0.24%
Over 12 months.....	0.13%

Notes:

(1) Nationwide prime and specialist residential lending as at April 4, 2013.

We utilize an automated credit scoring system to assist in minimizing credit risk on residential mortgage lending. Our credit procedures for residential mortgage lending take into account the applicant's credit history, loan-to-value criteria, income multiples and an affordability calculation, or shock test, that tests the applicant's ability to service the loan at higher interest rates. For additional information regarding how we manage credit risk in connection with new lending, see "*Financial Risk Management—Credit risk*".

We focus our residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. In current market conditions, we are particularly keen to support our existing members and have introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. During the year ended April 4, 2013, 27% of residential mortgage advances calculated on a volume basis were to first-time buyers and 73% to experienced buyers. This compares to the year ended April 4, 2012 when 17% of residential mortgage advances were to first-time buyers and 83% to experienced buyers.

In addition to residential mortgage loans, we offer further secured advances on existing mortgaged property to customers consistent with our lending criteria for new residential mortgage loans.

#### ***Specialist UK Residential Mortgage Lending to Individuals***

We offer specialist UK residential mortgage lending to individuals, which comprises lending to private landlords (buy-to-let) and other non-conforming lending.

As at April 4, 2013, our outstanding specialist UK residential mortgage lending to individuals was £25 billion. The specialist residential mortgage balance is made up of advances made through our specialist lending brands, TMW and UCB, and from the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies portfolios. Our outstanding specialist lending loans were advanced primarily in the buy-to-let and self-certification markets. New specialist lending is restricted to buy-to-let via TMW with Nationwide having withdrawn from the self-certified lending market in 2009. A breakdown of our specialist UK residential mortgage lending outstanding balances as at April 4, 2013 is shown in the table below:

<b><u>% of specialist UK residential mortgage lending to individuals as at April 4, 2013</u></b>	
Buy-to-let.....	80%
Self-certified .....	13%
Near prime .....	5%
Sub prime.....	2%
<b>Total .....</b>	<b>100%</b>

TMW is an important provider of high-quality loans to the buy-to-let sector. Over the past year, TMW gross advances were £3.3 billion (April 4, 2012: £4.4 billion), representing 19.5% market share, with net lending of £1.6 billion (April 4, 2012: £2.8 billion). Our total specialist mortgage book stood at £25.0 billion as at April 4, 2013 (April 4, 2012: £23.2 billion).

There has been a reduction in specialist arrears as a result of reducing arrears volumes on the self-originated books, and strong book growth in TMW. TMW continues to maintain a very favorable arrears position relative to the industry on both originated business and total lending including acquired loans. Our specialist mortgages continue to perform well with cases three months or more in arrears representing only 1.75% of the total mortgage book as at April 4, 2013 (April 4, 2012: 1.87%), which compares favorably to the overall industry measure (Source: CML), that is inclusive of prime lending, of 1.87% as at April 4, 2013 (April 4, 2012: 1.95%).

#### ***Commercial Secured Lending***

We engage in commercial secured lending, which as at April 4, 2013 accounted for 13% of our total loan assets. To maintain a prudent balance between our asset classes, we currently have a 20% cap on commercial lending as a percentage of our total lending (book balances). We intend to maintain a low risk exposure to commercial secured lending and to maintain the existing level of credit quality throughout our commercial loan portfolio.

The amount and types of loans in the commercial portfolio as at April 4, 2013 were as follows:

	As at April 4, 2013	
	£ billion	% of total commercial loans
<b>Commercial Secured Loans</b>		
Property Finance	10.2	51%
Registered Social Landlords	8.2	41%
Project Finance	1.5	8%
<b>Total</b>	<b>19.9</b>	<b>100%</b>

Loans made to UK Registered Social Landlords are secured on residential property and differ significantly from other loans secured on real property. UK Registered Social Landlords provide affordable housing supported by government grants. This portfolio historically has carried a lower risk than our other commercial lending activities, and there are currently no arrears of three months or more in our Registered Social Landlord portfolio. To date we have not needed to raise any loss provisions against this portfolio. We are the largest lender to UK Registered Social Landlords by amount of assets lent.

Loans advanced in relation to Project Finance are secured on cash flows from government backed contracts such as schools, hospitals and roads under the UK Private Finance Initiative legislation, and include assets acquired from Derbyshire, Cheshire and Dunfermline building societies. Again, the Group has never suffered any losses on lending in these markets and there are currently no arrears of three months or more.

The Group's Property Finance portfolio is well diversified by industry type and by borrower, with no significant exposure to development finance.

### **Consumer Banking**

We engage in personal banking, which accounted for 2.1% of our total loan assets as at April 4, 2013 and 1.9% of our total loan assets as at April 4, 2012.

#### *Unsecured Consumer Banking*

Unsecured consumer banking consists of loans that we make to individuals that are not secured on real or personal property. We offer three different forms of unsecured consumer lending: personal unsecured loans, credit card lending and current accounts with overdraft facilities.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because we have no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than our residential mortgage products. To manage this risk, we use an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, we impose a maximum limit on the size of unsecured consumer loans and encourage customers to take out payment protection insurance.

For information regarding our credit card and overdraft facilities, see the subsections entitled “—*Other Banking Services—Credit Cards*” and “—*Other Banking Services—Current Accounts*”.

### **Retail Funding**

The great majority of our retail funding is in the form of UK retail member deposits. In addition, we accept offshore deposits and deposits which do not convey member status. As at April 4, 2012 we had UK retail member deposits of £125.6 billion, which remained broadly stable at £125.6 billion as at April 4, 2013. UK retail member deposits represented 65.8% of our total liabilities and reserves as at April 4, 2013.

We provide a wide range of retail savings products that may be repayable on demand or notice and which may pay a variable or fixed rate of interest. On most retail savings products, we determine variable interest rates at our discretion according to market conditions. Generally, the more restrictions on withdrawal of retail savings, the higher the

rate of interest. Balances on all of our notice deposit accounts are, by their terms, withdrawable on demand but, in some cases, subject to loss of interest.

We believe that the primary determinant for attracting retail savings is the interest rate offered to savers. As a mutual organization, we typically set higher interest rates on our retail funding products than those set by our main competitors. We gather UK retail member deposits from a number of sources, chiefly from our branch network but also by mail and internet-based deposit accounts.

The UK retail savings market is highly competitive among building societies and banks, including those banks owned by insurance companies and retailers. This competition has increased the relative cost of retail funds, especially new retail funds.

## **Other Banking Services**

### **Current Accounts**

Our current account, called FlexAccount, is our checking and day-to-day transactional product. Holders of FlexAccounts may be eligible for ATM cards, check books, overdraft facilities and debit cards depending upon the account holder's credit score and the performance of the account. The overdraft facility connected to the current account charges interest at one rate for authorized overdrafts and at a higher rate for unauthorized overdrafts.

### **Credit Cards**

We began issuing Nationwide-branded Visa credit cards to our customers in 1997. We market and process credit card applications ourselves (using our credit scoring system), and an outside contractor is responsible for billing and customer service functions. Our credit card holders receive differing credit limits, depending on their credit score. We do not charge customers an annual fee for using the credit card.

Despite recent economic events our credit card asset quality remains strong. Our percentage of credit card balances more than 30 days in arrears was 3.24% as at April 4, 2013, having fallen from 3.34% as at April 4, 2012. Asset quality is monitored constantly both for new and existing exposures, and where published data is available our performance compared with the industry remains favorable.

### **Offshore Savings**

We offer offshore savings through our Isle of Man subsidiary, Nationwide International Limited, to give us access to another funding source. Nationwide International Limited offers demand and notice accounts in sterling, U.S. dollars and euros mainly to offshore investors. As at April 4, 2013, Nationwide International Limited had deposits of £5.3 billion.

## **Other Banking Services**

We also provide our customers with foreign currency exchange and equity dealing services. We act as an agent in providing these services and assume no foreign exchange or equity price risk as a result of this activity.

## **Treasury Operations**

Our Treasury Division centrally manages our liquid asset portfolios as well as most of our financial risk exposures, and raises funds on the money and debt capital markets.

The Treasury Division manages risk exposures, including market risk, by making use of derivative instruments such as swaps, futures and options, which reduce our exposure to changes in interest rates and currency rates. See the sections entitled "*Financial Risk Management*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview*" for further details of risk management.

We maintain two liquid asset portfolios, categorized as core liquidity and non-core liquidity:

- core liquidity totaled £16.9 billion as at April 4, 2013 (compared to £24.8 billion as at April 4, 2012). Core liquidity comprises cash and highly rated debt securities issued by governments or multilateral development banks; and

- non-core liquidity totaled £6.9 billion as at April 4, 2013 (compared to £9.5 billion as at April 4, 2012) with 87% of its assets rated A or better. The non-core portfolio comprises available for sale assets held for investment purposes, plus balances in clearing accounts.

We raise funds from the money and debt capital markets, accepting time deposits and issuing certificates of deposit, commercial paper and medium-term notes. Funding from wholesale markets decreased to £43.4 billion as at April 4, 2013 from £49.1 billion as at April 4, 2012, representing a wholesale funding ratio of 22.5% (compared to 25.3% as at April 4, 2012).

We aim to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. We have a variety of programs in place so that we can meet our short-term and long-term funding needs, including:

- Euro certificate of deposit and commercial paper program;
- U.S. commercial paper program;
- Canadian commercial paper program;
- French commercial paper program;
- Euro medium-term note program;
- U.S. medium-term note program;
- Covered Bond program; and
- Australian medium-term note and commercial paper program.

We do not operate a trading portfolio.

## **Protection and Investments**

Income from protection and investments has continued to grow, increasing from £106 million for the year ended April 4, 2012 to £122 million for the year ended April 4, 2013, in line with our strategic focus to diversify our income stream.

## **Insurance**

In conjunction with our core business of providing residential mortgage loans and retail savings, we develop and market insurance products branded with our name that are underwritten by third-party insurers. We sold our subsidiary Nationwide Life Limited to Legal & General on January 31, 2008, and as a result we no longer underwrite our own life assurance products. As part of our agreement, we distribute insurance products of Legal & General. We also have a new strategic distribution agreement for the supply of motor and travel insurance with Liverpool Victoria to provide our customers with a broader range of competitively priced products from one of the UK's top financial services companies.

Other income from general insurance grew by 22% and from protection and investment by 15% in the year ended April 4, 2013, reflecting the success of our ongoing diversification strategy.

### ***Products Underwritten by Third Parties***

The insurance products that we market are:

- buildings and contents insurance, which we market to our residential mortgage customers and non-mortgage customers;
- payment protection products, covering loan repayments in case of sickness, unemployment or disability;
- landlord insurance;
- term income protection insurance, replacing up to 60% of gross income in case of unemployment;
- motor insurance; and
- personal accident insurance.

We typically use leading insurers as third-party underwriters for these insurance products. We receive a commission and, in some cases, participate in the profits, but not the losses, from third-party underwritten insurance products that we market. This provides us with a significant source of non-interest income, and in the year ended April 4, 2013 and the year ended April 4, 2012 we earned £160 million and £140 million, respectively, from general insurance fees. We generally market our insurance products to new and existing customers, and it is our policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by our main competitors.

### **Distribution Network**

Our integrated and diversified distribution network allows our customers to choose how and when to undertake their transactions with us and has enabled us to expand our business while controlling costs. The distribution network helps us to achieve volume growth principally in residential mortgage lending and supports our retail funding activities. Developments in the network have focused on cost efficiency and meeting the needs of customers who are increasingly prepared to transact business by the Internet, telephone and mail.

We distribute our products primarily through:

- branches;
- ATMs;
- call centers;
- mail;
- Internet (e-commerce);
- agencies; and
- intermediaries.

#### ***Branches***

Our branch network continues to be a major source of our mortgage lending and retail funding. As at April 4, 2013 we had 750 branches of Nationwide Building Society in the United Kingdom and the Isle of Man. We believe that our branch network is an integral part of our distribution network and we expect to maintain its current size.

Our goal is to utilize our branch network efficiently. All of our branches market our residential mortgage, retail savings, personal lending, personal investment and insurance products. We commenced a Transformation program in 2008 to replace ageing legacy systems and to improve product innovation and customer service. Our new mortgage sales system has improved the service we are able to offer our intermediary customers.

#### ***ATMs***

We had more than 1,750 ATMs at April 4, 2013, including some placed in retail stores, railroad stations, gas stations and other remote locations. In addition, our customers also have access to ATMs in the United Kingdom through the LINK and Cirrus networks and world-wide through the VISA network.

#### ***Call Centers***

Our telephone call centers are open 24 hours a day to service customers and receive calls from potential customers that are interested in our products. In addition, we use telemarketing to supplement our mortgage, insurance and personal loan marketing.

#### ***Mail***

We offer mail-based savings accounts that provide members with higher interest rates on their deposits in return for limiting them to transactions by mail, online banking and ATMs. We also use direct mail to market some of our products.

#### ***E-commerce***

We launched an internet banking service in 1997. Our website allows customers to transact on their accounts and apply for a broad range of our products online.

## Agents

Agents are third parties that we appoint to market our products and perform retail transactions. Agents are typically intermediary financial advisers or real estate agents and increase our retail distribution network. We remunerate agents for the transactions and sales they perform.

## Intermediaries

A substantial amount of our mortgage sales are introduced to us by third-party intermediaries. Intermediaries range from large UK insurance companies to small independent mortgage advisers. We remunerate intermediaries for introducing mortgage business.

## Employees

For the financial year ended April 4, 2013, we employed, on average, 17,019 full and part-time employees. Set out below are our average number of employees during the financial years ended April 4, 2013, 2012 and 2011, respectively:

	For the year ended April 4,		
	2013	2012	2011
Full-time .....	12,720	13,156	12,879
Part-time .....	4,299	4,550	4,813
<b>Total .....</b>	<b>17,019</b>	<b>17,706</b>	<b>17,692</b>

We are party to a collective bargaining agreement with the Nationwide Group Staff Union and believe that our relationship with our employees is good. We have never experienced any work stoppages.

## Principal Subsidiaries

Our interests in our principal subsidiary undertakings, all of which are consolidated, as at April 4, 2013 are set out below:

100% held subsidiary undertakings	Nature of business
Nationwide International Limited <sup>(1)</sup>	Offshore deposit taker
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works Limited	Centralized mortgage lender
Derbyshire Home Loans Limited <sup>(1)</sup>	Centralized mortgage lender
E-Mex Home Funding Limited <sup>(1)</sup>	Centralized mortgage lender
UCB Home Loans Corporation Limited <sup>(1)</sup>	Centralized mortgage lender

Note:

(1) Regulated entities subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.

All the above subsidiary undertakings are limited liability companies which are registered in England and Wales and operate in the UK except for Nationwide International Limited, which is registered and operates in the Isle of Man.

Nationwide has interests in a number of entities which give rise to the risks and rewards that are in substance no different from if they were subsidiary undertakings. As a consequence, these entities are consolidated in our accounts.

The interests of Nationwide in these principal entities as at April 4, 2013 are set out below:

Other Group undertakings	Nature of business	Country of registration	Country of operation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK

## Properties

Our property interests consist of our branches and non-specialized buildings which may be owned or leased, as well as our head office/administration centers (which we own) and a small number of residential properties held for

rental. For further information see note 21 to our audited consolidated financial statements incorporated by reference herein.

### **Financial Services Compensation Scheme**

Like other UK financial institutions, we pay levies based on our share of protected deposits to the FSCS to enable the FSCS to meet claims against it. In 2008 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. These loans total approximately £18 billion. 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.

While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, there is an expected shortfall in relation to the refinancing loan between the FSCS and H.M. Treasury which took place in March 2012 which has been communicated as being an industry total of £363 million for the 2013/2014 scheme year. This shortfall is to be levied from all firms holding protected deposits including the Group.

We also have a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses have yet to be determined and hence, although our share could be significant, no provision has been recognized. As further information is provided by the FSCS scheme we will continue to update our estimate of the amount of FSCS levies we will ultimately be required to pay.

As at April 4, 2013 we held a provision of £133 million in respect of the 2012/2013 and 2013/2014 scheme years (April 4, 2012: £111 million in respect of the 2011/2012 and 2012/2013 scheme years). Included within the provision is £44 million, which represents our share of the £363 million expected shortfall described above.

### **Bank Levy**

On July 19, 2011, the Finance Act 2011 came into force, including the bank levy requirements enacted by section 73 and Schedule 19 thereof. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance is given against the first £20 billion of chargeable equity and liabilities, meaning that smaller institutions will effectively be exempted from the levy charge. Certain liabilities are excluded from the chargeable equity and liabilities, including Tier 1 capital, insured retail deposits and repos secured on sovereign debt. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of liabilities in the charge. Levy rates have been announced as follows:

<b>Period</b>	<b>Rates</b>	
	<b>Short-term liabilities</b>	<b>Long-term liabilities</b>
January 1, 2011 to February 28, 2011	0.05%	0.025%
March 1, 2011 to April 30, 2011	0.1%	0.05%
May 1, 2011 to December 31, 2011	0.075%	0.0375%
January 1, 2012 to December 31, 2012	0.088%	0.044%
January 1, 2013 to December 31, 2013	0.130%	0.065%
From January 1, 2014	0.142%	0.071%

Our financial statements for the year ended April 4, 2013 reflect a charge for the levy in the amount of £16 million. This compares to a charge of £16 million for the year ended April 4, 2012, which was split between a £3 million charge for the period starting on January 1, 2011 and ending on April 4, 2011, and a £13 million charge for the year ended April 4, 2012. Both amounts appear in the 2012 accounts because the legislation had not been enacted at the time the accounts for the year ended April 4, 2011 were finalized, and as a result it was not possible to charge the 2011 liability at that time. This was disclosed on page 18 of the accounts for the financial year ended April 4, 2011.

The charge for the financial year ended April 4, 2014 is currently estimated to be £16 million. It is difficult to predict the precise charge, however, as the calculation is dependent on the closing balance sheet shape and size as well as on various specific exclusions and percentage splits.



## SELECTED STATISTICAL INFORMATION

The following information has been extracted from our management information systems. This information is unaudited. The information contained in this section should be read in conjunction with our consolidated financial statements as well as the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

### Average Balance Sheets and Interest Rates

The tables below present, in accordance with IFRS, the average balances for our interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the financial years ended April 4, 2013, 2012 and 2011, respectively:

	For the year ended April 4, 2013		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
	(£ millions, except percentages)		
<b>Interest-earning assets:</b>			
Loans to credit institutions.....	11,205	49	0.44%
Debt securities <sup>(2)</sup> .....	21,747	302	1.39%
Loans to customers .....	157,315	5,044	3.21%
Expected return on pension assets .....	-	186	-
<b>Total average interest-earning assets</b> .....	<b>190,267</b>	<b>5,581</b>	<b>2.93%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets.....	948		
Fair value adjustment for hedged risk.....	1,107		
Other financial assets at fair value .....	11		
Other assets.....	539		
Goodwill and intangible fixed assets .....	757		
Investment properties.....	9		
Deferred tax assets .....	244		
<b>Total average assets</b> .....	<b>193,881</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	125,264	2,741	2.19%
Other deposits .....	17,090	6	0.04%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	40,034	563	1.41%
Subordinated liabilities .....	1,691	43	2.54%
Tier 1 capital instruments .....	1,536	38	2.47%
Unwind of discount of pension liabilities .....	-	172	-
<b>Total average interest-bearing liabilities</b> .....	<b>185,615</b>	<b>3,563</b>	<b>1.92%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,734		
Fair value adjustment for hedged risk.....	218		
Other financial liabilities at fair value .....	1		
Reserves.....	6,277		
Current taxes.....	37		
<b>Total average liabilities</b> .....	<b>193,881</b>		

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the year ended April 4, 2012		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
	(£ millions, except percentages)		
<b>Interest-earning assets:</b>			
Loans to credit institutions .....	11,295	56	0.50%
Debt securities <sup>(2)</sup> .....	27,924	406	1.45%
Loans to customers .....	151,998	4,696	3.09%
Expected return on pension assets .....	-	195	-
<b>Total average interest-earning assets .....</b>	<b>191,217</b>	<b>5,353</b>	<b>2.80%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	964		
Fair value adjustment for hedged risk .....	1,594		
Other financial assets at fair value .....	-		
Other assets .....	922		
Goodwill and intangible fixed assets .....	606		
Investment properties .....	9		
Deferred tax assets .....	256		
<b>Total average assets .....</b>	<b>195,568</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	125,456	2,826	2.25%
Other deposits .....	16,117	14	0.09%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	42,267	624	1.48%
Subordinated liabilities .....	1,858	58	3.12%
Tier 1 capital instruments .....	1,608	42	2.61%
Unwind of discount of pension liabilities .....	-	166	-
<b>Total average interest-bearing liabilities .....</b>	<b>187,306</b>	<b>3,730</b>	<b>1.99%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,691		
Fair value adjustment for hedged risk .....	211		
Other financial liabilities at fair value .....	-		
Reserves .....	6,265		
Current taxes .....	95		
<b>Total average liabilities .....</b>	<b>195,568</b>		

Notes:

(1) Average balances are based on the balance as of the end of each month during the financial year.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the year ended April 4, 2011		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
	(£ millions, except percentages)		
<b>Interest-earning assets:</b>			
Loans to credit institutions .....	7,155	32	0.45%
Debt securities & derivative financial instruments <sup>(2)</sup> .....	26,671	314	1.18%
Loans to customers .....	150,825	4,129	2.74%
Expected return on pension assets .....	-	168	-
<b>Total average interest-earning assets .....</b>	<b>184,651</b>	<b>4,643</b>	<b>2.51%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	934		
Fair value adjustment for hedged risk .....	2,257		
Other financial assets at fair value .....	83		
Other assets .....	617		
Goodwill and intangible fixed assets .....	444		
Investment properties .....	9		

	For the year ended April 4, 2011		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/rate
	(£ millions, except percentages)		
Deferred tax assets .....	372		
<b>Total average assets .....</b>	<b>189,367</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	122,259	2,510	2.05%
Other deposits .....	15,140	(87)	(0.57%)
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	40,436	427	1.06%
Subordinated liabilities .....	2,128	50	2.35%
Tier 1 capital instruments .....	1,556	40	2.57%
Unwind of discount of pension liabilities .....	-	166	-
<b>Total average interest-bearing liabilities .....</b>	<b>181,519</b>	<b>3,107</b>	<b>1.71%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,693		
Fair value adjustment for hedged risk.....	131		
Other financial liabilities at fair value .....	-		
Reserves.....	5,918		
Current taxes.....	106		
<b>Total average liabilities .....</b>	<b>189,367</b>		

Notes:

(1) Average balances are based on the balance as of the end of each month during the financial year.

(2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

## Average Net Interest Margin and Spread

The following tables show our average interest-earning assets, average interest-bearing liabilities and net interest income and illustrate the comparative net interest margin and net interest spread for the financial years ended April 4, 2013, 2012 and 2011, respectively:

	<b>As at April 4, 2013</b> (£ millions, except percentages)
Net average interest-earning assets .....	190,267
Net average interest-bearing liabilities .....	185,617
Net interest income <sup>(1)</sup> .....	2,018
Average yield on average interest-earning assets .....	2.93%
Average rate on average interest-bearing liabilities .....	1.92%
Net interest spread <sup>(2)</sup> .....	1.01%
Net interest margin <sup>(3)</sup> .....	1.04%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

	<b>As at April 4, 2012</b> (£ millions, except percentages)
Net average interest-earning assets .....	191,217
Net average interest-bearing liabilities .....	187,306
Net interest income <sup>(1)</sup> .....	1,623
Average yield on average interest-earning assets .....	2.80%
Average rate on average interest-bearing liabilities .....	1.99%
Net interest spread <sup>(2)</sup> .....	0.81%
Net interest margin <sup>(3)</sup> .....	0.83%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

	<b>As at April 4, 2011</b> (£ millions, except percentages)
Net average interest-earning assets .....	184,651
Net average interest-bearing liabilities .....	181,519
Net interest income <sup>(1)</sup> .....	1,536
Average yield on average interest-earning assets .....	2.51%
Average rate on average interest-bearing liabilities .....	1.71%
Net interest spread <sup>(2)</sup> .....	0.80%
Net interest margin <sup>(3)</sup> .....	0.81%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

## Changes in Interest Income and Expenses – Volume and Rate Analysis

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended April 4, 2013 compared to the financial year ended April 4, 2012. We calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and

volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein:

	<b>Year ended April 4, 2013</b> <b>compared to year ended April 4, 2012</b>		
	<b>Increase/(decrease) in net interest due to changes in:</b>		
	<b>Volume</b>	<b>Yield/rate</b>	<b>Total net change</b>
	(£ millions)		
<b>Interest income:<sup>(1)</sup></b>			
Loans to credit institutions.....	-	(7)	(7)
Debt securities .....	(98)	(6)	(104)
Loans to customers .....	167	181	348
<b>Total interest income .....</b>	<b>69</b>	<b>168</b>	<b>237</b>
<b>Interest expense:<sup>(1)</sup></b>			
UK retail member deposits .....	(5)	(81)	(86)
Amounts owed to credit institutions .....	14	(66)	(52)
Amounts owed to other customers.....	-	45	45
Debt securities in issue .....	(36)	(25)	(61)
Subordinated liabilities .....	(5)	(10)	(15)
Subscribed capital.....	(2)	(2)	(4)
<b>Total interest expense .....</b>	<b>(34)</b>	<b>(139)</b>	<b>(173)</b>
<b>Net interest income .....</b>	<b>103</b>	<b>307</b>	<b>410</b>

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended April 4, 2012 compared to the financial year ended April 4, 2011. We calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein:

	<b>Year ended April 4, 2012</b> <b>compared to year ended April 4, 2011</b>		
	<b>Increase/(decrease) in net interest due to changes in:</b>		
	<b>Volume</b>	<b>Yield/rate</b>	<b>Total net change</b>
	(£ millions)		
<b>Interest income:<sup>(1)</sup></b>			
Loans to credit institutions.....	20	4	24
Debt securities .....	17	75	92
Loans to customers .....	32	536	568
<b>Total interest income .....</b>	<b>69</b>	<b>615</b>	<b>684</b>
<b>Interest expense:<sup>(1)</sup></b>			
UK retail member deposits .....	67	249	316
Amounts owed to credit institutions .....	(14)	(2)	(16)
Amounts owed to other customers.....	(23)	140	117
Debt securities in issue .....	27	170	197
Subordinated liabilities .....	(7)	15	8
Subscribed capital.....	1	1	2
<b>Total interest expense .....</b>	<b>51</b>	<b>573</b>	<b>624</b>
<b>Net interest income .....</b>	<b>18</b>	<b>42</b>	<b>60</b>

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

### Investment Securities Portfolios

As at April 4, 2013, our investment securities portfolios were carried at a book value of £13,421 million, representing 7% of our total assets. Investment securities are split into two portfolios with approximately £9 billion of the assets in the core liquidity portfolio and approximately £4.4 billion of the assets in the non-core portfolio. We only purchase investment-grade debt securities and do not operate a trading portfolio. The following table provides information on the breakdown of our investment securities as at April 4, 2013, 2012 and 2011, respectively:

	As at April 4,		
	2013	2012	2011
	(£ millions)		
<b>Investment securities</b>			
UK government <sup>(1)</sup> .....	5,553	12,796	8,569
Other public sector securities <sup>(2)</sup> .....	2,962	3,750	3,994
Other issuers <sup>(3)</sup> .....	4,906	6,779	8,977
<b>Total</b> .....	<b>13,421</b>	<b>23,325</b>	<b>21,540</b>

Notes:

(1) As at April 4, 2013, UK government securities that we held were equal to 81% of our general and revaluation reserves compared to 196% as at April 4, 2012 and 127% as at April 4, 2011.

(2) Other public sector securities include securities issued by UK local authorities and sovereign debt backed by foreign (non-UK) governments.

(3) As at April 4, 2013, we held no securities issued by counterparties where the values of which individually exceeded 10% of our general and revaluation reserves.

The following table shows the contractual maturity of investment securities held as at April 4, 2013:

	As at April 4, 2013					
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 years but within 10 years	Maturing after 10 years	Accrued Interest	Total
UK government .....	-	105	3,939	1,482	27	5,553
Other public sector securities.....	138	1,511	1,735	-	47	3,431
Other issuers .....	261	917	792	2,451	16	4,437
<b>Total</b> .....	<b>399</b>	<b>2,533</b>	<b>6,466</b>	<b>3,933</b>	<b>90</b>	<b>13,421</b>

The following table presents a further analysis of other issuers as at April 4, 2013, 2012 and 2011, respectively:

	As at April 4,		
	2013	2012	2011
	(£ millions)		
<b>Investment securities – other issuers</b>			
UK financial institutions.....	47	536	410
European financial institutions .....	556	1,045	2,170
Non-European financial institutions .....	148	537	725
ABS .....	3,453	4,339	5,145
Other issuers .....	233	322	527
<b>Total</b> .....	<b>4,437</b>	<b>6,779</b>	<b>8,977</b>

## Loan Portfolio

As at April 4, 2013 total loans to customers excluding fair value adjustments for portfolio hedged risk, including accrued interest, were £158,174 million, representing 82.9% of our total assets. Our loan portfolio has increased by 3.2% during the last financial year from £157,083 million as at April 4, 2012 to £162,109 million as at April 4, 2013.

The following table summarizes our loan portfolio, net of allowances, as at April 4, 2013, 2012 and 2011, respectively:

	As at April 4,		
	2013	2012	2011
	(£ millions)		
<b>Loans to customers:</b>			
Residential mortgage loans.....	135,393	128,645	124,453
Consumer banking.....	3,401	2,888	2,376
Commercial Lending .....	18,958	20,961	21,560
Other lending.....	422	479	481
<b>Total loans to customers.....</b>	<b>158,174</b>	<b>152,973</b>	<b>148,870</b>
Fair value adjustment for micro hedged risk <sup>(1)</sup> .....	1,413	1,196	547
Loans and advances to banks.....	2,522	2,914	4,181
<b>Total .....</b>	<b>162,109</b>	<b>157,083</b>	<b>153,598</b>

Notes:

(1) Under IFRS the carrying value of the hedged item is adjusted for the change in value of the hedged risk.

The following table presents the contractual maturity distribution for repayment for the loans held by us as at April 4, 2013:

	As at April 4, 2013						
	Due on Demand	Due within 3 Months	Due in 3 months to 1 year	Due in 1 year to 5 years (£ millions)	Due after 5 years	Allowances	Total <sup>(1)</sup>
Loans to customers .....	1,921	3,334	5,712	26,502	121,929	(1,224)	158,174
Loans and advances to banks..	2,097	92	-	148	185	-	2,522
<b>Total Loans.....</b>	<b>4,018</b>	<b>3,426</b>	<b>5,712</b>	<b>26,650</b>	<b>122,114</b>	<b>(1,224)</b>	<b>160,696</b>

Note:

(1) The maturity analysis is produced on the basis that where a loan is repayable by installments, each installment is treated as a separate repayment.

The following table presents the split of fixed and variable loans to customers and credit institutions as at April 4, 2013:

	As at April 4, 2013			
	Fixed rate	Variable rate	Outstanding	
			Checks	Total <sup>(1)</sup>
			(£ millions)	
Loans to customers .....	54,838	104,749	-	159,587
Loans to credit institutions.....	427	2,315	(220)	2,522
<b>Total loans .....</b>	<b>55,265</b>	<b>107,064</b>	<b>(220)</b>	<b>162,109</b>

Note:

(1) Outstanding checks were issued by Nationwide mostly on behalf of retail customers, and had not been presented through the banking system as at April 4, 2013.

## Loans in Arrears

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. As a result, the concept of suspended interest and interest write back is no longer recognized.

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2013:

	As at April 4, 2013				
	Prime lending	Specialist lending	Consumer banking	Total	%
(£ billions, except percentages)					
<b>Not impaired:</b>					
Neither past due nor impaired.....	108.2	23.1	3.4	134.6	97%
Past due up to 3 months but not impaired..	1.8	1.2	0.0	3.0	2%
<b>Impaired</b>	<b>0.6</b>	<b>0.7</b>	<b>0.1</b>	<b>1.4</b>	<b>1%</b>
	<b>110.6</b>	<b>25.0</b>	<b>3.5</b>	<b>139.0</b>	<b>100%</b>

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2012:

	As at April 4, 2012				
	Prime lending	Specialist lending	Consumer banking	Total	%
(£ billions, except percentages)					
<b>Not impaired:</b>					
Neither past due nor impaired.....	103.1	21.3	2.9	127.3	97%
Past due up to 3 months but not impaired..	1.9	1.2	0.0	3.1	2%
<b>Impaired</b>	<b>0.5</b>	<b>0.8</b>	<b>0.1</b>	<b>1.4</b>	<b>1%</b>
	<b>105.6</b>	<b>23.3</b>	<b>3.0</b>	<b>131.8</b>	<b>100%</b>

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2011:

	As at April 4, 2011				
	Prime lending	Specialist lending	Consumer banking	Total	%
(£ billions, except percentages)					
<b>Not impaired:</b>					
Neither past due nor impaired.....	101.8	18.2	2.3	122.3	96%
Past due up to 3 months but not impaired..	1.9	1.3	0.1	3.3	3%
<b>Impaired</b>	<b>0.6</b>	<b>0.8</b>	<b>0.1</b>	<b>1.5</b>	<b>1%</b>
	<b>104.3</b>	<b>20.3</b>	<b>2.5</b>	<b>127.1</b>	<b>100%</b>

## Loan Loss Experience

The Group assesses 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 financial assets is impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments or the debt being restructured to reduce the burden on the borrower.

The Group first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2013:

	Prime residential	Specialist residential	Consumer banking (£ millions)	Commercial lending	Other lending	Total
As at April 5, 2012.....	40	162	80	547	14	843
Charge for the year .....	(6)	22	79	493	1	589
Amounts written off during the year	(9)	(87)	(100)	(130)	(3)	(329)
Amounts recovered during the year.	1	4	30	2	2	39
Transfer from credit loss fair value adjustment.....	7	35	-	86	-	128
Unwind of discount of provision .....	(1)	(3)	(2)	(40)	-	(46)
<b>As at April 4, 2013 .....</b>	<b>32</b>	<b>133</b>	<b>87</b>	<b>958</b>	<b>14</b>	<b>1,224</b>

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2012:

	Prime residential	Specialist residential	Consumer banking (£ millions)	Commercial lending	Other lending	Total
As at April 5, 2011.....	40	161	90	463	11	765
Charge for the year .....	13	57	69	247	4	390
Amounts written off during the year	(13)	(60)	(111)	(135)	(3)	(322)
Amounts recovered during the year.	1	2	27	1	2	33
Unwind of discount of provision .....	(1)	2	5	(29)	-	(23)
<b>As at April 4, 2012 .....</b>	<b>40</b>	<b>162</b>	<b>80</b>	<b>547</b>	<b>14</b>	<b>843</b>

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2011:

	Prime residential	Specialist residential	Consumer banking (£ millions)	Commercial lending	Other lending	Total
As at April 5, 2010.....	17	143	148	422	20	750
Charge for the year .....	32	69	83	175	-	359
Amounts written off during the year	(9)	(51)	(156)	(105)	(13)	(334)
Amounts recovered during the year.	1	3	20	-	4	28
Unwind of discount of provision .....	(1)	(3)	(5)	(29)	-	(38)
<b>As at April 4, 2011 .....</b>	<b>40</b>	<b>161</b>	<b>90</b>	<b>463</b>	<b>11</b>	<b>765</b>

The following table shows the allowances for loan losses as a percentage of total loans, analyzed by category:

As at April 4,		
2013 <sup>(1)</sup>	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>

	(percentages)		
<b>Total Allowances as a % of total loans<sup>(1)</sup></b>			
Residential .....	0.12	0.16	0.16
Commercial .....	4.81	2.54	2.10
Consumer.....	2.49	2.70	3.65
Other .....	3.21	2.84	2.24
<b>Total loans .....</b>	<b>0.77</b>	<b>0.55</b>	<b>0.51</b>
<b>% of loans in each category to total loans</b>			
Residential mortgage loans .....	85.6	84.1	83.6
Commercial .....	12.0	13.7	14.5
Consumer.....	2.2	1.9	1.6
Other .....	0.2	0.3	0.3
<b>Total loans .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note:

(1) The loan balances for the financial years ended April 4, 2013, 2012 and 2011 are summarized earlier in this section of the Base Prospectus.

### Deposits

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2013:

	For year ended April 4, 2013	
	Average balance	Average rate paid
	(£ millions, except percentages)	
UK retail member deposits .....	125,264	2.19%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	17,089	0.04%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2012:

	For year ended April 4, 2012	
	Average balance	Average rate paid
	(£ millions, except percentages)	
UK retail member deposits .....	125,456	2.25%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	16,117	0.09%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2011:

	For year ended April 4, 2011	
	Average balance	Average rate paid
	(£ millions, except percentages)	
UK retail member deposits .....	122,259	2.05%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	15,140	1.70%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

As explained in “*Description of Business—Retail Funding*”, our member accounts include both instant access accounts, from which funds may be withdrawn on demand, and notice accounts, from which funds withdrawn without appropriate notice may be subject to penalties. The approximate split of UK retail member deposits between instant access accounts and notice accounts as at April 4, 2013, is as follows:

	<b>As at April 4, 2013</b> (£ millions)
Instant access accounts <sup>(1)</sup> .....	48,484
Notice accounts <sup>(2)</sup> .....	76,515
Accrued interest .....	575
UK retail member deposits .....	125,574

Notes:

(1) Includes current, transactional, on demand and instant access accounts.  
 (2) Includes tax advantaged savings accounts, fixed-notice accounts and fixed-term accounts.

### Maturity of Deposits

The following table shows the maturity analysis of time deposits over \$100,000 and certificates of deposit as at April 4, 2013:

	<b>As at April 4, 2013</b>			
	<b>Time deposits</b>	<b>Certificates Of deposit</b> (£ millions, except percentages)	<b>Total</b>	<b>%</b>
Less than 3 months .....	2,259	1,840	4,099	54.3
3 months to 6 months.....	845	1,566	2,411	31.9
6 months to 1 year.....	553	483	1,036	13.7
Over 1 year .....	5	-	5	0.1
<b>Total</b> .....	<b>3,662</b>	<b>3,889</b>	<b>7,551</b>	<b>100.0%</b>

### Return on Assets

The following table represents net income as a percentage of total average assets for the financial year ended April 4, 2013:

	<b>For the year ended April 4, 2013</b>	
	(£ millions, except percentages)	
Net income <sup>(1)</sup> .....	210	
Total average assets <sup>(2)</sup> .....	193,881	
Return on total average assets.....	0.11%	

Notes:

(1) Net income represents profit for the financial year after tax.  
 (2) Total average assets is based on the total assets as of the end of each month during the financial year.

The following table represents net income as a percentage of total average assets for the financial year ended April 4, 2012:

	<b>For the year ended April 4, 2012</b>	
	(£ millions, except percentages)	
Net income <sup>(1)</sup> .....	179	
Total average assets <sup>(2)</sup> .....	195,568	
Return on total average assets.....	0.09%	

Notes:

(1) Net income represents profit for the financial year after tax.  
 (2) Total average assets is based on the total assets as of the end of each month during the financial year.

The following table represents net income as a percentage of total average assets for the financial year ended April 4, 2011:

<b>For the year ended April 4, 2011</b>	
	<i>(£ millions, except percentages)</i>
Net income <sup>(1)</sup> .....	248
Total average assets <sup>(2)</sup> .....	189,367
Return on total average assets.....	0.13%

Notes:

(1) Net income represents profit for the financial year after tax.

(2) Total average assets is based on the total assets as of the end of each month during the financial year.

As a mutual organization, 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 generally higher interest rates on savings and lower interest rates on loans than those offered by our main competitors. As a result, we typically earn lower profits than our main competitors, which are typically banks or other non-mutual organizations. However, we pay no dividends, and our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements.

We have not presented any information regarding returns on equity because, as a mutual organization, we do not have equity.

## FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments incorporate the vast majority of the Group and Society's assets and liabilities. Given the dominant position of the Society within the Group structure, the term 'Group' is used in the remainder of this note to cover the activities of both Group and Society.

The Group accepts deposits from customers at fixed and variable interest rates for various periods and seeks to earn an interest margin by investing these funds in high quality assets, predominantly mortgages. The principal risks which arise from this core activity, and which need to be managed by the Group, are interest rate risks (including basis risk), credit risks, foreign exchange, liquidity and funding risks.

All risks are monitored and managed within the Enterprise Risk Management Framework ("ERMF"), which the Group has continued to upgrade and strengthen. The ERMF comprises a Board-approved risk appetite, detailed risk management frameworks (including policies and supporting documentation), and independent governance and oversight functions.

The Group also uses derivative instruments to manage various aspects of risk. However, in doing so it complies with the UK Building Societies Act which limits our use of derivatives to the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

### Derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency swaps, interest rate futures, foreign exchange contracts and equity index swaps. Derivatives are used to hedge balance sheet and income exposures arising, *inter alia*, from fixed rate mortgage lending, fixed rate savings products, funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. Group risk exposures are recorded on the Society's information systems and monitored accordingly.

The following table describes the significant activities undertaken by the Group, the risks associated with such activities and the types of derivatives which are used in managing such risks. Such risks may alternatively be managed using cash instruments as part of an integrated approach to risk management:

Activity	Risk	Type of derivative instrument used
Savings products and funding activities involving instruments which are fixed rate with embedded options	Sensitivity to changes in interest rates	Interest rate swaps, interest rate futures, swaptions, and forward rate agreements
Mortgage lending and investment activities involving instruments which are fixed rate or which include explicit or embedded options	Sensitivity to changes in interest rates, including differential between Base Rate and LIBOR	Interest rate swaps including basis swaps, interest rate futures, swaptions, caps, collars and forward rate agreements
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency swaps and foreign exchange contracts
PEB savings products	Sensitivity to changes in stock indices	Equity index swaps

The accounting policy for derivatives and hedge accounting is described in the Statement of Accounting Policies. Where possible, fair value hedge accounting is employed but no use is currently made of cash flow hedge accounting.

The Board and the Assets and Liabilities Committee ("ALCO") are responsible for setting certain parameters respectively over the Group exposure to interest rates, foreign exchange rates and other indices. The Lending Committee for Retail, Commercial and Treasury sets Group credit policy and regularly monitors and reviews credit exposures arising in all aspects of Group operations, including derivatives. ALCO and the Lending Committee are also responsible for mandating, directing and overseeing the Weekly Trading Committee. All risk committees are overseen by the

Executive Risk Committee, while the Board Risk Committee provides oversight of the risk framework for the Group including governance.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with certain counterparties are collateralized (e.g. with cash deposits), to mitigate credit exposures. All Group derivatives activity is contracted with Organization for Economic Co-operation and Development financial institutions.

The principal financial risks to which the Group is exposed are interest rate, credit, foreign exchange, liquidity and funding risk. Each of these is considered below.

### **Interest rate risk**

The primary market risk faced by the Group is interest rate risk. The net interest income and market value of the Group's assets are exposed to movements in interest rates. This exposure is managed on a continuous basis, within parameters set by ALCO, using a combination of derivative instruments, cash instruments (such as loans, deposits and bonds), and contractual terms within products and associated procedures.

The Group does not run a trading book and therefore does not have the higher risk exposure run by many banking institutions. Given our policy of hedging fixed rate assets and liabilities back to floating rate, interest rate market value risk arises mainly from the Board's decision to invest the Group's reserves according to a fixed rate maturity profile specified by ALCO. The level of risk can deviate from this, subject to limits, in particular as a result of decisions made by the Group's Treasury department to temporarily deviate from the specified fixed rate maturity profile in the light of market conditions.

Interest rate earnings risk arises mainly from the diversity of product terms and associated procedures adopted by the Group in originating and administering retail and commercial products. Should reported exposure approach internal risk parameters, action is initiated by ALCO to mitigate such exposure, through changes to these product terms and procedures or to the product mix, or through the use of derivatives.

The Group uses several metrics to monitor interest rate risk, and details of these are set out below. The controls around these metrics have been set by the Board or by ALCO and reflect the Group's low risk appetite.

*Value at Risk (“VaR”).* This is a technique that estimates the potential losses that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. In its day-to-day monitoring Nationwide uses a 10 day horizon and a 99% confidence level.

The VaR model used by Nationwide incorporates underlying risk factors based on interest rate volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years equally weighted. Exposures against limits are reviewed daily by management. Actual outcomes are monitored periodically to test the validity of the assumptions and factors used in the VaR calculation.

Although a valuable guide to risk, VaR needs to be viewed in the context of the following limitations:

- historic data is not necessarily a good guide to future events;
- the use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence. The VaR numbers may not encompass all potential events, particularly those that are extreme in nature; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

*Sensitivity analysis (PV01 sensitivity).* This is used to assess the change in value of the Group's current net worth against a one basis point (0.01%) parallel shift in interest rates. As is the case with VaR, this analysis is done on a daily basis separately for each currency (but with the main risk arising from sterling exposures) and in aggregate.

*Stress testing (PV200 sensitivity).* This is calculated in a similar manner to PV01 but against a much more severe 200 basis point (2.0%) parallel shift in interest rates. Both PV01 and PV200 numbers are generated and monitored daily.

Change in value of the Group's current net worth is also calculated against a range of non-linear stresses to the yield curve. This output is reported and monitored on a regular basis.

The average gross exposures (after deduction of the above mentioned specified fixed rate maturity profile for the Group's reserves) through the reporting period are as follows:

	2013			2012		
	Average	High	Low	Average	High	Low
	(£ millions)					
VaR.....	0.8	1.8	0.1	0.5	1.4	0.1
Sensitivity analysis (PV01).....	0.0	0.1	(0.1)	0.0	0.1	(0.1)
Stress testing (PV200: all currencies).....	7.9	22.3	16.2	6.8	21.0	7.9

*Earnings risk.* Earnings risks are calculated using a variety of stochastic and deterministic scenarios.

Interest rate earnings risks, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, for example LIBOR and BoE Base Rate) and prepayment risk (the risk of loss arising from early repayment of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

The sensitivity of the Group net interest margin to changes in interest rates is measured monthly using a dynamic forecasting model and interest rate scenarios, and is calculated for a forward period of 12 months.

### Credit risk

The Group takes on exposure to credit risk, which is defined as the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for credit exposures where the Group does not expect to receive contractual cash flows when due. Significant changes in the economy, or from individual exposures, could result in losses that are different from those provided for at the balance sheet date. There could also be idiosyncratic factors that might lead a particular investment to suddenly perform worse than expected.

The Group's Lending Committee is responsible for approving and monitoring the Group's credit exposures, which it does through a formal annual review and the approval of the Group's lending policies. Regular monitoring and review of lending is undertaken through detailed management information including the performance of credit scoring systems for all retail lending. Formal limits are set and reviewed at individual, sector and portfolio levels. Summary minutes of the Lending Committee together with key risk monitoring metrics are reviewed by the Executive Risk Committee.

Prior to advancing funds, an assessment is made of the credit quality of borrowers and other counterparties for all lending to both retail and commercial customers. Retail lending is subject to credit scoring and lending policies. Commercial lending is based on counterparty assessment that includes the use of multiple rating methodologies.

Credit risk within our Treasury Division arises primarily from the investments held by Treasury for liquidity and investment purposes and for income generation purposes. This aspect of credit risk is managed by our Treasury Credit Team within the Treasury Division and overseen by Group Lending Risk. The Treasury Credit Team underwrites all new facilities and monitors existing facilities. It also sets and monitors compliance with policy and limits, reporting to the Treasury Lending Risk Forum and then to the Lending Committee, when appropriate. In addition, counterparty credit risk arises from the use of derivatives where the market values are positive.

The Treasury Credit function monitors exposure concentrations against a variety of criteria including industry sector, asset class, and country of risk. The Treasury portfolio exposure is well spread across both industry sectors and jurisdictions. Nationwide has no exposure to emerging markets or hedge funds and modest exposure to non-investment grade debt.

The following table presents the Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements and after allowance for impairment where appropriate. The maximum exposure to loss for off-balance sheet financial instruments is considered to be their contractual nominal amounts:

	2013		Maximum credit risk exposure (£ millions)	2012		Maximum credit risk exposure
	Carrying value	Commitments		Carrying value	Commitments	
Cash	7,886	-	7,886	8,126	-	8,126
Loans and advances to banks	2,522	423	2,945	2,914	437	3,351
Investment securities – AFS	13,421	-	13,421	23,325	-	23,325
Derivative financial instruments	4,212	-	4,212	4,176	-	4,176
Future value adjustment for portfolio hedged risk	872	-	872	1,330	-	1,330
Loans and advances to customers	159,587	6,736	166,323	154,169	4,853	159,022
Investment in equity shares	28	-	-	29	-	29
	<b>188,528</b>	<b>7,159</b>	<b>195,687</b>	<b>194,069</b>	<b>5,290</b>	<b>199,359</b>

In addition to the figures shown above, the Group has, as part of its retail operations, commitments of £7,169 million (year ended April 4, 2012: £6,721 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

#### Foreign exchange risk

Foreign exchange risk is the risk that the sterling value of, or net income from, assets and liabilities that are denominated in foreign currency changes as a consequence of changes to foreign exchange rates.

In addition to commercial loans denominated in euro, a significant proportion of Treasury funding and investment activity is undertaken in foreign currencies. Foreign currency exposure is hedged on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels.

In line with the prudential guidance applying to all building societies and after taking account of foreign currency derivatives, the Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. ALCO sets limits on the level of exposure by currency, which are monitored daily.

VaR is used to monitor the risk arising from open foreign currency positions. Open currency positions represent the net value of assets, liabilities and derivatives in foreign currency. The parameters of the VaR methodology, and frequency of reporting are exactly as described above under Interest Rate Risk.

The average gross sterling equivalent exposures for foreign exchange risk through the year are as follows:

	2013			2012		
	Average	High	Low	Average	High	Low
	(£ millions)					
VaR.....	0.3	0.8	0.0	0.3	0.7	0.0

#### Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to maintain all of the following capabilities:

- to meet its financial obligations as they fall due (including any unexpected adverse cash flow);
- to smooth out the effect of maturity mismatches; or

- to maintain public confidence.

Funding risk is the risk associated with the impact on the Group's cash flow from higher funding costs or the inability to access funding markets.

The Group management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow imbalances and fluctuations in funding, to retain full public confidence and to enable it to meet all financial obligations as they fall due, even during periods of stress. This is achieved through maintaining a prudent level of high quality liquid assets, through management and stress testing of business cash flows and through management of funding facilities. The Group liquidity and funding risk policy is approved by ALCO and reviewed by the Board.

Liquid assets are categorized according to their liquidity characteristics. The most liquid category of assets predominantly comprises holdings of unencumbered high-quality sovereign-issued securities and deposits with central banks and is aligned to the "liquid asset buffer" defined in BIPRU 12. Assets may be acquired through direct purchase, through repurchase agreements or through collateral swaps. Encumbered assets are excluded from the calculation of liquid assets which is conducted on a daily basis.

The Board is responsible for setting limits for the minimum level of liquidity resources. A series of liquidity stress tests are performed daily to determine the required levels of liquidity. The Board has also set limits for the funding mix of the balance sheet.

ALCO is responsible for setting more detailed limits within the context of overall Board limits, including the level and maturity profile of funding, and for monitoring the composition of the Group balance sheet. Wholesale and retail funding maturities are monitored to ensure that there is not excessive concentration in future maturities. This enhances the ability of the Group to refinance maturing liabilities. A consolidated cash flow forecast is maintained on an ongoing basis and reviewed by the weekly trading committee, which has responsibility for the monitoring of liquidity measures and limits.

Fixed rate sovereign debt securities are held for liquidity purposes. When swapped to a floating rate using an interest rate swap, the net market value of the security and swap is subject to changes in the relative spreads on sovereign debt and interest rate swaps. This risk is only realized if the debt is sold ahead of maturity (rather than being converted through repurchase agreements), and is subject to a trigger set by ALCO.

A Contingency Funding Plan has been approved by ALCO, and describes procedures and available actions to manage the Group's liquidity resources through a period of market-wide and/or Nationwide-specific disruption. This is reviewed every six months and various components are tested on a scheduled basis.

The table below analyzes the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. In practice, customer deposits will be repaid later than on the earliest date on which repayment can be required. As such, Nationwide uses past performance of each asset and liability class along with expert judgment to forecast the likely cash flow requirements of the Group.

The carrying values of derivative financial instruments are included in the columns according to their contractual maturity:

As at April 4, 2013 Residual maturity	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Assets</b>						
Cash	7,886	-	-	-	-	7,886
Loans and advances to banks	2,097	92	-	148	185	2,522
Investment securities – available for sale	-	30	455	2,533	10,403	13,421
Loans and advances to customers	697	3,334	5,721	26,671	123,164	159,587
Derivative financial	-	169	491	1,585	1,967	4,212

instruments						
Other financial assets	-	20	59	537	292	908
<b>Total financial assets</b>	<b>10,680</b>	<b>3,645</b>	<b>6,726</b>	<b>31,474</b>	<b>136,011</b>	<b>188,536</b>
<b>Liabilities</b>						
Shares	77,103	8,765	20,246	17,877	1,583	125,574
Deposit from banks	1,688	248	250	1,001	43	3,230
<i>Of which repo</i>	-	12	190	1,000	-	1,202
Other deposits	362	2,050	1,345	2,990	-	6,747
Due to customers	3,812	846	1,183	119	-	5,960
Secured funding – ABS and covered bonds	-	153	2,118	12,424	6,177	20,872
Senior unsecured	-	4,943	3,217	2,722	1,675	12,557
Derivative financial instruments	-	57	144	1,124	2,560	3,885
Other financial liabilities	-	4	21	125	-	150
Subordinated liabilities	-	130	169	1,536	705	2,540
Subscribed capital	-	3	-	352	949	1,304
<b>Total financial liabilities</b>	<b>82,965</b>	<b>17,199</b>	<b>28,693</b>	<b>40,270</b>	<b>13,692</b>	<b>182,819</b>
<b>Net liquidity gap</b>	<b>(72,285)</b>	<b>(13,554)</b>	<b>(21,693)</b>	<b>(8,796)</b>	<b>122,319</b>	<b>5,717</b>

As at April 4, 2012 Residual maturity	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Assets</b>						
Cash	8,126	-	-	-	-	8,126
Loans and advances to banks	2,197	377	-	148	192	2,914
Investment securities – available for sale	-	144	1,756	6,261	15,164	23,325
Loans and advances to customers	835	1,775	4,750	26,926	119,883	154,169
Derivative financial instruments	-	164	650	1,735	1,627	4,176
Other financial assets	-	70	307	555	427	1,359
<b>Total financial assets</b>	<b>11,158</b>	<b>2,530</b>	<b>7,463</b>	<b>35,625</b>	<b>137,293</b>	<b>194,069</b>
<b>Liabilities</b>						
Shares	67,469	7,614	28,794	21,267	473	125,617
Deposits from banks	836	314	53	2,145	22	3,370
<i>Of which repo</i>	-	-	-	1,192	-	1,192
Other deposits	356	2,582	1,049	2,260	652	6,899
Due to customers	3,791	467	1,212	363	-	5,833
Secured funding – ABS and covered bonds	-	248	3,227	13,395	6,429	23,299
Senior unsecured	-	8,010	2,920	2,747	1,878	15,555
Derivative financial instruments	-	116	288	1,294	2,589	4,287
Other financial liabilities	-	2	36	240	-	278
Subordinated liabilities	-	-	-	438	1,206	1,644
Subscribed capital	-	-	349	329	947	1,625
<b>Total financial</b>	<b>72,452</b>	<b>19,353</b>	<b>37,928</b>	<b>44,478</b>	<b>14,196</b>	<b>188,407</b>

liabilities						
<b>Net liquidity gap</b>	<b>(61,294)</b>	<b>(16,823)</b>	<b>(30,465)</b>	<b>(8,853)</b>	<b>123,097</b>	<b>5,662</b>

Liquid assets include cash, loans and advances to banks and available for sale investment securities. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

The analysis above excludes other assets including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and certain other liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities:

For the year ended April 4, 2013						
Gross contractual cash flows	Repayable on demand	Up to 3 months	3 – 12 months (£ millions)	1 – 5 years	More than 5 years	Total
Shares	77,103	8,981	20,672	18,603	1,647	127,006
Deposits from banks	1,688	255	268	1,045	45	3,301
Other deposits	362	2,077	1,400	3,110	-	6,949
Due to customers	3,812	855	1,194	124	-	5,985
Secured funding – ABS and covered bonds	-	62	2,631	13,302	6,745	22,740
Senior unsecured	-	4,929	3,408	3,238	1,949	13,524
Derivative financial instruments	-	257	675	2,038	704	3,674
Other financial liabilities	-	5	23	130	-	158
Subordinated liabilities	-	4	273	2,075	764	3,116
Subscribed capital	-	10	60	563	1,106	1,739
<b>Total financial liabilities</b>	<b>82,965</b>	<b>17,435</b>	<b>30,604</b>	<b>44,228</b>	<b>12,960</b>	<b>188,192</b>
<b>Off-balance sheet commitments</b>	<b>-</b>	<b>4,842</b>	<b>351</b>	<b>1,227</b>	<b>739</b>	<b>7,159</b>

For the year ended April 4, 2012						
Gross contractual cash flows	Repayable on demand	Up to 3 months	3 – 12 months (£ millions)	1 – 5 years	More than 5 years	Total
Shares	67,469	7,925	29,412	22,250	495	127,551
Deposits from banks	836	332	104	2,281	24	3,577
Other deposits	356	2,623	1,129	2,481	703	7,292
Due to customers	3,791	481	1,235	386	-	5,893
Secured funding – ABS and covered bonds	-	65	2,514	15,033	7,366	24,978
Senior unsecured	-	7,948	3,924	5,012	1,870	18,754
Derivative financial instruments	-	395	977	2,575	751	4,698
Other financial liabilities	-	4	42	255	-	301
Subordinated liabilities	-	4	290	841	954	2,089
Subscribed capital	-	10	431	588	1,143	2,172
<b>Total financial</b>	<b>72,452</b>	<b>19,787</b>	<b>40,058</b>	<b>51,702</b>	<b>13,306</b>	<b>197,305</b>

<b>liabilities</b>					
<b>Off-balance sheet commitments</b>	<b>-</b>	<b>3,213</b>	<b>371</b>	<b>1,084</b>	<b>622</b>
					<b>5,290</b>

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the balance sheet date.

#### **Fair values of financial assets and liabilities**

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group balance sheets at fair value:

	<b>Group</b>	
	<b>Carrying value</b>	<b>Fair value</b>
<b>2013</b>		<i>(£ millions)</i>
<b>Financial assets</b>		
Loans and advances to banks	2,522	2,522
Loans and advances to customers:		
Residential mortgages	135,393	130,871
Consumer banking	3,401	3,413
Commercial lending	20,371	20,752
Other lending	422	422
<b>Financial liabilities</b>		
Shares	125,574	125,316
Deposits from banks	3,230	3,232
Other deposits	6,747	7,126
Due to customers	5,960	5,958
Debt securities in issue	33,429	34,003
Subordinated liabilities	2,540	2,566
Subscribed capital	1,304	1,012

	<b>Group</b>	
	<b>Carrying value</b>	<b>Fair value</b>
<b>2012</b>		<i>(£ millions)</i>
<b>Financial assets</b>		
Loans and advances to banks.....	2,914	2,914
Loans and advances to customers:.....		
Residential mortgages.....	128,645	123,655
Consumer banking.....	2,888	2,900
Commercial lending.....	22,157	21,930
Other lending.....	479	480
<b>Financial liabilities</b>		
Shares.....	125,617	125,968
Deposits from banks .....	3,370	3,570
Other deposits .....	6,899	6,900
Due to customers .....	5,833	5,836
Debt securities in issue .....	38,854	38,684
Subordinated liabilities .....	1,644	1,513
Subscribed capital.....	1,625	1,121

### **Loans and advances to customers**

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received based on expectations of future interest rates and future loan repayment profiles. For fixed rate loans, discount rates are based on the market offer rates currently available for equivalent fixed rate products. For retail variable rate loans, estimated future cash flows are discounted at the currently available market standard variable interest rate. Similar types of retail loan products are grouped together and the expected capital cash flows are discounted at the differential between the current product rate and the standard variable rate to determine fair value. The fair value estimations do not incorporate adjustments for future credit risk. However, incurred loss provisions are deducted from the fair value amounts.

### **Shares, deposits and borrowings**

The estimated fair value of deposits with no stated maturity (including non-interest bearing deposits) is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market price represents the discounted amount of estimated future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalization. For variable interest rate deposits, estimated future cash flows are discounted using current market interest rates for new debts with similar remaining maturity. For fixed rate shares and deposits, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

### **Debt securities in issue**

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

### **Fair value measurement**

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

2013	Level 1	Level 2	Level 3	Total
<b>Group</b>				
			(£ millions)	
<b>Financial Assets</b>				
Investment securities—AFS .....	8,461	4,720	60	13,421
Investments in equity shares .....	-	-	28	28
Derivative financial instruments .....	-	3,828	384	4,212
Other financial assets	-	8	-	8
	<b>8,461</b>	<b>8,556</b>	<b>472</b>	<b>17,669</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(3,875)	(10)	(3,885)
Other deposits—PEB .....	-	-	(2,985)	(2,985)
	<b>-</b>	<b>(3,875)</b>	<b>(2,995)</b>	<b>(6,870)</b>
2012	Level 1	Level 2	Level 3	Total
<b>Group</b>				
			(£ millions)	
<b>Financial Assets</b>				

2012 Group	Level 1	Level 2	Level 3	Total
(£ millions)				
Investment securities – AFS .....	16,493	6,756	76	23,325
Investments in equity shares .....	9	-	20	29
Derivative financial instruments .....	-	3,942	234	4,176
	<b>16,502</b>	<b>10,698</b>	<b>330</b>	<b>27,530</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(4,250)	(37)	(4,287)
Other deposits – PEB .....	-	-	(2,890)	(2,890)
	<b>(4,250)</b>	<b>(2,927)</b>		<b>(7,177)</b>

Notes:

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

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, ABS, certain CDOs, CLOs and OTC derivatives.

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 ABS and bonds.

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. The Group recommenced the practice of fair valuing a portion of the mortgage commitments on the balance sheet during the year.

The Group's Level 1 portfolio comprises highly rated government and multi-lateral development securities for which traded prices are readily available and during the year ended April 4, 2013, the Group has reduced this portfolio in response to the changing regulatory environment created by the FLS. There were no significant transfers between the Level 1 and Level 2 portfolios during the year.

Level 2 investment securities – AFS assets are sourced from consensus pricing or other observable market prices. None of these Level 2 AFS assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

Composition of and movements in the Level 3 portfolio are described below.

The main constituents of the Level 3 portfolio are as follows:

**Investment securities – AFS**

The Group's £60 million Level 3 investment securities – AFS assets as at April 4, 2013 comprised £59 million of CDOs, including CDOs with a fair value of £13 million that are subject to impairment. Substantially all of these securities are priced from internal models based on observable and unobservable performance assumptions.

**Investments in equity shares**

The Level 3 investments in equity shares of £28 million as at April 4, 2013 consist primarily of an interest in a fund which is supported by zero coupon bonds of an A-rated bank. External valuations are used to obtain the fair value of the instrument.

**Derivative financial instruments**

Level 3 assets and liabilities in this category are equity linked derivatives with external counterparties which economically match the investment return payable by the Group to customers invested in the PEB product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party.

**Other deposits—PEB**

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEB's liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivative as valued by an external third party.

**Level 3 portfolio – movements analysis**

The table below analyzes movements in the Level 3 portfolio:

2013 Group	Investment securities – AFS	Investments in equity shares	Derivative financial instruments – liabilities	Other deposits
	(£ millions)			
As at April 4, 2012	76	20	197	(2,890)
(Loss)/gain recognized in the income statement:				
Net interest (expense)/income	-	-	(52)	-
Gains/(losses) from derivatives and hedge accounting	-	-	174	(160)
Impairment losses on investment securities	(23)	-	-	-
(Loss)/gain recognized in other comprehensive income:				
Fair value movement taken to equity	3	8	-	-
Settlements	-	-	55	65
Transfers into Level 3	4	-	-	-
<b>As at April 4, 2013</b>	<b>60</b>	<b>28</b>	<b>374</b>	<b>(2,985)</b>

2012 Group	Investment securities – AFS	Investments in equity shares	Derivative financial instruments – liabilities	Other deposits
	(£ millions)			
As at April 4, 2011	95	98	12	(2,125)
(Loss)/gain recognized in the income statement:				
Net interest (expense)/income	1	-	(53)	-
Gains/(losses) from derivatives and hedge accounting	-	-	185	(179)
Impairment losses on investment securities	(9)	(7)	-	-
(Loss)/gain recognized in other comprehensive income:				
Fair value movement taken to equity	(6)	(6)	-	-
Issues	-	-	-	(635)
Additions	-	2	-	-
Settlements	-	(67)	53	49
Transfers out of Level 3	(5)	-	-	-

As at April 4, 2012

	<b>76</b>	<b>20</b>	<b>197</b>	<b>(2,890)</b>
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The significant movements in Level 3 positions during the year ended April 4, 2012 are explained below:

- A reduction in investment securities driven by the further impairment of a UK CMBS asset, partially offset by transfers of three assets from Level 2 to Level 3, together with a price increase in a CDO asset;
- An increase in investments in equity shares due to price increases driven by an improvement in both the issuer's credit default swap and CLO values;
- An increase in other deposits—PEB related to positive stock market performance over the past 12 months (settlements are due to customers withdrawing their deposits);
- An increase in net derivative financial instruments due to an increase in the market value of the derivatives (settlements were interest paid together with swap receipts for early redemption).

#### Level 3 portfolio – sensitivity analysis

The table below provides sensitivity analysis of reasonably possible alternative valuation assumptions for the assets in the Level 3 portfolio:

<b>2013</b> <b>Group</b>	<b>Carrying value</b>	<b>Increase in fair value</b> (£ millions)	<b>Decrease in fair value</b>
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	60	15	(11)
Investments in equity shares .....	28	-	(7)
	<b>88</b>	<b>15</b>	<b>(18)</b>
Increases/(decreases) in fair value would be recognized in: .....			
Income statement .....		5	(2)
Statement of other comprehensive income (accumulated in the AFS reserve) .....		10	(16)
		<b>15</b>	<b>(18)</b>
<b>2012</b> <b>Group</b>	<b>Carrying value</b>	<b>Increase in fair value</b> (£ millions)	<b>Decrease in fair value</b>
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	53	16	(30)
CMBS .....	23	16	(15)
Investments in equity shares .....	20	2	(4)
	<b>96</b>	<b>34</b>	<b>(49)</b>
Increases/(decreases) in fair value would be recognized in: .....			
Income statement .....		23	(20)
Statement of other comprehensive income (accumulated in the AFS reserve) .....		11	(29)
		<b>34</b>	<b>(49)</b>

Reasonable alternative assumptions applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The scenarios applied are considered for each product and varied according to the quality of the data and variability of the underlying market.

Any increases in fair values of the PEB derivative financial instruments would be offset by decreases in the fair values of the associated PEB deposit and vice versa. Any resultant impact is deemed by the Group to be immaterial, therefore these items have been excluded from the table above.

***Investment securities – AFS***

*Collateralized debt obligations*

Sensitivities on these assets where there are no alternative pricing sources have been calculated by applying a range of probable scenarios against our current valuation process, resulting in a range of possible prices.

*Commercial mortgage backed securities*

Sensitivities on this asset, which is subject to impairment, have been derived from a modeled approach using estimated expected losses at legal maturity and risk adjusted discount rates.

*Investments in equity shares*

Sensitivities in these holdings have been based on the prices seen in these holdings in the preceding 12 months. As the highest price in the previous 12 months was equal to the current price, there is no upper sensitivity of fair value.

## MANAGEMENT

Our business is under the control of our Board of Directors. Each director is elected annually by the members. The executive directors are the Chief Executive, the Group Finance Director, the Group Retail Director and the Chief Operating Officer, Group Operations. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under our rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board meeting to form a quorum.

No potential conflicts of interest exist between any duties to us, as Issuer, of the persons on the board of directors and their private interests or other duties.

### Directors

The following table presents information with respect to current directors:

Name	Age	Position	Other Directorships
Geoffrey Howe	63	Chairman	Gateway Electronics Components Limited Close Brothers Group plc Jardine Lloyd Thompson Group plc, Chairman The Cavendish School Charitable Trust Limited
Graham Beale	54	Chief Executive	
Mark Rennison	52	Group Finance Director	Confederation Mortgage Services Limited Exeter Trust Limited First Nationwide LBS Mortgages Limited Nationwide Anglia Property Services Limited Nationwide Investments (No.1) Limited Nationwide Housing Trust Limited Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited Staffordshire Financial Services Limited Staffordshire Leasing Limited NBS Fleet Services Limited
Chris Rhodes	50	Group Retail Director	Derbyshire Home Loans Limited E-Mex Home Funding Limited The Mortgage Works (UK) plc U C B Home Loans Corporation Limited at.home nationwide Limited Jubilee Mortgages Limited The Nationwide Foundation Visa Europe Ltd National Numeracy (Trustee)
Rita Clifton	55	Non-executive Director	The British United Provident Association Limited Populus Limited WWF—UK (Trustee) Henley Festival Limited BrandCap Ltd The Conservation Volunteers TCV Employment and Training Services

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Other Directorships</b>
			Limited BTCV Rita Clifton Limited
Tony Prestedge	43	Chief Operating Officer	Nationwide Anglia Property Services Limited Dunfermline BS Nominees Limited Monument (Sutton) Limited The Derbyshire (Premises) Limited Opportunity Now
Michael Jary	49	Non-executive Director	Duchy Originals Limited OC&C Peleus Advisors LLP OC&C Strategy Consultants Limited OC&C Strategy Consultants International (Netherlands) PCF Social Enterprises Limited The Michael Jary Charitable Trust
Roger Perkin	65	Non-executive Director	Electra Private Equity plc Electra Private Equity Investments plc Crime Reduction Initiatives Bower Bequest Trustee Company Limited Tullett Prebon plc
Alan Dickinson	62	Non-executive Director	Kennington Oval Limited Frogmore Property Company Limited Motability Carpetright plc Willis Ltd Brown Shipley & Co. Limited
Mitchel Lenson	59	Non-executive Director	Eclipse Film Partners No.4 LLP Eclipse Film Partners No.39 LLP The Invicta Film Partnership No.37, LLP Elysian Fuels 1 LLP Elysian Fuels 2 LLP MVA Consultant Services Limited
Lynne Peacock	58	Non-executive Director	Hawkins Residents Limited Scottish Water Scottish Water Business Stream Holdings Limited Scottish Water Horizon Holdings Limited Standard Life plc Standard Life Charitable Trust

## Biographies

### **Geoffrey Howe**

#### Group Chairman

Geoffrey Howe joined the Board in 2005 and became Chairman of the Society in July 2007. He has considerable regulatory, management and legal experience in financial services, insurance and investment markets. He is currently Chairman of Jardine Lloyd Thompson Group plc and a director of Close Brothers Group plc. Geoffrey was formerly Chairman of Railtrack Group plc, a director of Investec plc and General Counsel of Robert Fleming Holdings Limited and Managing Partner of international law firm Clifford Chance.

### **Graham Beale**

#### Chief Executive

Graham Beale joined the Society in 1985. He is a chartered accountant by training and was appointed to the Board as Group Finance Director in April 2003. He took up his current role as Chief Executive in April 2007. Prior to his appointment to the Board, he worked extensively in the Finance function and held a number of senior, general management positions within the Society. As Chief Executive, Graham leads the strategic direction of the Group and oversees its operation through the Executive Committee which comprises the Executive and Group Directors. Graham is also responsible for Group Legal & Compliance. Graham is Chairman of the Financial Conduct Authority Practitioner Panel, a member of the Building Societies Association Council and a director of the British Bankers' Association.

### **Mark Rennison**

#### Group Finance Director

Mark Rennison is a chartered accountant who joined the Society and was appointed to the Board in February 2007. He is responsible for Finance, Treasury, Group Internal Audit and Business Protection. He is a director of various Society subsidiaries. Prior to his appointment, Mark was a partner at PricewaterhouseCoopers LLP where he worked in the financial services practice with a specific focus on retail and corporate banking. He has also worked extensively with group treasury operations, leasing and asset finance businesses.

### **Chris Rhodes**

#### Executive Director Group Retail

Chris Rhodes is a chartered accountant who joined the Society in April 2009 from Abbey Santander, where he was Director of Retail Distribution for Alliance & Leicester Public Limited Company. Chris has spent 20 years working in the financial services sector and his previous positions include Deputy Managing Director of Girobank Plc and Retail Operations Director at Alliance & Leicester Public Limited Company. In 2003, he was appointed Managing Director of Retail Banking for the entire Alliance & Leicester Group and in 2007, became Group Finance Director, a role he held until the merger with Santander in 2008. His responsibilities include Nationwide's retail product range, distribution and marketing.

### **Rita Clifton**

#### Non Executive Director

Rita Clifton joined the Board in July 2012. Rita holds a number of non-executive directorships, including at BUPA Limited and Populus Limited and is a former non-executive director of Dixons Retail plc. She is also a trustee of WWF-UK, and sits on the Assurance and Advisory Board for BP's carbon off-setting program. Rita has over 20 years' senior management experience in a range of roles with an expertise in demonstrating how brand is an integral part of long-term business strategy and in analyzing and understanding consumer perceptions and behaviour. Her executive career has been in advertising, strategic marketing and market research, and she was previously Chairman and Chief Executive at Interbrand UK Ltd, and prior to that Vice Chairman at Saatchi & Saatchi Limited. During her career Rita has advised, at the most senior level, some of the UK's best known organizations, including British Airways, Barclays, BT, Citigroup, Visa and the British Army.

### **Tony Prestedge**

### Chief Operating Officer, Group Operations

Tony Prestedge was appointed to the Board in August 2007 and was previously Executive Director Group Development. He has held a number of senior management and executive roles at Barclays plc, including Managing Director Home Finance and Retail Support and Operations Director. He was a member of both Woolwich plc and Barclays Retail Banking Executive Committee. Tony is accountable for the Group's Operational Strategy, Performance and Transformation and his divisional reports include Customer Services and Product Operations, Digital Development, Technology, Transformation Delivery, Telephone Channels, Payments and Property Services. Tony is a board member of Opportunity Now.

### **Michael Jary**

#### Non-Executive Director

Michael Jary joined the Board in January 2009. He is a Partner of OC&C Strategy Consultants Limited, a global strategy consulting firm with 15 offices worldwide and served as Worldwide Managing Partner of the firm from 2005 to 2011. He is an advisor to the boards of leading retail and consumer companies in Europe, the USA and Asia. He is a regular commentator on the retail industry, the co-author of a number of books including Retail Power Plays and a guest lecturer at INSEAD Business School. He is also Chairman of Duchy Originals Limited and of PCF Social Enterprises Limited.

### **Roger Perkin**

#### Non-Executive Director

Roger Perkin joined the Nationwide Board as a non-executive director in April 2010. Roger is a former partner at Ernst & Young, and has spent 40 years in the accounting profession. During his time at Ernst & Young, he worked with many blue chip clients and has advised boards across the spectrum of financial services, including banking, insurance, fund management and private equity. He is also a non-executive director at Electra Private Equity Plc and Tullett Prebon plc and chairs the audit committees of both companies. Additionally, he is a trustee of two charities, Chiddlingstone Castle and Crime Reduction Initiatives.

### **Alan Dickinson**

#### Non-Executive Director

Alan Dickinson joined the Nationwide Board in June 2010. Alan has spent more than 40 years in banking, originally joining The Royal Bank of Scotland Public Limited Change in 1973, having started his career with Westminster Bank in 1968. He is an experienced retail and corporate banker and a former Executive Committee member of the RBS Group and Chief Executive of RBS UK. Alan is also a non executive director of Carpetright plc, Willis Limited, Brown Shipley & Co. Limited and Frogmore Property Company Limited, a governor of the charity Motability and Honorary Treasurer of Surrey County Cricket Club Limited.

### **Mitchel Lenson**

#### Non-Executive Director

Mitchel Lenson joined the Board in July 2011. Mitchel has spent nearly 30 years in the financial services industry and is a former Group Chief Information Officer at Deutsche Bank AG with responsibility for IT and Operations for all operating divisions of the bank, including its retail banking operations. Mitchel was a member of the executive committees for both the Corporate and Investment Bank and the Private Client and Asset Management Division. He has also served as MD, Global Head of Operations & Operations IT at UBS Warburg Limited and as Director, Group Operations at Credit Suisse First Boston. More recently, Mitchel was a partner of Olivant & Co. Limited, an investment company providing strategic and operational expertise alongside investment capital to financial services businesses in Europe, the Middle East and Asia-Pacific and was a non-executive director of NYFIX, a NASDAQ listed company.

### **Lynne Peacock**

#### Non-Executive Director

Lynne Peacock joined the Society in July 2011. Lynne, a former Chief Executive UK of National Australia Bank (NAB) and Chief Executive of Woolwich plc, has over 25 years' senior management experience in a range of roles

comprising brand development, mergers & acquisitions, change management and business transformation, including 15 years at board level. During her time at NAB, Lynne was responsible for its businesses in the UK consisting of the Clydesdale Bank plc and Yorkshire Bank Public Limited Company. She became Chief Executive of Woolwich plc in October 2000 following its takeover by the Barclays Bank Group, having previously held a number of senior management and board positions at the Woolwich Building Society, both before and after its conversion to a public listed company in 1997. Lynne is a non executive director of Scottish Water Business Stream Holdings Limited, Scottish Water Horizons Holdings Limited and Standard Life plc.

### **Committees of Our Board of Directors**

Our Board of Directors operates through its meetings and through its four main committees, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Board Risk Committee. To the extent that matters are not reserved to our Board of Directors, responsibility is delegated to the Chief Executive, who is assisted by the Executive Committee and the Executive Risk Committee.

The Audit Committee, in accordance with its commitment to good corporate governance, seeks to ensure that we maintain sound controls in relation to the responsibilities of the directors, meets regularly with senior management and the internal audit department and regularly reviews its relationship with the external auditors.

The Nomination Committee regularly reviews the balance of skills and experience on the Board and the requirements of the business. It also considers the appointment of new directors and makes recommendations to the Board.

The Remuneration Committee is responsible for our director and executive officer remuneration policy. We have designed our policy to ensure that director and executive officer remuneration reflects performance and allows us to attract, retain and motivate a sufficient number of talented executives. The Remuneration Committee reviews, evaluates and makes recommendations to the Board regarding our executive compensation standards and practices, including basic salaries, bonus distributions, pension fund contributions and the medium-term incentive scheme. The Remuneration Committee consists of all non-executive directors.

The Board Risk Committee, which meets six times a year, has responsibility for overseeing the risk framework, policies and risk appetite, and making recommendations to the Board.

The Executive Committee is our key operational committee which oversees the day-to-day operations of our business. This committee meets once each week, reviews all matters that are to be presented to the Board of Directors, and is composed of our Chief Executive and the three other executive directors and the three Group Directors.

The Executive Risk Committee, which meets monthly, is responsible for ensuring a coordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the Executive and Group Directors. The risk committees comprise the Asset and Liability Committee ("ALCO"), the Lending Committee, the Weekly Trading Committee and the Group Risk & Compliance Committee.

ALCO sets operational limits to control exposures so that they are within overall limits set by our Board of Directors. ALCO meets on a monthly basis. ALCO comprises the Chief Executive, Group Finance Director, Group Retail Director, Chief Risk Officer, the Divisional Director Treasury and Divisional Director Financial Performance. For more information about ALCO, see the section entitled "*Financial Risk Management*".

The Lending Committee is responsible for determining the Group's attitude to risk, monitoring and overseeing the performance of the profile of lending risk across all the various lending portfolios. The Committee's membership comprises the Chief Risk Officer, Group Finance Director, Group Retail Director, the Divisional Director Treasury and the Divisional Director Customer Service & Operations. For more information about the Lending Committee, see the section entitled "*Financial Risk Management—Credit Risk*".

The Weekly Trading Committee acts in accordance with the mandate and direction of ALCO and the Lending Committee. It is responsible for approving product pricing and terms and conditions of mortgages, savings and current accounts; monitoring and setting hedging mandates; and monitoring liquidity and funding risks. The Committee's membership is the same as ALCO, with the addition of the Group Director, Distribution.

The Group Risk & Compliance Committee is responsible for the design, effectiveness and efficiency of the Society's Enterprise Risk Management Framework. The Committee is comprised of the Chief Risk Officer, Group Risk Director, Group Finance Director and five senior officers.

### **Compensation**

For the financial year ended April 4, 2013 the aggregate amount of compensation that we paid to all directors and executive officers as a group totaled £8.8 million.

Directors receive an annual bonus which only pays out if performance targets are met under pre-defined Group performance and individual performance measures.

The Medium Term Incentive Plan rewards our directors for sustained performance and achieving challenging financial targets over a three year performance cycle. A new three year performance cycle starts each year. The maximum incentive that could be paid during the year to the Chief Executive is 80% of base salary and for other executive directors it is 54%. If performance falls below the minimum acceptable performance, then no bonus will be paid. The Remuneration Committee reviews performance against targets each financial year.

In addition executive directors receive other benefits including a car allowance, healthcare and mortgage allowance.

### **Directors' Loans**

As at April 4, 2013, we had loans to directors or persons connected to directors totaling £0.8 million. All of these loans were granted in the normal course of business and were largely made up of residential mortgage loans and balances on credit cards. Our directors and other employees are eligible for discounts on residential mortgage loans.

We maintain a register containing the details of all loans, transactions and other arrangements made between our directors (and persons connected with our directors) and Nationwide or its subsidiaries. This register is available for inspection at our annual general meetings and during normal business hours at our principal office during the 15 days prior to our annual general meeting.

### **Management Employee Pension Schemes**

G.J. Beale has opted out of the Fund, and he receives a monthly allowance in lieu of pension scheme accrual.

T.P. Prestedge has opted out of the Group Personal Pension Arrangement and receives a monthly allowance in lieu of an employer contribution into the Group Personal Pension Arrangement.

M.M. Rennison has opted out of the Fund, and he receives a cash allowance in lieu of pension scheme accrual.

### **Related-Party Transactions**

For information on transactions with related parties, see note 35 to our audited consolidated financial statements incorporated by reference herein.

## COMPETITION

### Industry Background

Our main competitors are the five largest UK banking groups. In addition we also compete with other building societies, with smaller banks and with insurance companies. In addition, new providers have emerged as competitors in all areas of the UK personal financial services market. A description of the traditional types of organizations with which we continue to compete as well as a description of certain new competitors is set forth below.

#### **UK Banks**

The UK financial services market is dominated by the five largest banking groups, namely Lloyds Banking Group, Royal Bank of Scotland, Barclays, HSBC and Santander UK. Within the UK retail banking sector there have also been a number of significant business combinations and this trend was accelerated by the financial crisis which began in 2007.

#### **Building Societies**

Over the past 30 years, many building societies have merged with other building societies or, in a number of cases, transferred their businesses to the subsidiary of another mutual organization or demutualized and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 139 in 1985 to 46 as at June 1, 2013. Building societies today continue to hold an important share of the UK mortgage and savings market and have been recognized by recent UK Governments and the Independent Commission on Banking as bringing valuable diversity and competition to the UK banking market. For further information about the UK residential mortgage market and UK retail deposit market see below.

#### **UK Insurance Companies**

The UK insurance industry has traditionally been made up of a large number of mutual insurance organizations and several composite insurers originating a range of products, distributed through building societies, banks, direct sales forces and independent financial advisers. Recent trends include consolidation within the industry, the demutualization of mutual insurers and the entry of building societies and banks into the market as underwriters as well as distributors.

#### **Other Competitors**

A number of large retailers sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. One retailing group, namely Tesco, has entered the market as a manufacturer of financial service products in its own right and J. Sainsbury will also embark in this direction in 2014. In addition, foreign banks, investment banks, insurance and life assurance companies have at various times been active in UK personal financial services, particularly the mortgage and retail savings markets, and a number of companies have expressed a desire to enter the market. The growth of internet price comparison sites has enabled consumers to have access to information that has increased price competition particularly in certain insurance markets. Companies are using low cost telephone, mail and internet based distribution channels to offer competitively priced retail savings accounts, mortgages and other financial products. The Internet and mobile communications technology provide opportunities for further competition from organizations from outside the traditional banking sector. The use of the intermediary sector also allows new entrants to gain access to the UK mortgage market. Since the financial downturn, several additional entrants have launched, or investigated ways to launch, on a relatively small scale, seeking to take advantage of the problems faced by some of the larger participants. Competition regulation has and may eventually further assist potential entrants if it enforces the breakup of some of the larger participants or the sale of those in public ownership.

### **The UK Residential Mortgage Market**

The table below sets out information for the last three years concerning year-end balances of UK lending secured on residential property and the proportions held by building societies, banks and us:

<b>Year ended December 31,</b>	<b>Total Balances<sup>(1)</sup></b>	<b>Building Societies<sup>(1)</sup></b>	<b>Banks<sup>(1)</sup></b>	<b>Others</b>	<b>Our share of total UK residential mortgages<sup>(1)</sup></b>
2012 .....	1,265.7	16.1%	69.0%	14.9%	11.0%

Year ended December 31,	Total Balances <sup>(1)</sup>	Building Societies <sup>(1)</sup>	Banks <sup>(1)</sup>	Others	Our share of total UK residential mortgages <sup>(1)</sup>
			(£ billions, except percentages)		
2011 .....	1,246.3	15.8%	69.0%	15.2%	10.6%
2010 .....	1,239.7	16.0%	68.3%	15.7%	10.4%

Note:

(1) *Source:* BoE (excluding lending to housing associations), except for information regarding our balances which are taken from our own data. Building society figures include our own balances.

Although the overall size of the new mortgage market has shrunk considerably since 2007, the nature of competition is essentially unchanged, in that it involves defending the existing stock of balances and competing for the flow of new lending. Competition for new lending remains fierce and is driven by first-time buyers or next-time buyers remortgaging, changing homes or extending their mortgages. In most cases this is for residential purposes, although the popularity of buy-to-let has grown from a low point in 2009 (albeit volumes remain at or around one-third of their 2007 levels according to CML research). In recent years, based on English Housing Survey data, there has been a slight decline in the proportion of the UK population owning their own homes, from a peak of around 71% in 2003 to 65% as at March 31, 2013. We expect further small declines over the next few years. The impact of the global financial crisis is still evident in the mortgage market, with fewer products available which permit high LTV ratios and significantly improved margins over those evident in 2007. As such, competition is driven by a combination of price, risk profile and access to funding by lenders.

UK gross residential mortgage lending in the year ended March 31, 2013 was £142 billion, the same level as UK gross residential mortgage lending in the year ended March 31, 2012. UK net residential mortgage lending decreased to by 26% during the same period, from £8.0 billion in the year ending March 31, 2012 to £6.0 billion in the year ending March 31, 2013.

Prior to the financial crisis, a feature of the UK mortgage market became the differential pricing structure that developed in response to increased competition. New customers were generally offered lower remortgage rates than those on the backbook, so that a growing number of residential mortgage borrowers actively seek to replace existing mortgages with new mortgages at lower rates rather than move on to lenders' backbook interest rates. The rapid fall in interest rates since the start of 2009 and the decline in house prices has meant that a majority of borrowers now stay on lenders' backbook products at the end of their initial mortgage deal period. This may be either through necessity, as the LTV ratio of their house has risen in line with price falls and they are unable to refinance, and/or due to the fact that the fall in rates has meant that the backbook rates are more in line with, or better than, front book deal pricing. In the year to March 31, 2013, remortgaging totaled £39 billion, down 17% on the figure in the year to March 31, 2012.

Our market share of gross advances of 15.1% during the financial year ended April 4, 2013 was above our par share of 10.6% at the beginning of the 2012 calendar year. Over the financial year ended April 4, 2013, the average LTV ratio of new mortgage lending was 67% (excluding further advances) compared with 63% in the same period a year earlier.

### The UK Retail Deposit Market

The UK retail deposit market is dominated by banks, building societies and National Savings and Investments, a UK government-sponsored savings and investment organization. Below is a table breaking down the total UK retail deposit market by type of financial institution compiled from details published by the BoE:

Year ended December 31,	Total UK retail deposits <sup>(1)</sup>	Building societies' share of total UK retail deposits <sup>(1)</sup>	Banks' share of total UK retail deposits <sup>(1)</sup>	Others <sup>(1)</sup>	Our share of total UK retail deposits <sup>(1)</sup>
(£ billions, except percentages)					
2012	1,181.8	21.1%	70.2%	8.7%	10.5%
2011 .....	1,125.7	22.0%	68.8%	9.2%	11.2%
2010 .....	1,095.8	21.9%	69.0%	9.1%	11.2%

Note:

(1) *Source:* BoE, except for information regarding our balances which are taken from our own data.

The UK retail deposit market has become an increasingly commoditized market driven primarily by price, particularly for the flow of new money that generally seeks the most attractive rates available. However the bank failures of 2007 and 2008 and the limits of the FSCS appear to have led some customers to spread their savings across a number of different companies. Older deposit balances have traditionally subsidized the cost of new retail deposits, primarily reflecting customer inertia.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance/life assurance companies and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing players in the market and have impacted the flow of new retail deposits. The competition intensified as banks have sought to rebalance their liabilities away from short-term wholesale and back towards retail funding but the introduction of the FLS has eased competition for retail deposits.

We believe that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organizations and between different accounts within organizations. This, in turn, has resulted in a reduction in the differential between rates paid to existing and new balances as customers transfer to high rate accounts and organizations aim to retain existing balances.

In the face of increased competition for retail funds, our savings balances remained level in the financial year ended April 4, 2013.

### Competitive Outlook

In recent years, competitive pressure in our traditional UK residential mortgage market and retail deposit market has remained intense, and we expect this to continue. This pressure is in part symptomatic of the slow rate of growth in the UK savings and lending markets. Spreads on lending have been reduced by banks' competition for lower risk assets, such as low LTV mortgages. In addition, UK and international banks are still seeking to reduce the significant funding gaps they developed prior to the crash by attracting more stable retail funds and this has also depressed spreads. However, some banks have now achieved more stable funding positions and, as government measures, notably FLS, come into effect to ease funding, pressure on deposit spreads is being eased to some extent. Funding spreads have also been depressed by periodic intensification of financial market strains in the eurozone, but in the recent past these have subsided as credit pressures within the eurozone have eased.

## SUPERVISION AND REGULATION

### European Union Legislation

The framework for supervision and regulation of banking and financial services in the United Kingdom has been, and continues to be, heavily influenced by EU legislation. In March 2000, the adoption by the EU of the Banking Consolidation Directive and Capital Adequacy Directive (as recast in July 2006, together commonly referred to as the **“Capital Requirements Directive”**) resulted in the consolidation of the main pan-European banking legislation into a single directive. The principal intention underlying the EU Banking Consolidation Directive is the harmonization of banking regulation and supervision throughout the EU and Norway, Iceland and Liechtenstein, commonly known as the European Economic Area (the **“EEA”**). The EU Banking Consolidation Directive prescribes minimum standards in key areas and requires EEA Member States to give “mutual recognition” to each other’s standards of regulation. The EU Banking Consolidation Directive establishes the “passport” concept, which amounts to freedom for a credit institution authorized in its “home” state to establish branches in, and to provide cross-border services into, other EEA Member States.

Although credit institutions are primarily regulated in their home state by a local regulator, the EU Banking Consolidation Directive prescribes minimum criteria for regulation of the authorization of credit institutions and the prudential supervision applicable to them. Our local regulators are the PRA and the FCA. For further information about regulation in the United Kingdom see the subsection entitled **“—UK Regulation”**. Investment firms and other similar institutions that engage in the provision of services relating to securities, derivatives and other similar instruments are subject to a similar regulatory environment and can obtain a “passport” under the EU Markets in Financial Instruments Directive (Directive (2004/39/EC)). The Markets in Financial Instruments Directive, among other things, is designed to create a single European market in financial services. On October 20, 2011, the European Commission published a proposal for a revised version of the Markets in Financial Instruments Directive, which aims to introduce, among other things, requirements to enhance market transparency, increase regulatory oversight of certain markets and introduce stricter investor protection rules.

EU legislation transposing the Basel Accord, through the Capital Requirements Directive, was partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk having been implemented at the start of 2008. The Capital Requirements Directive has since been amended by Directive 2009/111/EC (known as **“CRD II”**). CRD II was implemented in the United Kingdom on December 31, 2010. CRD II includes changes to the criteria for hybrid Tier 1 capital, the control of large exposures and requirements relating to securitization transactions. The requirements for hybrid capital to count as non-Core Tier 1 capital have been toughened, as have the relative proportions of Core, non-Core and innovative Tier 1 capital. However, CRD II provides for a certain proportion of existing instruments that do not comply with the new rules to continue to count as capital for a long transitional period. The Capital Requirements Directive was further amended by Directive 2010/76/EU dated November 24, 2010 (known as **“CRD III”**), which further tightened the capital requirements for trading books and securitizations in accordance with the recommendations of the Basel II Framework. CRD III entered into force on December 15, 2010 and, following its implementation, the last of its provisions came into force in the UK on April 16, 2012.

It should also be noted that the Basel Committee has approved a final text proposing significant changes to the Basel II Framework (such changes being commonly referred to as **“Basel III”**), including new capital and liquidity requirements intended to reinforce capital standards (with heightened requirements for global, systemically important banks) and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the **“Liquidity Coverage Ratio”** and the **“Net Stable Funding Ratio”**). It is intended that member countries implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provisions for phased implementation, meaning that the measure will not apply in full until January 2019) and the Net Stable Funding Ratio from January 2018. The European Commission published corresponding proposals to implement Basel III through replacing the existing Capital Requirements Directive with a Capital Requirements Regulation and an associated Capital Requirements Directive (known as **“CRD IV”**) on July 20, 2011. The

CRD IV draft legislation was accepted by the European Parliament on April 16, 2013 and implementation is likely to be on January 1, 2014.

The CRD IV substantially reflects the Basel III capital and liquidity standards. The agreed texts also make provision for (among other things) new requirements to reduce reliance by credit institutions on external credit ratings, by requiring that all banks' investment decisions are based not only on ratings but also on their own internal credit opinion, and that banks with a material number of exposures in a given portfolio develop internal ratings for that portfolio instead of relying on external ratings for the calculation of their capital requirements. Certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority. As with Basel III, the proposals contemplate the entry into force of the new legislation from 2013 (though as noted, commencement will now be delayed until at least January 1, 2014), with full implementation by January 2019; however, the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or level of capital more quickly than is envisaged under Basel III.

The proposal for a regulation gives express recognition for Core Tier 1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves.

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which provides that, subject to exemptions, loans not exceeding €75,000 are regulated. This directive repeals and replaces the first consumer credit directive and requires Member States to implement the directive by measures coming into force by June 11, 2010. Loan agreements secured by land mortgage are exempted from the consumer credit directives. In March 2011 the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposal is to some extent modeled on the second directive on consumer credit and requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment. Until the final form of the proposed directive and UK implementing legislation are published, it is not certain what effect the adoption and implementation of the proposed directive would have on our mortgage businesses.

## **UK Regulation**

On April 1, 2013, pursuant to the UK Financial Services Act 2012, a range of structural reforms to UK financial regulatory bodies was implemented as follows:

- the FSA ceased to exist in its current form;
- a Financial Policy Committee was established in the BoE which is responsible for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the BoE, the PRA, was established which is responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the FCA was established and has responsibility for conduct of business and markets regulation. The FCA also represents the UK's interests in markets regulation at the new European Securities and Markets Authority.

The UK Financial Services Act 2012 amends certain existing legislation including the Financial Services and Markets Act 2000, the UK Building Societies Act and the UK Banking Act to make provision about the exercise of certain statutory functions relating to building societies.

Another area of change which impacts on the UK regulatory landscape relates to the proposals for banking reform. On June 14, 2012, H.M. Treasury issued a white paper ("Banking reform: delivering stability and supporting a sustainable economy") on how the Government intends to implement the measures recommended by Sir John Vicker's Independent Commission on Banking final report of September 12, 2011. Broadly, the white paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector. A draft of the initial bill to implement the ICB recommendations was published on October 12, 2012, in the form of framework legislation to put in place the architecture to effect the reforms, with detailed policy being provided for through secondary legislation. The Government intends for the Banking Reform Bill to receive Royal Assent by February 2014 with all relevant

secondary legislation to be completed by May 2015. The Government has decided to carve building societies out of the proposed ring-fencing legislation and, instead, intends to amend the UK Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements. The subsection below entitled "*The UK Building Societies Act*" refers to the discussion document published by H.M. Treasury in 2012 which sets out the Government's vision for the building societies sector.

See "*Risk Factors—Risks Related to Our Business—Risks associated with governmental authorities, and monetary policies in the UK and changes thereto may adversely affect our business*".

### ***The UK Building Societies Act***

The main piece of legislation regulating building societies is the UK Building Societies Act. The UK Building Societies Act governs the creation, authorization and management of building societies. Prior to December 1, 2001, it also established the Building Societies Commission as the primary body responsible for regulating building societies. On December 1, 2001, the role of the Building Societies Commission as our primary regulator was taken over by the FSA pursuant to the ongoing reorganization of the regulation of the UK financial services industry. On April 1, 2013, the FSA was abolished and the majority of its functions transferred to the PRA and the FCA. Nationwide is now regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. With the introduction of the Financial Services and Markets Act 2000, certain sections of the UK Building Societies Act were repealed. However, a substantial part of the UK Building Societies Act, including the constitutional parts dealing with the principal purpose of building societies, nature limits, general governance, among others, still remain in force. The UK Building Societies Act has been amended and supplemented since its introduction by secondary legislation. For further information on the reforms under the Financial Services and Markets Act 2000, see the subsection below entitled "*Financial Services and Markets Act 2000*".

On July 6, 2012, H.M. Treasury published a consultation document entitled "The future of building societies" which sets out the Government's aim to maintain the distinctiveness of the building society sector while creating a level playing field and removing unnecessary barriers to growth. This consultation closed on September 14, 2012. The Government has stated that it intends to amend the UK Building Societies Act to widen the opportunities for building societies and to align them with ring-fenced banks without compromising their mutuality. The Government stated that the loss absorbency proposals set out in the white paper of June 2012 on banking reform will apply to building societies as they apply for banks of a similar profile. As part of its commitment to foster diversity in the financial sector, the Government invited suggestions for reviewing those parts of the UK Building Societies Act which restrict societies, where this is in accordance with maintaining their distinctiveness.

### ***Financial Services and Markets Act 2000***

The UK Financial Services and Markets Act 2000 consolidated and harmonized the regulation of financial services in the United Kingdom. As part of this process, the FSA became the sole regulatory body responsible for regulating and supervising the financial services industry in the United Kingdom save in respect of certain lending activities. On April 1, 2013, the FSA was replaced by the PRA and the FCA as disclosed under "*—UK Regulation*".

The Financial Services and Markets Act 2000 imposes an on-going system of regulation and control on building societies. The detailed rules and prudential standards set by the regulatory authorities are contained in various parts of their respective handbooks. Parts of the handbooks which are of particular relevance to building societies include the General Prudential sourcebook, the Prudential sourcebook for Banks, Building Societies and Investment Firms, the Building Societies sourcebook and The Building Societies Regulatory Guide.

### ***Building Society key characteristics***

The following sections set forth some of the concepts for a building society which is authorized under the Financial Services and Markets Act 2000.

#### ***Mutuality***

Building societies are mutual organizations that are managed for the benefit of their members, who are primarily retail savings customers and residential mortgage customers. Each member is normally entitled to one vote at a building society's general meeting, regardless of the size of the member's deposit account or mortgage loan or the number of accounts the member maintains.

### *Purpose*

Building societies are required to be engaged primarily in the business of making loans secured on residential property, which are substantially funded by members. In addition, as long as building societies comply with specific limits on lending and funding, they may engage in additional activities such as commercial lending, unsecured personal lending, insurance and personal investment product activities, subject to compliance with regulatory requirements of the FCA, the PRA and the OFT.

Building societies have a statutory duty to keep accounting records as well as establishing and maintaining systems of control. The FCA and PRA are empowered to request ad hoc reports regarding our compliance with these requirements.

### *Nature of Membership*

The members of a building society fall into two categories. The first category consists of investing or “shareholding” members. Shareholding members are individuals who have made a deposit (also referred to as an “**investment**”) in a share account with a building society or who hold deferred shares in the society, and bodies corporate which hold deferred shares. In this Base Prospectus we refer to deposits in these share accounts as “UK retail member deposits” and to people holding UK retail member deposits as “UK retail member depositors”.

There are restrictions on building societies raising funds from individuals other than in the form of deposits in share accounts or by the issue of deferred shares (including permanent interest bearing shares) and the proposed new form of capital instrument to be known as core capital deferred shares (“CCDS”) (as discussed below). A subsidiary of a building society may, however, offer deposit accounts which do not confer member status provided it has the required regulatory authorization. Deposits in these accounts are referred to as “non-member deposits”.

The second category of members are “borrowing” members, that is, persons who have received a loan from the building society which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

### *Limitations on Funding and Lending*

The UK Building Societies Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50% of its total funding. In calculating this amount, a specified amount of deposits made by individuals with a building society’s subsidiaries in other EEA Member States, the Channel Islands, the Isle of Man or Gibraltar is disregarded. The specified amount is up to 10% of what would have been the society’s funding but for the exclusion.

Loans made by a building society and its subsidiaries which are fully secured on residential property must account for not less than 75% of its total trading assets (that is, the total assets of a society and its subsidiaries, plus provisions for bad or doubtful debts, less liquid assets, fixed assets and certain long-term insurance funds).

### *Nature of Capital*

UK retail member deposits are classified as shares in a building society’s balance sheets. There is a fundamental distinction between a share in a building society and a share in a limited liability company. Holders of ordinary shares in a company normally do not have the right to withdraw their share capital from the company. The share capital of a company is therefore fixed. A UK retail member depositor has a right to withdraw his investment from a building society. The share capital of a building society therefore fluctuates each time UK retail member depositors deposit or withdraw funds from their account. As a result shares in a building society do not form a permanent capital resource. The permanent capital of a building society consists primarily of its reserves (which have been built up over the years mainly from its retained earnings) and any deferred shares that it has issued. In addition, a building society can issue deferred shares, which count towards its permanent capital. These have, in the past, mainly been in the form of permanent interest bearing shares, which have counted towards a society’s Tier 1 capital. More recently, profit participating deferred shares (a type of deferred share) have been recognized by the FSA (and now the PRA) as Core Tier 1 capital, although these shares have, to date, only been issued by way of exchange for an existing instrument in circumstances of financial stress or as a part of a society’s contingent convertible capital (in which case it would only be issued upon a serious decline in the society’s capital ratio). Changes to the Capital Requirements Directive which were implemented in the UK at the end

of 2010 toughened the requirements for eligibility as Tier 1 capital. Permanent interest bearing shares, which were already in existence will retain their capital status, but the extent to which such shares count towards regulatory capital will be phased out over a long transitional period. CCDS, as a proposed new form of deferred share, are intended to meet the new regulatory criteria for Core Tier 1 capital (or Common Equity Tier 1 capital under the Capital Requirements Regulation), while being consistent with the values of mutuality and supporting members' interests. CCDS are also designed to be a suitable instrument for raising new capital from external investors.

#### *Hedging*

The UK Building Societies Act prohibits building societies and their subsidiaries from entering into any transaction involving derivative instruments unless the transaction falls within one of the specified exceptions, including where it is entered for the purpose of limiting the extent to which it will be affected by fluctuations in interest rates, exchange rates, any index of retail prices, any index of residential property prices, any index of the prices of securities or the ability or willingness of a borrower to repay a loan owing to the building society.

#### *Demutualization*

The UK Building Societies Act permits a building society to demutualize by transferring the whole of its business to an existing company (referred to as a “**takeover**”) or to a specially formed company (referred to as a “**conversion**”) so long as the process meets statutory requirements. Any such demutualization must be approved by members and confirmed by the PRA. The successor company will be a bank, which must be duly authorized to carry on its deposit-taking business by the PRA or equivalent EEA regulatory authority.

The member approval threshold required varies depending on the type of demutualization. In order to convert into a new bank by transferring the society’s business to a specially formed company, a minimum of 50% of shareholding members qualified to vote would have to vote on a requisite shareholders’ resolution, and a minimum of 75% of those voting would have to support the resolution to convert. In addition, more than 50% of borrowing members who vote would have to vote in favor of a borrowing members’ resolution to convert. On a demutualization as a result of a takeover by an existing bank or other company, then the requirements would be similar except that 50% of shareholding members qualified to vote (or shareholding members representing 90% by value of the society’s shares) must actually vote in favor of the requisite shareholding members’ resolution.

#### *Mutual society transfers*

The UK Building Societies Act (as modified by the Mutual Transfers Order) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). The successor subsidiary must be duly authorized to carry on its deposit-taking business by the PRA or equivalent EEA regulatory authority. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favorable than those enjoyed by existing members of the holding mutual (or such parent undertaking, as the case may be).

A transfer of business to a subsidiary of another mutual society requires approval by members and confirmation by the PRA. The member approval thresholds require a shareholding members’ resolution to be passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution and a borrowing members’ resolution to be passed by more than 50% of borrowing members qualified to vote and voting on the resolution.

#### *Directed transfers*

The UK Building Societies Act confers power on the PRA, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The UK Financial Services Act 2012 also amended the UK Building Societies Act to extend this power of direction to a transfer of a building society’s business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). Where any such direction is made, the PRA may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may

proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

### ***The UK regulators***

The PRA is currently the prudential regulator for building societies, banks, insurance companies and other deposit takers. The general objective of the PRA is promoting the safety and soundness of PRA-authorized persons.

The PRA supervises and regulates financial institutions, including building societies, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the Financial Services and Markets Act 2000, the PRA has a variety of enforcement powers including:

- issuing a private warning; or
- taking disciplinary measures, such as issuing a public statement of misconduct or imposing a financial penalty.

The FCA is currently the conduct regulator for firms that are prudentially regulated by the PRA (dual-regulated firms). The FCA regulates both prudential and conduct matters for all other firms. The FCA's strategic objective is ensuring the relevant markets function well. The FCA's operational objectives are:

- the consumer protection objective;
- the integrity objective; and
- the competition objective.

The FCA also has a variety of enforcement powers under the Financial Services and Markets Act 2000.

### ***The Office of Fair Trading***

The OFT is the consumer and competition authority under the UK Enterprise Act 2002, and is responsible for the issue of licenses under, and for superintending the working and enforcement of, the UK Consumer Credit Act 1974, as amended (the “**Consumer Credit Act 1974**”). The OFT and other bodies may enforce consumer legislation under the Enterprise Act 2002 by:

- seeking an informal undertaking, or a formal undertaking, from a business; or
- seeking a court enforcement order against a business.

### ***Authorization under the Financial Services and Markets Act 2000***

The Financial Services and Markets Act 2000 prohibits any person from carrying on a “regulated activity” by way of business in the UK unless that person is authorized or exempt under this Act. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). We are authorized for, among other things, deposit-taking and mortgage activities, and are authorized for certain investment activities. The Financial Services and Markets Act 2000 also prohibits Financial Promotions in the UK unless the promotion is issued or approved by an authorized person or exempt from such requirements.

### ***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 October 31, 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 Mortgages and Home Finance: Conduct of Business sourcebook (“**MCOB**”), which is part of the FCA Handbook, sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under 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 technical rules on 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 April 6, 2008, or before October 31, 2008 in the case of buy to let mortgages satisfying prescribed conditions. Buy to let mortgages entered into on or after October 31, 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 OFT or court order or (for agreements entered into before April 6, 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 liability under Section 75 subject to any agreement between the lender and the supplier.

In December 2012, the UK Financial Services Act 2012 received royal assent. This Act contains provisions (among other things) enabling the transfer of consumer credit regulation from the OFT under the Consumer Credit Act 1974 to the FCA under a regime based on the Financial Services and Markets Act 2000, and giving power to the FCA to render unenforceable contracts made in contravention of its product intervention rules. The Government's aim is for the transfer of consumer credit regulation to the FCA to take place from April 1, 2014.

### ***Insurance***

Nationwide Building Society is also authorized for carrying out insurance mediation. The Insurance: Conduct of Business sourcebook, which is part of the FCA Handbook, sets out rules in respect of non-investment insurance.

### ***Financial Services Compensation Scheme***

The Financial Services and Markets Act 2000 established the FSCS, which pays compensation to eligible customers of authorized financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default on or after January 1, 2010 (December 31, 2010 for deposits): (i) for deposits, 100% of the first £85,000; (ii) for mortgage advice and arranging, 100% of the first £50,000; and (iii) for insurance, 90% of the claim with no upper limit (except compulsory insurance is protected in full). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. These limits reflect Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes, which requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after January 1, 2011, at €100,000.

### ***Financial Ombudsman Service***

The Financial Services and Markets Act 2000 established the FOS, which determines complaints by eligible complainants in relation to authorized financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its

opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £150,000 plus interest and costs. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

#### ***Other Relevant Legislation & Regulation***

The EU anti-money laundering regime was amended by the implementation of the EU Third Money Laundering Directive (Directive 2005/60/EC) (the “**EU Third Money Laundering Directive**”), which has imposed requirements in relation to such matters. As a result of the implementation of the EU Third Money Laundering Directive in the UK, the UK Money Laundering Regulations 2007 place a requirement on us to identify and verify the identity and address of customers opening accounts with us, and to keep records to help prevent money laundering and fraud. Guidance in respect of the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. The EU Third Money Laundering Directive, which underpins the Money Laundering Regulations 2007, is currently being reviewed and the European Commission published a report on the application of the EU Third Money Laundering Directive on April 11, 2012, which found that there were no fundamental shortcomings in the regime but that some modifications are necessary to adapt to the evolving threats posed. On July 31, 2012 the European Commission published a paper summarizing the responses to the report published on April 11, 2012. The overall result of the consultation in relation to the report represented a general confirmation of the issues highlighted in the report. Broad support was expressed for the proposed alignment to the revised Financial Action Task Force standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border situations.

The European Commission published on February 5, 2013 two legislative proposals in relation to the EU anti-money laundering regime: (i) a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (i.e. the Fourth Money Laundering Directive); and (ii) a regulation on information accompanying transfers of funds to secure “due traceability” of these transfers. These legislative proposals are currently subject to the ordinary EU legislative procedure involving the European Parliament and Council of Ministers.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers. The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after July 1, 1995. The main effect of these Regulations is that a contract term which is “unfair” will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services. The FSA has issued statements of good practice in this regard in May 2005, January 2007 and January 2012, and worked with the OFT to allocate responsibility for regulation of mortgage products. On April 1, 2013, the FCA took on the former FSA share of that responsibility.

Nationwide participates in the unclaimed assets scheme established under the Dormant Bank and Building Society Accounts Act 2008. The purpose of this scheme is to enable money in dormant bank and building society accounts (i.e. balances in accounts that have been inactive or dormant for 15 years or more) to be distributed for the benefit of the community, while protecting the rights of customers to reclaim their money.

On November 1, 2009, the FSA introduced its Banking Conduct Regime for retail banking. The main constituents of this regime are: (i) extending the principles for businesses as they apply to deposit-taking, from prudential matters only, to conduct of business matters in addition; (ii) conduct of business requirements in the Payment Services Regulations 2009 (the “**PSR**”), which apply to certain payment services made in euro or sterling; and (iii) the Banking: Conduct of Business sourcebook, which applies to deposit-taking in respects not covered by the PSR.

On November 1, 2009, the British Bankers’ Association, the Building Societies Association and The UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect.

On April 1, 2010, the Building Societies specialist sourcebook (the “**BSOCS**”) came into effect, subject to certain transitional provisions. BSOCS contains PRA guidance on the systems and controls in relation to treasury management operations and lending. BSOCS focuses on the key financial and lending risks to which building societies are exposed and sets out the framework within which the PRA will supervise building societies’ treasury activities.

## **EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING HOLDERS OF NOTES**

Subject to the withholding tax requirements set out under the section entitled “*UK Taxation*”, there are currently no UK laws, decrees or regulations that would affect the payment of interest or other payments to holders of notes who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the section entitled “*UK Taxation*”. There are also no restrictions under our memorandum and rules or under current UK laws that limit the right of non-resident or foreign owners to hold the notes or to vote, when entitled to do so.

## TERMS AND CONDITIONS OF THE NOTES

This section describes the material terms and provisions of the notes to which any Final Terms may relate. We will describe in each Final Terms the particular terms of the notes that we offer by that Final Terms and the extent, if any, to which the general provisions described below may apply to those notes. Capitalized terms used but not defined in this section have the meanings given to them in the senior notes, subordinated notes, or indenture, as the case may be.

### General

We will offer the notes under an indenture, dated as at February 8, 2002 and as supplemented and amended from time to time, between us (the "Issuer") and The Bank of New York Mellon (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One Trust Company, N.A.)), as trustee. The notes are limited to an aggregate principal amount of up to \$20,000,000,000 outstanding at any time, including, in the case of notes denominated in one or more other currencies or composite currencies, the equivalent thereof at the Market Exchange Rate in the one or more other currencies on the date on which such note will be issued (the "Original Issue Date"), subject to reduction by or pursuant to action of our Board of Directors, provided that a reduction will not affect any note already issued or as to which we have already accepted an offer to purchase. We may, however, increase these limits without the consent of the holders of the notes if in the future we determine that we wish to sell additional notes.

The notes will mature twelve months or more from the date of issue and may be subject to redemption or early repayment at our option or the holder's option as further described in the section entitled "*—Redemption and Repurchase*". Each note will be denominated in U.S. dollars or in another currency as we specify in the applicable Final Terms. For a further discussion, see "*—Payment of Principal, Premium, if any, and Interest, if any*". Each note will be either:

- a Fixed Rate Note; or
- a Floating Rate Note, which will bear interest at a rate determined by reference to the interest rate basis or combination of interest rate bases plus or minus the Margin (if any), in each case as specified in the applicable Final Terms; or
- a Zero Coupon Note, in which case references to interest in these terms and conditions are not applicable; or
- or any appropriate combination thereof, depending upon the Interest Basis shown in the applicable Final Terms.

### Status of Senior Notes

The Senior Notes are direct, unconditional and (subject to the provisions of "*—Negative Pledge*") unsecured obligations of the Issuer and rank (subject to any applicable statutory exceptions and subject to the provisions of "*—Negative Pledge*") equally with non-member deposits and all other unsecured and unsubordinated obligations of the Issuer and in priority to investment shares in the Issuer from time to time outstanding. The senior notes will rank senior to our UK retail member deposits, subject, in the event of insolvency, to laws of general applicability relating to or affecting creditors' rights, and provided that our other unsecured and unsubordinated indebtedness may contain covenants, events of default and other provisions which differ from or which are not contained in the senior notes. If we demutualize or transfer the whole of our business to the subsidiary of another mutual society, our UK retail member deposits will rank *pari passu* with our obligations under our senior debt, including the senior notes. For a further discussion of the effects of demutualization on the ranking of our obligations, see the section entitled "*Risk Factors—Risks Related to Our Business—Demutualization, mutual society transfers and consequences of the UK Building Societies Act may have an adverse impact on the holders of notes*".

### Status and Subordination of Subordinated Notes

The Subordinated Notes are direct and unsecured obligations of the Issuer, conditional as described below, and rank without any preference among themselves, and the rights of the holders of the Subordinated Notes will, in the event of the winding up of the Issuer, be subordinated in right of payment in the manner provided in the indenture to the claims of depositors (including investment creditors) and other unsubordinated creditors of the Issuer in respect of their respective Senior Claims. Accordingly, if the Issuer is at any time in winding up, then no principal or interest in respect

of the Subordinated Notes (whether or not already due or accrued prior to the commencement of such winding up) shall be payable by, nor shall any claim in respect thereof be provable against, the Issuer in such winding up unless and until and except to the extent that the Issuer could make such payment in whole or in part and still be solvent immediately thereafter. For the purpose of this subsection, the Issuer shall be deemed to be solvent if it is able to pay its debts in full, or the liquidator of the Issuer determines that it will be able to do so within a period not exceeding twelve months, and in determining whether the Issuer is deemed to be solvent for the purposes of this subsection there shall be disregarded obligations which are not provable in the winding up or which are themselves subordinated to the claims of all or any of the unsecured creditors of the Issuer.

Subject to applicable law, no holder of Subordinated Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes and each holder shall, by virtue of being the holder of any such Subordinated Note be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any holder of Subordinated Notes against the Issuer is discharged by set-off, such holder of Subordinated Notes will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up of the Issuer the liquidator of the Issuer and accordingly such discharge will be deemed not to have taken place.

The subordinated notes do not have the benefit of the negative pledge covenant described below under the subsection entitled “—Negative Pledge” and are subordinated to most of our liabilities. For a further discussion of risks relating to subordination see the section entitled “*Risk Factors—Risks Related to the Notes—The subordinated notes are subordinated to most of our liabilities*”.

“**Senior Claims**” means the aggregate amount of all claims which are admitted against us in the event of our winding up (i) relating to all UK retail member deposits in respect of any principal and interest due in respect thereof up to the date of commencement of the winding up (but excluding all claims in respect of our subordinated indebtedness) and (ii) relating to our obligations to our other creditors (including, without limitation, all contingent and potential claims, all claims in respect of deposits with or loans to us and all claims of interest thereon or in respect thereof) but excluding (a) all claims in respect of our subordinated indebtedness and (b) all claims in respect of our permanent interest bearing shares.

To the extent that holders of the notes are entitled to any recovery with respect to the notes in any winding up or liquidation, it is unclear whether such holders would be entitled in such proceedings to recovery in U.S. dollars and they may be entitled only to a recovery in pounds sterling and, as a general matter, the right to claim for any amounts payable on notes may be limited by applicable insolvency law.

#### **Certain Definitions**

“**Business Day**” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City and each Additional Business Center specified in the applicable Final Terms; provided, however, that, with respect to notes denominated in a Specified Currency other than U.S. dollars, it is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center, as defined below, of the country issuing the Specified Currency (or, if the Specified Currency is euro or EURIBOR is an applicable Interest Rate Basis, such day is also a day on which the euro payments settlement system known as TARGET2 (or any successor thereto) is open for settlement of payments in euro, a “**TARGET Settlement Date**”); provided, further, that, with respect to notes as to which LIBOR is an applicable Interest Rate Basis, it is also a London Business Day. “**London Business Day**” means a day on which commercial banks are open for business (including dealings in the Designated LIBOR Currency, as defined below) in London.

“**New York City Banking Day**” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the city of New York.

“**Principal Financial Center**” means the capital city of the country issuing the Specified Currency except, that with respect to U.S. dollars, Canadian dollars, and Swiss francs, the “**Principal Financial Center**” shall be New York City, Toronto, and Zurich, respectively.

**“Relevant Supervisory Consent”** means the consent to the relevant redemption, payment, repayment or purchase, as the case may be, of the FCA or any other body performing the same or similar functions in relation to building societies (so long as we remain a building society) or banks (in the event that we transfer our business to an authorized institution pursuant to section 97 of the UK Building Societies Act).

**“Specified Currency”** means a currency issued and actively maintained as a country’s or countries’ recognized unit of domestic exchange by the government of any country and such term shall also include the euro.

**“TARGET2”** means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilizes a single shared platform and which was launched on November 19, 2007 or any successor thereto.

**“U.S. Government Securities Business Day”** means any day except for a Saturday, Sunday or a day on which The Security Industry & Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

### **Form, Transfer, Exchange and Denomination**

Notes of a series will initially be represented by a global note or global notes in fully registered form (“**Global Notes**”). Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes (“**U.S. Global Notes**”). Notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by one or more international global notes (“**International Global Notes**”).

Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with these transfer restrictions and subject to certification requirements. In no event will notes in bearer form be issued.

The Global Note or Global Notes representing a series of notes will be issued to and deposited with, or on behalf of, DTC in New York City and registered in the name of Cede & Co. (“**Cede**”), as DTC’s nominee. Interests in a Global Note or Global Notes representing notes of a series will be shown in, and transfers thereof will be effected only through, records maintained by DTC and its participants until such time, if any, as physical registered certificates (“**Certificated Notes**”) in respect of such notes are issued, as set forth in the section entitled “*Description of the Global Notes—Book-Entry System*”.

The Global Note or Global Notes representing a series of notes may be transferred only to a successor of DTC or another nominee of DTC. For additional information, see the section entitled “*Description of the Global Notes—Book-Entry System*”.

Under the following circumstances, Global Notes of a series may be exchanged for certificated registered notes of such Series:

- if at any time DTC notifies us that it is unwilling or unable to continue as the depositary for the notes, or DTC ceases to be a clearing agency registered under the Exchange Act, and we are unable to appoint a successor to DTC registered as a clearing agency under the Exchange Act within 90 days of such notification or of our becoming aware of such ineligibility;
- upon the occurrence of any Event of Default under the indenture; and
- if we determine in our sole discretion (subject to DTC’s procedures) that the notes of any series should no longer be represented by such Global Note or notes.

Certificated Notes representing a series of notes, if any, will be exchangeable for other Certificated Notes representing notes of such series of any authorized denominations and of a like aggregate principal amount and tenor. Certificated Notes will be serially numbered.

Certificated Notes may be presented to the trustee for registration of transfer or exchange at its Corporate Trust Office which at the date hereof is located at 101 Barclay Street, 8W, New York, New York 10286. Certificated Notes may be presented for exchange and transfer in the manner, at the places and subject to the restrictions set forth in the indenture and the notes. We have not registered the notes under the Securities Act or with any securities regulatory authority of any jurisdiction, and accordingly, transfers of the notes will be subject to the restrictions set forth in the sections entitled “*Notice to Investors*” and “*Transfer Restrictions*”.

Certificated Notes and interests in the U.S. Global Notes may be transferred to a person who takes delivery in the form of interests in an International Global Note only upon receipt by the trustee of written certifications, in the form provided in the indenture, to the effect that the transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act and that, if this transfer occurs prior to 40 days after the commencement of the offering of such notes, the interest transferred will be held immediately thereafter through Euroclear Bank S.A./N.V. (“**Euroclear**”) or Clearstream Banking, *société anonyme* (“**Clearstream**”), each of which is a participant in DTC.

Until 40 days after the closing date for the offering of a series of notes, interests in an International Global Note may be held only through Euroclear or Clearstream, which are participants in DTC. Certificated Notes and interests in International Global Notes may be transferred to a person who takes delivery in the form of interests in a U.S. Global Note only upon receipt by the trustee of written certifications, in the form provided in the indenture, to the effect that such transfer is being made in accordance with Rule 144A to a person whom the transferor reasonably believes is purchasing for its own account or for an account as to which it exercises sole investment discretion and that such person and such account or accounts are “qualified institutional buyers” within the meaning of Rule 144A and agree to comply with the restrictions on transfer set forth in the sections entitled “*Notice to Investors*” and “*Transfer Restrictions*”.

In the event of any redemption of notes, we will not be required to (i) register the transfer of or exchange the notes during a period of 15 calendar days immediately preceding the date of redemption; (ii) register the transfer of or exchange the notes, or any portion thereof called for redemption, except the unredeemed portion of any of the notes being redeemed in part; or (iii) with respect to notes represented by a Global Note or Global Notes, exchange any such note or notes called for redemption, except to exchange such note or notes for another Global Note or Global Notes of that series and like tenor representing the aggregate principal amount of notes of that series that have not been redeemed.

The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A.) is the principal paying agent (the “**Paying Agent**”) pursuant to the indenture. We may at any time designate additional paying agents or rescind the designation of any paying agent provided that if and for so long as the notes are listed on any stock exchange which requires the appointment of a paying agent in any particular place, we shall maintain a paying agent with an office in the place required by such stock exchange or relevant authority.

We will issue senior notes in minimum denominations of \$200,000 and subordinated notes in minimum denominations of \$250,000, and in each case in integral multiples of \$1,000 in excess thereof, in the case of Notes denominated in U.S. dollars. We will issue notes denominated in a Specified Currency other than U.S. dollars in minimum denominations that are the equivalent of these amounts in any other Specified Currency, and in any other denominations in excess of the minimum denominations as specified in the applicable Final Terms. The notes will be issued in integral multiples of 1,000 units of any such Specified Currency in excess of their minimum denominations. If the principal, premium, if any, and interest, if any, on any of the notes not denominated in U.S. dollars, euro or sterling are to be payable at our or the holder’s option in U.S. dollars, such payment will be made on the basis of the Market Exchange Rate, computed by the Currency Determination Agent, on the second Business Day prior to such payment or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

#### **Payment of Principal, Premium, if any, and Interest, if any**

Payments of principal, premium, if any, and interest, if any, to owners of beneficial interests in the Global Notes are expected to be made in accordance with those procedures of DTC and its participants in effect from time to time as described in the section entitled “*Description of the Global Notes—Book-Entry System*” and, in the case of any note denominated in a Specified Currency other than U.S. dollars, as provided below.

Payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations thereunder, any official interpretations thereof, or (without prejudice to the provisions of “—*Payments of Additional Amounts*” below) any law implementing an intergovernmental approach thereto.

Except as described below, with respect to any Certificated Note, payments of interest, if any, will be made by mailing a check to the holder at the address of such holder appearing on the register for the notes on the regular record date (the “**Regular Record Date**”). Notwithstanding the foregoing, at our option, all payments of interest on the notes may be made by wire transfer of immediately available funds to an account at a bank located within the United States as designated by each holder not less than 15 calendar days prior to the relevant Interest Payment Date. A holder of

\$10,000,000 (or, if the Specified Currency is other than U.S. dollars, the equivalent thereof in that Specified Currency) or more in aggregate principal amount of notes of like tenor and terms with the same Interest Payment Date may demand payment by wire transfer but only if appropriate payment instructions have been received in writing by any paying agent with respect to such note appointed by us, not less than 15 calendar days prior to the Interest Payment Date. In the event that payment is so made in accordance with instructions of the holder, such wire transfer shall be deemed to constitute full and complete payment of such principal, premium and/or interest on the notes. Payment of the principal, premium, if any, and interest, if any, due with respect to any Certificated Note at Maturity will be made in immediately available funds upon surrender of such note at the principal office of any paying agent appointed by us with respect to that note and accompanied by wire transfer instructions, provided that the Certificated Note is presented to such paying agent in time for such paying agent to make such payments in such funds in accordance with its normal procedures.

Payments of principal, premium, if any, and interest, if any, with respect to any note to be made in a Specified Currency other than U.S. dollars will be made by check mailed to the address of the person entitled thereto as its address appears in the register for the notes or by wire transfer to such account with a bank located in a jurisdiction acceptable to us and the trustee as shall have been designated at least 15 calendar days prior to the Interest Payment Date or Maturity, as the case may be, by the holder of such note on the relevant Regular Record Date or at Maturity, provided that, in the case of payment of principal of, and premium, if any, and interest, if any, due at Maturity, the note is presented to any paying agent appointed by us with respect to such note in time for such paying agent to make such payments in such funds in accordance with its normal procedures. Such designation shall be made by filing the appropriate information with the trustee at its Corporate Trust Office, and, unless revoked, any such designation made with respect to any note by a holder will remain in effect with respect to any further payments with respect to such note payable to such holder. If a payment with respect to any such note cannot be made by wire transfer because the required designation has not been received by the trustee on or before the requisite date or for any other reason, a notice will be mailed to the holder at its registered address requesting a designation pursuant to which such wire transfer can be made and, upon such trustee's receipt of such a designation, such payment will be made within 15 calendar days of such receipt. We will pay any administrative costs imposed by banks in connection with making payments by wire transfer, but any tax, assessment or governmental charge imposed upon payments will be borne by the holders of such notes in respect of which such payments are made.

Except as provided below, payments of principal, premium, if any, and interest, if any, with respect to any note represented by Global Notes that is denominated in a Specified Currency other than U.S. dollars will be made in U.S. dollars, as set forth below. If the holder of such note on the relevant Regular Record Date or at Maturity, as the case may be, requests payments in a currency other than U.S. dollars, the holder shall transmit a written request for such payment to any paying agent appointed by us with respect to such note at its principal office on or prior to such Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be. Such request may be delivered by mail, by hand, by cable or by telex or any other form of facsimile transmission. Any such request made with respect to any note by a holder will remain in effect with respect to any further payments of principal, and premium, if any, and interest, if any, with respect to such note payable to such holder, unless such request is revoked by written notice received by such paying agent on or prior to the relevant Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be (but no such revocation may be made with respect to payments made on any such note if an Event of Default has occurred with respect thereto or upon the giving of a notice of redemption). Holders of notes denominated in a currency other than U.S. dollars whose notes are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in a currency other than U.S. dollars may be made.

The U.S. dollar amount to be received by a holder of a note denominated in other than U.S. dollars who elects to receive payments in U.S. dollars will be based on the highest indicated bid quotation for the purchase of U.S. dollars in exchange for the Specified Currency obtained by the Currency Determination Agent, as defined below, at approximately 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date (the "**Conversion Date**") from the bank composite or multicontributor pages of the Quoting Source for three (or two if three are not available) major banks in New York City. The first three (or two) such banks selected by the Currency Determination Agent which are offering quotes on the Quoting Source will be used. If fewer than two such bid quotations are available at 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date, such payment will be based on the Market Exchange Rate as of the second Business Day immediately preceding the applicable payment date. If the Market Exchange Rate for such date is not then available, such

payment will be made in the Specified Currency. As used herein, the “**Quoting Source**” means Reuters Monitor Foreign Exchange Service, or if the Currency Determination Agent determines that such service is not available, such comparable display or other comparable manner of obtaining quotations as shall be agreed between us and the Currency Determination Agent. All currency exchange costs associated with any payment in U.S. dollars on any such notes will be borne by the holder thereof by deductions from such payment. The currency determination agent (the “**Currency Determination Agent**”) with respect to any such note will be specified in the applicable Final Terms.

If the Specified Currency for a note denominated in a currency other than U.S. dollars is not available for the required payment of principal, premium, if any, and/or interest, if any, in respect thereof due to the imposition of exchange controls or other circumstances beyond our control, we will be entitled to satisfy our obligations to the holder of such note by making such payment in U.S. dollars on the basis of the Market Exchange Rate, computed by the Currency Determination Agent, on the second Business Day prior to such payment or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate. Any payment made in U.S. dollars under such circumstances where the required payment was to be in a Specified Currency other than U.S. dollars will not constitute an Event of Default under the indenture with respect to the notes.

All determinations referred to above made by the Currency Determination Agent shall be at its sole discretion in accordance with its normal operating procedures and shall, in the absence of manifest error, be conclusive for all purposes and binding on all holders and beneficial owners of notes.

## **Interest**

### **Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year specified in the applicable Final Terms and on the Maturity Date specified in the applicable Final Terms if that does not fall on an Interest Payment Date. The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date.

Interest shall be calculated in respect of any period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Fixed Rate Notes and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest subunit of the relevant Specified Currency, half of any such subunit being rounded upwards or otherwise in accordance with applicable market convention.

If any Interest Payment Date or the date of Maturity of a Fixed Rate Note falls on the day that is not a Business Day, the required payments of principal, premium, if any, and interest, if any, with respect to such note will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after such Interest Payment Date or the date of Maturity, as the case may be, to the date of such payment on the next succeeding Business Day.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with the applicable Final Terms for any Fixed Rate Note:

- (a) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as so specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (I) the number of days in

such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and

(b) if **30/360** is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of twelve 30 day months) divided by 360.

If no Day Count Fraction for Fixed Rate Notes is specified in the applicable Final Terms then the Day Count Fraction for such Notes shall be **Actual/Actual (ICMA)** for Notes other than those denominated or payable in U.S. Dollars and **30/360** for Notes denominated or payable in U.S. Dollars.

**Determination Period** means the period from (and including) a Determination Date in any year to (but excluding) the next Determination Date; and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

#### **Interest on Floating Rate Notes**

##### *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrear on either:

- (i) the Interest Payment Date(s) in each year specified in the applicable Final Terms (the period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date, each an **Interest Period**); or
- (ii) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date, each such date being an Interest Payment Date.

If any Interest Payment Date which is specified in the applicable Final Terms to be subject to adjustment in accordance with a business day convention would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (A) in any case where Interest Periods are specified in accordance with (ii) above, the Floating Rate Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

#### *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

Interest on Floating Rate Notes will be determined by reference to the applicable Interest Rate Basis or Bases, which may, as described below, include:

- the CD Rate;
- the one-year Constant Maturity Treasury Rate (“**CMT Rate**”);
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;
- EURIBOR;
- the Federal Funds Rate;
- LIBOR;
- the Prime Rate; or
- the Treasury Rate.

The applicable Final Terms will specify whether any Margin, expressed as a percentage amount, is to be added or subtracted from the related Interest Rate Basis or Bases applicable to such Floating Rate Note.

The applicable Final Terms will specify whether the rate of interest on the related Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually or annually or at such other specified intervals as specified in the applicable Final Terms (each, an “**Interest Reset Period**”) and the dates on which such rate of interest will be reset (each, an “**Interest Reset Date**”). If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Reset Date will be postponed to the next succeeding Business Day except that in the case of a Floating Rate Note as to which EURIBOR or LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Reset Date will be the immediately preceding Business Day.

The interest rate applicable to each Interest Period will be the rate determined by the Calculation Agent (as specified in the applicable Final Terms) as of the applicable Interest Determination Date (“**Interest Determination Date**”).

The interest rate applicable to each Interest Reset Period commencing on the related Interest Reset Date will be the rate determined by the Calculation Agent (as specified in the applicable Final Terms) as of the applicable Interest Determination Date and calculated on or prior to the Calculation Date (as defined below), except with respect to the Eleventh District Cost of Funds Rate, EURIBOR and LIBOR, which will be calculated on such Interest Determination Date, except with respect to the Commercial Paper Rate and the Prime Rate, which will be calculated on or prior to the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, and except with respect to the CMT, which will be calculated on the dates specified below under “—CMT Rate”. The “Interest Determination Date” with respect to:

- the CD Rate and the Commercial Paper Rate will be the second Business Day preceding the applicable Interest Reset Date;
- the Federal Funds Rate will be the Business Day immediately preceding the applicable Interest Reset Date;
- the CMT Rate will be the second U.S. Government Securities Business Day preceding the applicable Interest Reset Date;
- the Prime Rate will be the applicable Interest Reset Date;

- the Eleventh District Cost of Funds Rate will be the last Business Day of the month immediately preceding the applicable Interest Reset Date on which the Federal Home Loan Bank of San Francisco (the “**FHLB of San Francisco**”) publishes the Index, as defined below;
- EURIBOR will be the second TARGET Settlement Date immediately preceding the applicable Interest Reset Date;
- LIBOR will be the second London Business Day immediately preceding the applicable Interest Reset Date, unless the Designated LIBOR Currency is pounds sterling, in which case the “Interest Determination Date” will be the applicable Interest Reset Date; and
- the Treasury Rate will be the day in the week in which the applicable Interest Reset Date falls on which the day Treasury Bills, as defined below, are normally auctioned (Treasury Bills are normally sold at an auction held on Monday of each week, unless such Monday is a legal holiday, in which case the auction is normally held on the immediately succeeding Tuesday although such auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the applicable Interest Reset Date, the “Interest Determination Date” will be such preceding Friday; provided, further, that if the Interest Determination Date would otherwise fall on an Interest Reset Date, then such Interest Reset Date will be postponed to the next succeeding Business Day.

The “Interest Determination Date” pertaining to a Floating Rate Note the interest rate of which is determined by reference to two or more Interest Rate Bases will be the most recent Business Day which is at least two Business Days prior to the applicable Interest Reset Date for such Floating Rate Note on which each Interest Rate Basis is determinable. Each Interest Rate Basis will be determined as of such date, and the applicable interest rate will take effect on the applicable Interest Reset Date.

The “**Calculation Date**”, if applicable, pertaining to any Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

The Calculation Agent shall determine each Interest Rate Basis in accordance with the following provisions:

#### *CD Rate*

“**CD Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CD Rate, the rate on such date for negotiable U.S. dollar certificates of deposit having the Index Maturity specified in the applicable Final Terms as published in H.15(519), (as defined below), under the heading “CDs (secondary market)” or, if not so published by 3:00 p.m., New York City time on the related Calculation Date, the rate on such Interest Determination Date for negotiable U.S. dollar certificates of deposit of the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update (as defined below), or such other recognized electronic source used for the purpose of displaying such rate, under the caption “CDs (secondary market)”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m. New York City time on the related Calculation Date, then the CD Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the secondary market offered rates as of 10:00 a.m. New York City time on such Interest Determination Date, of three leading non-bank dealers in negotiable U.S. dollar certificates of deposit in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) for negotiable U.S. dollar certificates of deposit of major U.S. money center banks with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms in an amount that is representative for a single transaction in that market at that time; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the CD Rate determined as of such Interest Determination Date will be the CD Rate in effect on such Interest Determination Date, or, if no CD Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

“**H.15(519)**” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System (the “**Board of Governors**”), or its successor, available through the website of the Board of Governors at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>.

**“H.15 Daily Update”** means the daily update of H.15(519) available at the Board of Governors of the Federal Reserve System’s Internet web site located at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>, or any successor site or publication.

*CMT Rate*

**“CMT Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CMT Rate:

- (1) if the Reuters 7051 Page is specified in the applicable Final Terms as the Designated CMT Reuters Page:
  - (a) the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption “Treasury Constant Maturities”, as the yield is displayed on Reuters (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) (“**T7051 Page**”), on such Interest Determination Date, or
  - (b) if the rate referred to in clause (a) does not so appear on the T7051 Page, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index and for such Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities”, or
  - (c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on such Interest Determination Date for the period of the particular Designated CMT Maturity Index as may then be published by either the Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519), or
  - (d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the agents or their affiliates) (each, a “**Reference Dealer**”), selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
  - (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
  - (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated

CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or

- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated, or
- (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on such Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

(2) if the Reuters Page T7052 is specified in the applicable Final Terms as the Designated CMT Reuters Page:

- (a) the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities”, as the yield is displayed on Reuters (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) on page FEDCMT (or any other page as may replace the specified page on that service) (“**T7052 Page**”), for the week preceding the week in which such Interest Determination Date falls, or
- (b) if the rate referred to in clause (a) does not so appear on the T7052 Page, the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index and for the week preceding such Interest Determination Date as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities,” or
- (c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index as otherwise announced by the Federal Reserve Bank of New York for the week preceding the week in which such Interest Determination Date falls, or
- (d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
- (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
- (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected

by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at the time, or

- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest or the lowest of the quotations will be eliminated, or
- (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

If two United States Treasury securities with an original maturity greater than the Designated CMT Maturity Index specified in the applicable Final Terms have remaining terms to maturity equally close to the particular Designated CMT Maturity Index, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

**“Designated CMT Maturity Index”** means the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in the applicable Final Terms with respect to which the CMT Rate will be calculated.

#### *Commercial Paper Rate*

**“Commercial Paper Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Commercial Paper Rate, the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “Commercial Paper— Nonfinancial” or, if not so published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the Money Market Yield on such Interest Determination Date for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper—Nonfinancial”. If such rate is not yet published in H.15(519), the H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Commercial Paper Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 a.m., New York City time on such Interest Determination Date of three leading dealers of U.S. dollar commercial paper in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) for U.S. dollar commercial paper having the Index Maturity specified in the applicable Final Terms placed for industrial issuers whose bond rating is “Aa”, or the equivalent, from a nationally recognized statistical rating organization; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Commercial Paper Rate determined as of such Interest Determination Date will be the Commercial Paper Rate in effect on such Interest Determination Date, or, if no Commercial Paper Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

**“Money Market Yield”** means a yield (expressed as a percentage) calculated in accordance with the following formula:  $D \times 360$  /  $360 - (D \times M)$   $\times 100$

where “**D**” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “**M**” refers to the actual number of days in the applicable Interest Reset Period.

*Eleventh District Cost of Funds Rate*

“**Eleventh District Cost of Funds Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Eleventh District Cost of Funds Rate, the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which such Interest Determination Date falls as set forth opposite the caption “11th Dist COFI” on the display on Reuters (or any successor service) on page COFI/ARMS (or any other page as may replace such page on such service) (“**COFI/ARMS Page**”) as of 11:00 a.m., San Francisco time, on such Interest Determination Date. If such rate does not appear on the COFI/ARMS Page on such Interest Determination Date then the Eleventh District Cost of Funds Rate on such Interest Determination Date shall be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the “**Index**”) by the FHLB of San Francisco as such cost of funds for the calendar month immediately preceding such Interest Determination Date. If the FHLB of San Francisco fails to announce the Index on or prior to such Interest Determination Date for the calendar month immediately preceding such Interest Determination Date, the Eleventh District Cost of Funds Rate for such Interest Determination Date will be the Eleventh District Cost of Funds Rate in effect on such Interest Determination Date; provided, that if no Eleventh District Cost of Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

*EURIBOR*

“**EURIBOR**” means the rate determined in accordance with the following provisions:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to EURIBOR, EURIBOR will be the rate for deposits in euro for a period of the Index Maturity as specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated EURIBOR Page as of 11:00 A.M., Brussels time, on such Interest Determination Date; or if no such rate so appears, EURIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (2) below.
- (2) With respect to an Interest Determination Date on which no rate appears on the Designated EURIBOR Page as specified in Clause (1) above, the Calculation Agent will request the principal eurozone office of each of four major reference banks (which may include affiliates of the Placement Agents) in the eurozone interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in euro for the period of the Index Maturity specified in the applicable Final Terms commencing on the applicable Interest Reset Date, to prime banks in the eurozone interbank market at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in euro in such market at such time. If at least two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such Interest Determination Date by three major banks (which may include affiliates of the Placement Agents) in the eurozone selected by the Calculation Agent (after consultation with us) for loans in euro to leading European banks, having the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in euro in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, EURIBOR determined as of such Interest Determination Date will be EURIBOR in effect on such Interest Determination Date, or, if no EURIBOR was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

“**Designated EURIBOR Page**” means the display on the page specified in the applicable Final Terms for the purpose of displaying the eurozone interbank rates of major banks for the euro; provided, however, if no such page is

specified in the applicable Final Terms, the display on Reuters (or any successor service) on the EURIBOR 01 page (or any other page as may replace such page on such service) shall be used.

“**eurozone**” means the region comprised of Member States of the European Union that have adopted the single currency in accordance with the Treaty on European Union signed at Maastricht on February 7, 1992.

#### *Federal Funds Rate*

“**Federal Funds Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Federal Funds Rate, the rate on such date for U.S. dollar federal funds as published in H.15(519) opposite the heading “Federal Funds (Effective)”, as such rate is displayed on Reuters (or any successor service) on page FEDFUND 1 (or any other page as may replace such page) (“**Reuters Page FEDFUND 1**”), or, if such rate does not appear on Reuters Page FEDFUND 1 or is not so published by 5:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date for U.S. dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective)”. If such rate does not appear on Reuters Page FEDFUND 1 or is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the related Calculation Date, then the Federal Funds Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) prior to 9:00 a.m., New York City time, on such Interest Determination Date; provided, however, that if the brokers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Interest Determination Date will be the Federal Funds Rate in effect on such Interest Determination Date, or, if no Federal Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

#### *LIBOR*

“**LIBOR**” means the rate determined in accordance with the following:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to LIBOR, LIBOR will be the rate for deposits in the Designated LIBOR Currency for a period of the Index Maturity specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 A.M., London time, on such Interest Determination Date, or if no such rate so appears, LIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (2) below.
- (2) With respect to an Interest Determination Date on which no rate appears on the Designated LIBOR Page as specified in clause (1) above, the Calculation Agent will request the principal London offices of each of four major reference banks (which may include affiliates of the Placement Agents) in the London interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in the Designated LIBOR Currency for the period of the Index Maturity specified in the applicable Final Terms, commencing on the applicable Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on such Interest Determination Date by three major banks (which may include affiliates of the Placement Agents) in such Principal Financial Center selected by the Calculation Agent (after consultation with us) for loans in the Designated LIBOR Currency to leading European banks, having the Index Maturity specified in the applicable Final Terms, commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time; provided, however,

that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined as of such Interest Determination Date will be LIBOR in effect on such Interest Determination Date or, if no LIBOR rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

**“Designated LIBOR Currency”** means the currency specified in the applicable Final Terms as to which LIBOR shall be calculated or, if no such currency is specified in the applicable Final Terms, U.S. dollars.

**“Designated LIBOR Page”** means the display on the page specified in the applicable Final Terms for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency, provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any such service) on the LIBOR 01 page (or any other page as may replace such page on such service) shall be used for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency.

*Prime Rate*

**“Prime Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Prime Rate, the rate on such date as such rate is published in H.15(519) opposite the caption “Bank Prime Loan” or, if not published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the rate on such Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, opposite the caption “Bank Prime Loan”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Prime Rate shall be the arithmetic mean, as determined by the Calculation Agent, of the rates of interest publicly announced by three major banks (which may include affiliates of the Placement Agents) in New York City selected by the Calculation Agent (after consultation with us) as the U.S. dollar prime rate or base lending rate in effect for such Interest Determination Date. (Each change in the prime rate or base lending rate of any bank so announced by such bank will be effective as of the effective date of the announcement or, if no effective date is specified, as of the date of the announcement.) If fewer than three major banks (which may include affiliates of the Placement Agents) so selected in New York City have publicly announced a U.S. dollar prime rate or base lending rate for such Interest Determination Date, the Prime Rate with respect to such Interest Determination Date shall be the rate in effect on such Interest Determination Date, or, if no Prime Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

*Treasury Rate*

**“Treasury Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined by reference to the Treasury Rate, the rate from the auction held on such Interest Determination Date (the “**Auction**”) of direct obligations of the United States (“**Treasury Bills**”) having the Index Maturity specified in the applicable Final Terms under the caption “INVEST RATE” on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace such page) (“**USAUCTION 10**”) or page USAUCTION 11 (or any other page as may replace such page) (“**USAUCTION 11**”) or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/ Auction High” or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of such Treasury Bills as announced by the U.S. Department of the Treasury. In the event that the auction rate of Treasury Bills having the Index Maturity specified in the applicable Final Terms is not so announced by the U.S. Department of the Treasury, or if no such Auction is held, then the Treasury Rate will be the Bond Equivalent Yield of the rate on such Interest Determination Date of Treasury Bills having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “U.S. Government Securities/Treasury Bills/Secondary Market” or, if not yet published by 3:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date of such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source

used for the purpose of displaying such rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market". If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be calculated by the Calculation Agent and will be the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on such Interest Determination Date, of three primary U.S. government securities dealers (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us), for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Interest Determination Date will be the Treasury Rate in effect on such Interest Determination Date, or, if no Treasury Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

**"Bond Equivalent Yield"** means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N \times 100}{360 - (D \times M)}$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

*Minimum and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

The interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified, or other applicable law.

*Determination of Rate of Interest and calculation of Interest Amount; Percentages*

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Calculation Agent will calculate the amount of interest (each an "**Interest Amount**") for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the aggregate outstanding nominal amount of the notes and multiplying such sum by the Day Count Fraction specified in the applicable Final Terms. The resultant figure will be rounded as follows (or otherwise in accordance with applicable market convention):

- (i) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up);
- (ii) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen; and
- (iii) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

All percentages resulting from any calculation on Floating Rate Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five or more one millionths of a percentage point rounded upwards (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)).

**Day Count Fraction** means, in respect of the calculation of an amount for any period of time in accordance with the applicable Final Terms for any Floating Rate Note:

- (A) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap

year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (B) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360; and
- (E) if **30/360, 360/360 or Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (F) if **30E/360 or Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30.

- (G) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

#### *Notification of Rate of Interest and Interest Amounts*

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Issuer, to the Trustee and to any listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to be published as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will promptly be notified to each listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to the holders in accordance with the indenture.

#### *Determination or calculation by Trustee*

If for any reason at any time after the Original Issue Date, the Calculation Agent defaults in its obligation to determine the Rate of Interest in accordance with this subsection or the Calculation Agent defaults in its obligation to calculate any Interest Amount in accordance with this subsection, the Trustee (or an agent acting on its behalf) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this subsection, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee (or an agent acting on its behalf) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

#### *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this subsection, whether by the Paying Agent or the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying Agent, the Calculation Agent, the Trustee, any other paying agents and all holders and (in the absence as aforesaid) no liability to the Issuer or the holders shall attach to the Paying Agent, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

## **Additional Notes**

We may issue additional notes of a series having identical terms to that of a prior series of notes of the same series but for the Original Issue Date and the public offering price (“**Additional Notes**”). The Final Terms relating to any Additional Notes will set forth matters related to such issuance, including identifying the prior series of notes, their Original Issue Date and the aggregate principal amount of notes then comprising such series.

## **Payment of Additional Amounts**

We will pay to the holder of any note such additional amounts as may be necessary in order that every net payment of the principal of (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount (as defined below) or other amount payable in respect thereof) and interest, if any, on such note, after deduction or other withholding for or on account of any present or future tax, assessment, duty or other governmental charge of any nature whatsoever imposed, levied or collected by or on behalf of the United Kingdom, or any political subdivision thereof or authority therein having power to tax, will not be less than the amount provided for in such note as then due and payable. No such additional amount shall, however, be payable on any note on account of any tax, assessment, duty or other governmental charge which is payable:

- (1) otherwise than by deduction or withholding from any payments of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on such note;
- (2) by reason of the holder or beneficial owner who is liable for such taxes having some connection with the United Kingdom (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in the United Kingdom) other than by the mere holding of such note or enforcement of rights thereunder or the receipt of payments in respect thereof;
- (3) by reason of a change in law or official practice of any relevant taxing authority that becomes effective more than 30 days after the Relevant Date (as defined below) for payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of such note;
- (4) on a payment to or for the benefit of an individual and is required to be made pursuant to any European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of November 26–27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (5) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant note to another paying agent in a Member State of the European Union;
- (6) by reason of any estate, excise, inheritance, gift, sales, transfer, wealth, personal property tax or any similar assessment or governmental charge;
- (7) as a result of the failure of a holder to satisfy any statutory requirements or make a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (8) by reason of any note presented for payment in the United Kingdom if such payment could have been made by or through any other paying agent without such tax, assessment, duty or other governmental charge; or
- (9) owing to a combination of clauses (1) through (8) above.

“**Relevant Date**” means the date on which the payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on a note first becomes due and payable but, if the full amount of the monies payable on such date has not been received by the relevant Paying Agent or as it shall have directed on or prior to such date, the “**Relevant Date**” means the date on which such monies shall have

been so received. No additional amounts will be paid as provided above with respect to any payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on such note to any holder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of any such note.

### **Redemption and Repurchase**

#### ***Final Redemption***

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at 100% of its nominal amount in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

#### ***Redemption for Tax Reasons***

The notes of any series may be redeemed, subject to, in the case of the subordinated notes, any Relevant Supervisory Consent, as a whole but not in part, at our option upon not more than 60 days', nor less than 30 days', prior notice given as provided below under the section entitled "—Notices", at a redemption price equal to 100% of the principal amount (or at the then current Amortized Face Amount if the note is a Zero Coupon Note) (and premium, if any, thereon) together with interest, if any, to the date fixed for redemption, if on the occasion of the next payment due on the notes we would become obligated to pay additional amounts (as provided in the indenture) and such obligation cannot be avoided by the use of reasonable measures available to us; provided, that notes of a series may not be so redeemed if our obligation to pay such additional amount arises by reason of the notes not being admitted to listing on the Official List, and not being admitted to trading on the London Stock Exchange or not being listed on another "recognized stock exchange" within the meaning of Section 1005 of the UK Income Tax Act 2007.

In the event that we elect to redeem the notes of any series pursuant to the provisions set forth in the preceding paragraph, we will deliver to the trustee (i) a certificate, signed by two of our authorized officers, evidencing compliance with such provisions and stating that we are entitled to redeem the notes of any such series pursuant to the terms of such notes and the indenture and (ii) a written opinion of our counsel to the effect that the circumstances referred to above exist.

#### ***Redemption at Our Option***

If so specified in the applicable Final Terms, the notes of a series will be redeemable at our option prior to the Stated Maturity. If so specified, and subject to the terms set forth in the applicable Final Terms and, in the case of subordinated notes, any Relevant Supervisory Consent, the notes will be subject to redemption at our option on any date on and after the applicable Initial Redemption Date specified in the applicable Final Terms in whole or from time to time in part in minimum increments of \$200,000 for senior notes and \$250,000 for subordinated notes, or the minimum denomination specified in such Final Terms (provided that any remaining principal amount thereof shall be at least \$200,000 for senior notes and \$250,000 for subordinated notes, or such minimum denomination), at the Redemption Price specified in the applicable Final Terms on notice given not more than 60 days, if the notes are being redeemed in whole, or 45 days, if the notes are being redeemed in part, nor less than 30 days prior to the date of redemption and in accordance with the provisions of the indenture.

The notes will not be subject to any sinking fund.

#### ***Repayment at the Option of the Holders (other than holders of Subordinated Notes)***

If so specified in the applicable Final Terms (unless the relevant Note is a Subordinated Note), the notes will be repayable by us in whole or in part at the option of the holders thereof on their respective optional repayment dates ("Optional Repayment Dates") specified in such Final Terms, upon not more than 30 days', nor less than 15 days', notice prior to such Optional Repayment Dates. If no Optional Repayment Date is specified with respect to a note, such note will not be repayable at the option of the holder thereof prior to the Stated Maturity. Any repayment in part will be in increments of \$200,000 for senior notes and \$250,000 for subordinated notes, or the minimum denomination specified in the applicable Final Terms (provided that any remaining principal amount thereof shall be at least \$200,000 for senior

notes and \$250,000 for subordinated notes, or such minimum denomination). Unless otherwise specified in the applicable Final Terms, the repayment price for any note to be repaid means an amount equal to the sum of the unpaid principal amount thereof or the portion thereof plus accrued interest to the date of repayment. Exercise of the repayment option is irrevocable.

#### *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to this subsection or upon its becoming due and repayable as provided upon the occurrence of any Event of Default under the indenture is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided under "*—Early Redemption Amounts*" below as though the references therein to the date fixed for redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of the Zero Coupon Note have been paid; and
- (b) the date on which the full amount of the moneys payable has been received by the Paying Agent or the Trustee and notice to that effect has been given to the holders.

#### *Early Redemption Amounts*

For the purposes of redemption for tax reasons and redemption upon the occurrence of any Event of Default under the indenture, each Note will be redeemed at an amount calculated as follows:

- (a) (in the case of Notes other than Zero Coupon Notes) at 100% of the principal amount (and premium, if any, thereon) together with interest, if any, to the date fixed for redemption; or
- (b) in the case of Zero Coupon Notes, at an amount (the **Amortized Face Amount**) equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Original Issue Date of the notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360 day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365).

#### *Selection of Notes for Partial Redemption*

In the case of any partial redemption of notes, and subject to the terms specified in the applicable Final Terms, the notes to be redeemed shall be selected by the trustee individually by lot not more than 60 days prior to the Redemption Date from the outstanding notes not previously called for redemption, provided that partial redemption of Global Notes shall be effected in accordance with DTC's procedures.

#### *Repurchase*

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased may be held or resold and, at our discretion, notes may be surrendered to the trustee for cancellation.

#### *Financial Conduct Authority Consents*

Under the FCA requirements, any optional tax redemption or repurchase or any other optional redemption or purchase by us of subordinated notes of any series may be made only with the prior consent of the FCA and subject to such conditions as the FCA may impose at the time of any consent.

#### **Negative Pledge**

The negative pledge applies to the senior notes only. So long as any of the senior notes remain outstanding, we will not, and will not suffer or permit any of our subsidiaries to, create or have outstanding any mortgage, lien (other than

a lien arising by operation of law), pledge or other charge or security interest upon the whole or any part of our or its business or assets, present or future (for the purposes of this subsection, a “**Security Interest**”), to secure any of our Loan Stock or the Loan Stock of any of our subsidiaries or any of our or our subsidiaries’ obligations under any guarantee of or indemnity in respect of the Loan Stock of any other person, without at the same time or prior thereto securing the senior notes equally and ratably therewith to the satisfaction of the trustee or providing such other security for the senior notes which the trustee in its absolute discretion shall deem to be not materially less beneficial to the holders of senior notes or which shall be approved by a majority of the holders of senior notes then outstanding provided that we or any of our subsidiaries may create or have outstanding Security Interests with respect to Loan Stock (without the obligation to secure the senior notes as aforesaid) if at the date of the creation thereof we or any of our subsidiaries have and thereafter maintain free and clear of Security Interests assets the fair market value of which (calculated on a consolidated basis) is at least twice the aggregate principal amount of all Loan Stock which is not secured by any such Security Interest. As used in this subsection, “**Loan Stock**” means indebtedness for the time being outstanding which is in the form of or represented or evidenced by bonds, notes, debentures, loan stock or other similar securities.

#### **Events of Default—Senior Notes**

The following shall constitute “**Events of Default**” with respect to the senior notes:

- (1) we fail to pay any principal within three days of the due date or interest within seven days of the due date in respect of the senior notes of such series; or
- (2) we default in performance or observance of or compliance with any of our other obligations set out in the senior notes of such series or the indenture which default is incapable of remedy or which, if capable of remedy, is not, in the opinion of the trustee, remedied within 30 days (or such longer period as the trustee may permit) after notice requiring remedy of such default shall have been given to us by the trustee; or
- (3)
  - (a) any other present or future indebtedness in respect of moneys borrowed or raised in an amount of £40,000,000 or more (or its equivalent in any other currency) of us or any Material Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or
  - (b) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or
  - (c) we fail or any Material Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefor any amount payable by us or it under any present or future guarantee in an amount of £40,000,000 or more (or its equivalent in any other currency) (other than any guarantee given in the ordinary course of our or its business) for any indebtedness in respect of moneys borrowed or raised; or
  - (d) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £40,000,000 or more (or its equivalent in any other currency) and created or assumed by us or any Material Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or
- (4) a distress or execution or other similar legal process in respect of a claim for £20,000,000 or more is levied or enforced or sued out upon or against any part of our property, assets or revenues or the property, assets or revenues of any Material Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or
- (5) we become, or any Material Subsidiary becomes, insolvent or unable to pay our or its debts as they mature; or we apply, or any Material Subsidiary applies, for or consents to or suffers the appointment of a liquidator or receiver or administrator or similar officer of ourself or itself or the whole or any substantial part of our or its undertaking, property, assets or revenues; or we take, or any Material Subsidiary takes, any proceeding under any law for a readjustment or deferment of our or its obligations or any part thereof; or we make or enter, or any Material Subsidiary makes or enters, into a general assignment or an arrangement or composition with or for the benefit of our or its creditors; or we stop, or any Material Subsidiary stops or threatens to cease, to carry on our or its business or any substantial part of our or its business except in any case in connection with a substitution pursuant to

the Consolidation, Merger and Sale or Lease of Assets provisions of the indenture (see the subsection entitled “—*Consolidation, Merger and Sale or Lease of Assets*”) or for the purpose of a reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the trustee, or in the case of a Material Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to us or another of our wholly-owned subsidiaries; or

- (6) an order is made or an effective resolution is passed to wind up or dissolve us or any Material Subsidiary or our authorization or registration is, or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the trustee or in the case of a voluntary solvent winding up of a wholly-owned Material Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to us or another of our wholly-owned Subsidiaries or in connection with a substitution pursuant to the senior notes or the indenture).

**“Material Subsidiary”** means a Subsidiary of ours whose total assets (attributable to us) represent 10% or more of our and our subsidiaries consolidated total assets (all as more particularly described in the indenture).

#### **Events of Default—Subordinated Notes**

The following shall constitute “Events of Default” with respect to the subordinated notes:

- (1) if default is made for a period of seven days or more in the payment of any principal due on the subordinated notes of such series or for a period of 14 days or more in the payment of any interest due on the subordinated notes of such series; or
- (2) if, otherwise than by virtue of Section 93(5), Section 94(10), Section 97(9) or Section 97(10) of the UK Building Societies Act, (a) we are dissolved by consent of our members, (b) a special resolution of our members is passed that we be wound up voluntarily or (c) a petition to a court in England for our winding up shall have been granted; or
- (3) if our registration under the UK Building Societies Act is cancelled otherwise than under Section 103(1)(a) of the UK Building Societies Act.

#### **Collection of Indebtedness and Suits for Enforcement by Trustee**

If any Event of Default has occurred and is continuing with regard to senior notes of any series, the trustee may, at its discretion and without further notice, take such proceedings against us as it may think fit to enforce payment on such senior notes. However, the trustee will not be bound to take any action with respect to such series of senior notes unless:

- (1) it shall have been so requested in writing by holders of at least 25% of the nominal amount of the Outstanding Notes of such series of senior notes; and
- (2) it shall have been indemnified to its satisfaction.

If any Event of Default has occurred and is continuing with regard to subordinated notes of any series, the trustee may at its discretion institute proceedings for our winding up in England (but not elsewhere) to enforce our obligations in respect of the subordinated notes and the indenture insofar as it relates to the subordinated notes. However, we may not make any payment of principal in respect of the subordinated notes, nor will the trustee accept any such payment of principal from us, other than during or after our winding up or dissolution, unless a Relevant Supervisory Consent has been granted. For the purposes of the foregoing, a payment shall be deemed to be due even if we are not solvent.

#### **Judgments**

Under current New York law, a state court in the State of New York rendering a judgment in respect of a note denominated in other than U.S. dollars would be required to render such judgment in the Specified Currency, and such judgment would be converted into U.S. dollars at the Market Exchange Rate prevailing on the date of entry of such judgment. Accordingly, the holder of such Note denominated in other than U.S. dollars would be subject to exchange rate fluctuations between the date of entry of a judgment in a currency other than U.S. dollars and the time the amount of such judgment is paid to such holder in U.S. dollars and converted by such holder into the Specified Currency. It is not certain,

however, whether a non-New York state court would follow the same rules and procedures with respect to conversions of judgments in currency other than U.S. dollars.

We will indemnify the holder of any note against any loss incurred by such holder as a result of any judgment or order being given or made for any amount due under such note and such judgment or order requiring payment in a currency (the “**Judgment Currency**”) other than the Specified Currency, and as a result of any variation between (i) the rate of exchange at which the Specified Currency amount is converted into the Judgment Currency for the purpose of such judgment or order, and (ii) the rate of exchange at which the holder of such note, on the date of payment of such judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received by such holder, as the case may be.

#### **Consolidation, Merger and Sale or Lease of Assets**

So long as any note of a series remains outstanding, we will not consolidate or amalgamate with or merge into any other Person or convey, transfer or lease our properties and assets substantially as an entirety to any Person unless:

- (1) the Person formed by such consolidation or amalgamation or into which we are merged or the Person which acquired by conveyance or transfer, or which leases, our properties and assets substantially as an entirety shall be a Person organized and validly existing under the laws of the United Kingdom which shall expressly assume, by an amendment to the indenture that is executed and delivered to the trustee and is in form reasonably satisfactory to the trustee, the due and punctual payment of the principal of (and premium, if any, on) and interest, if any, on all of the notes of such a series and the performance of every covenant of the indenture (other than a covenant included in the indenture solely for the benefit of notes of another series) and of such notes to be performed, and such assumption shall provide that such corporation or Person shall pay to the holder of any such notes such additional amounts as may be necessary in order that every net payment of the principal of (and premium, if any, on) and interest, if any, on such notes will not be less than the amounts provided for in such notes to be then due and payable and such obligations shall extend to any deduction or withholding for or on account of any present or future tax, assessment or governmental charge imposed upon such payment (it being understood that, except as aforesaid, no such corporation or Person shall be obligated to make any indemnification or payment in respect of any tax consequences to any holder as a result of such assumption of rights and obligations if such corporation or Person would not be obligated to pay an additional amount pursuant to the indenture if such corporation or Person were us);
- (2) immediately after giving effect to such transaction, no Event of Default with respect to notes of such series, and no event which, after notice or lapse of time, or both, would become an Event of Default with respect to such notes, shall have occurred and be continuing; and
- (3) we have delivered to the trustee a certificate signed by two duly authorized officers and an opinion of counsel each stating that such consolidation, amalgamation, merger, conveyance, transfer or lease and such amendment to the indenture evidencing the assumption by such corporation or Person comply with the indenture and that all conditions precedent provided for in the indenture relating to such transaction have been complied with.

Upon any such consolidation, amalgamation or merger, or any such conveyance, transfer or lease, the successor corporation or Person will succeed to, and be substituted for, and may exercise every right and power of ours, under the indenture with the same effect as if such successor corporation or Person has been named as the issuer thereunder, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under the indenture and such notes.

#### **Satisfaction and Discharge**

The indenture provides that we will be discharged from our obligations under the notes of a series (with certain exceptions) at any time prior to the Stated Maturity, or redemption of such notes when (i) we have irrevocably deposited with or to the order of the trustee, in trust, (a) sufficient funds in the currency, currencies, currency unit or units in which such notes are payable (without consideration of any reinvestment thereof) to pay the principal of (and premium, if any, on) and interest, if any, on such notes to the Stated Maturity (or Redemption Date), or (b) such amount of U.S. Government Obligations (as defined below) as will, together with the predetermined and certain income to accrue

thereon (without consideration of any reinvestment thereof), be sufficient to pay when due the principal of (and premium, if any, on) and interest, if any, to the Stated Maturity (or Redemption Date), on such notes, or, (c) such amount equal to the amount referred to in clause (a) or (b) in any combination of currency or currency unit of U.S. Government Obligations; (ii) we have paid all other sums payable with respect to such notes; (iii) we have delivered to the trustee an opinion of counsel to the effect that (a) we have received from, or there has been published by, the U.S. Internal Revenue Service a ruling, or (b) since the date of the indenture there has been a change in applicable U.S. federal income tax law, in either case to the effect that, and based upon which such opinion of counsel shall confirm that, the holders of such notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such discharge and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such discharge had not occurred; and (iv) certain other conditions are met. Upon such discharge, the holders of the notes of such a series shall no longer be entitled to the benefits of the terms and conditions of the indenture and notes, except for certain provisions including registration of transfer and exchange of such notes and replacement of mutilated, destroyed, lost or stolen notes of such series, and shall look for payment only to such deposited funds or obligations. In addition, any such discharge with respect to the subordinated notes of any series would require a Relevant Supervisory Consent.

**“U.S. Government Obligations”** means non-callable (i) direct obligations (or certificates representing an ownership interest in such obligations) of the United States for which its full faith and credit are pledged or (ii) obligations of a Person controlled or supervised by, and acting as an agency or instrumentality of, the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States.

### **Supplemental Indentures**

The indenture contains provisions permitting us and the trustee (i) without the consent of the holders of any notes issued under the indenture, to execute supplemental indentures for certain enumerated purposes, such as to cure any ambiguity or inconsistency or to make any change that does not have a materially adverse effect on the rights of any holder of such notes, and (ii) with the consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Notes of each series of notes issued under the indenture and affected thereby, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture or of modifying in any manner the rights of holders of any such note under the indenture; provided, that no such supplemental indenture may, without the consent of the holder of each such Outstanding Note affected thereby (a) change the Stated Maturity or the principal of or interest on any such note, or reduce the principal amount of any such note or the rate of interest thereon, if any, or any premium or principal payable upon redemption thereof, or change any obligation of ours to pay additional amounts thereon, or change any Place of Payment where, or change the currency in which, any such note or the interest, if any, thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity, if any, thereof or the date any such payment is otherwise due and payable (or, in the case of redemption, on or after the redemption date); or (b) reduce the percentage in aggregate principal amount of such Outstanding Notes of any particular series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the indenture or certain defaults thereunder and their consequences) provided for in the indenture; or (c) change any obligation we have to maintain an office or agency in the places and for the purposes specified in the indenture; or (d) modify certain of the provisions of the indenture pertaining to the waiver by holders of such notes of past defaults, supplemental indentures with the consent of holders of such notes and the waiver by holders of such notes of certain covenants, except to increase any specified percentage in aggregate principal amount required for any actions by holders of notes or to provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holder of each such note affected thereby; or (e) in the case of the subordinated notes, change in any manner adverse to the interests of the holders of such Outstanding subordinated notes the subordination provisions of such subordinated notes.

In addition, material variations in the terms and conditions of the subordinated notes of any series, which may include modifications relating to the status, subordination, redemption, repurchase or Events of Default with respect to such subordinated notes, may require a Relevant Supervisory Consent.

## **Waivers**

The holders of not less than a majority in aggregate principal amount of the Outstanding Notes of a series of notes affected thereby, may on behalf of the holders of all notes of such series waive compliance by us with certain restrictive provisions of the indenture as pertain to the corporate existence of us, the maintenance of certain agencies by us or, solely with respect to senior notes, as pertain to the negative pledge covenant as described under the subsection entitled “*Negative Pledge*”.

The holders of a majority in aggregate principal amount of the Outstanding Notes of a series of notes may waive on behalf of the holders of all notes of such series, any past default and its consequences under the indenture, except a default in the payment of the principal of (or premium, if any, on) or interest, if any, on any such note of that series or a default in respect of a covenant or a provision which under the indenture cannot be modified or amended without the consent of the holder of each Outstanding Note of such series.

## **Notices**

Notices to holders of notes will be given by mail to addresses of such holders as they appear in the notes' register.

## **Governing Law**

The indenture and the notes shall be governed by and construed in accordance with the laws of the State of New York; except that the subordination provisions contained in clause 1201 in the indenture and the subordinated notes will be governed by and construed in accordance with the laws of England and Wales, with the intention that such provisions be given full effect in any insolvency proceeding relating to us in England and Wales.

## **Consent to Service**

We have designated and appointed CT Corporation System at 111 Eighth Avenue, in the Borough of Manhattan, New York City, New York 10011 as our authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the notes or the indenture which may be instituted in any State or Federal court located in the Borough of Manhattan, City of New York, State of New York, and have submitted (for the purposes of any such suit or proceeding) to the jurisdiction of any such court in which any such suit or proceeding is so instituted. We have agreed, to the fullest extent that we lawfully may do so, that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding upon us and may be enforced in the courts of England and Wales (or any other courts to the jurisdiction of which it is subject).

Notwithstanding the foregoing, any actions arising out of or relating to the notes or the indenture may be instituted by us, the trustee or the holder of any note in any competent court in England and Wales or such other competent jurisdiction, as the case may be.

## **Concerning the Trustee**

The indenture provides that, except during the continuance of an Event of Default for a series of notes, the trustee will have no obligations other than the performance of such duties as are specifically set forth in the indenture. If an event of default has occurred and is continuing, the trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

## DESCRIPTION OF THE GLOBAL NOTES

### Global Notes

So long as DTC or its nominee is the holder of the Global Notes, any owner of a beneficial interest in the notes of a series must rely upon the procedures of DTC and institutions having accounts with DTC to exercise or be entitled to any rights of a holder of such Global Notes. See the subsection entitled “—*Book-Entry System*” for a further description of DTC’s procedures.

### Book-Entry System

DTC will act as securities depositary for the Global Notes. The Global Notes will be issued as fully-registered securities registered in the name of Cede (DTC’s partnership nominee), unless otherwise specified. No Global Note may be transferred except by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or any successor thereof.

We have been advised by DTC that upon the deposit of a Global Note with DTC, DTC will immediately credit, on its book-entry registration and transfer system, the respective principal amounts of such beneficial interests in that Global Note to the accounts of the DTC Participants. The accounts to be credited shall be designated by the soliciting Placement Agent or, to the extent that the notes are offered and sold directly, by us.

We understand that DTC is a limited-purpose trust company organized under the laws of the State of New York, a “Banking Organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the clearance and settlement among Participants of transactions in such securities through electronic book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants (“Direct Participants”) include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Ownership of beneficial interests in a Global Note in respect of a series of notes will be limited to DTC Participants, including Clearstream and Euroclear, or persons who hold interests through DTC Participants. In addition, ownership of beneficial interests will be evidenced only by, and the transfer of that ownership interest will be effected only through, records maintained by DTC or its nominee and DTC Participants until such time, if any, as Certificated Notes are issued, as set forth above under the section entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination*”. The laws of some states require that certain purchasers of notes take physical delivery of such notes in certificated form. Such laws may impair the ability to transfer beneficial interests in a Global Note.

Interests held through Clearstream and Euroclear will be recorded on DTC’s books as being held by the U.S. depositary for each of Clearstream and Euroclear, which U.S. depositaries will in turn hold interests on behalf of their participants’ customers’ securities accounts.

To facilitate subsequent transfers, all Global Notes deposited with DTC are registered in the name of DTC’s partnership nominee, Cede. DTC has no knowledge of the actual owners of beneficial interests in the Global Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such beneficial interests in Global Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede and any subsequent nominee of DTC. If less than all of the notes within a series are being redeemed, DTC's current practice is to determine *pro rata* or by lot the amount of the beneficial interest of each Direct Participant in such issue to be redeemed.

Principal and interest payments on the Global Notes will be made to DTC as the registered holder of the Global Notes. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is our responsibility, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct Participants and Indirect Participants.

A beneficial owner shall give notice to elect to have its beneficial interests in the Global Notes purchased or tendered, through its Participant, to the trustee for a series of notes, and shall effect delivery of such beneficial interests in the Global Notes by causing the Direct Participant to transfer the Participant's beneficial interest in the Global Notes, on DTC's records, to the trustee.

DTC may discontinue providing its services as securities depositary with respect to the Global Notes at any time by giving reasonable notice to us and the Placement Agents. Under such circumstances, in the event that a successor securities depositary is not obtained, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the subsection entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination*".

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depositary). In that event, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the section entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination*".

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

In no event will definitive notes in bearer form representing any series of notes be issued.

None of us, any trustee, any paying agent, any registrar for the notes or any Placement Agent will have any responsibility or liability for any aspect of DTC's records or any DTC Participant's records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any of DTC's records or any DTC Participant's records relating to such beneficial ownership interests.

The indenture and the notes require that payments in respect of the notes be made in immediately available funds. Interests in the notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in the notes will be required to be settled in immediately available funds. We do not know the effect, if any, of such settlement arrangements on trading activity in the notes or interests in the notes.

### **Issuance of Certificated Notes**

If (i) DTC notifies us and the trustee that it is unwilling or unable to continue as holder of the Global Notes or if at any time it ceases to be a clearing agency registered under the Exchange Act and, in either case, a successor holder is not appointed by us within 90 days of such notification or of our becoming aware of such ineligibility, (ii) an Event of Default occurs with respect to one or more series of notes, or (iii) we determine in our sole discretion (subject to DTC's procedures) that certificated notes of such series will be issued in registered form, then in any such case, upon the written request of the holder of the Global Note, the trustee will issue certificated registered notes in the names and in the amounts as specified by the holder of the Global Note. The request for certificated notes may be made by the holder in the circumstances and subject to the conditions described under the section entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination*".

The exchange of interests in the Global Note for certificated notes of a particular series shall be made free of any fees of the trustee to the holder, provided, however, that such person receiving notes in certificated form will be

obligated to pay or otherwise bear the cost of any tax or other governmental charge as required by the indenture and any cost of insurance, postage, transportation and the like.

### **Repayment**

If a note becomes repayable at the option of the holder on a date or dates specified prior to its maturity date, if any, and the trustee is so notified, the trustee will promptly notify the holder of the Global Note that such note has become repayable. In order for the repayment option on any note to be exercised, the owners of beneficial interests in the Global Note must instruct the broker or other DTC Participant through which it holds an interest in the Global Note to notify the trustee of its desire to exercise that right to repayment. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other DTC Participant through which it holds its beneficial interest in a Global Note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to the depositary.

### **Record Date**

Unless we otherwise instruct the trustee in writing, the record date for the determination of the holder of Global Notes entitled to receive payment in respect of a Global Note will be the date which is 15 calendar days prior to the applicable payment date on such Global Note in respect of such Global Note, provided that interest payable at Maturity will be payable to the person to whom principal shall be payable. If such 15th day is not a Business Day, the record date for determination will be the next succeeding Business Day. Whenever we or the trustee deem it appropriate to fix a record date for the determination of the holder of Global Notes who should be entitled to receive payment or take any action in respect of Global Notes, the trustee, with our consent, will set such record date at least 15 days prior to the date on which such payment is to be made or such action is to be taken.

### **Reports**

The trustee will send promptly to the applicable holders of the Global Notes any notices, reports and other communications from us that are received by the custodian as holder of the Global Notes and that we make generally available to holders of the notes.

## **FORM OF FINAL TERMS**

*Set out below is the form of Final Terms which will be completed for each tranche of Notes issued under the Program.*

[Date]

**Nationwide Building Society**  
[Title of relevant Series of Notes (specifying type of Notes)]  
issued pursuant to its \$20,000,000,000 Senior and Subordinated Medium-Term Note Program

## **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated August 2, 2013 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [original date] and incorporated by reference into the Base Prospectus dated August 2, 2013. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated August 2, 2013 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**), including the Terms and Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).]

### TYPE OF NOTE

1. Senior/Subordinated: [ ]

2. Interest Basis: [Fixed Rate/Floating Rate/Zero Coupon/Combination]

## DESCRIPTION OF THE NOTES

**3.** (a) Series Number: [ ]  
(b) Tranche Number: [ ]

**4.** (a) Nominal Amount of Notes to be issued: [ ]  
(b) Aggregate nominal amount of Series (if [ ] more than one issue for the Series):  
(c) Specified Currency: [ ]  
(d) Currency Determination Agent: [ ] [Not Applicable]  
(e) Specified Denomination(s): [ ] [and integral multiples of [ ] in excess thereof]

**5.** Issue Price: [ ]

**6.** Issue Date: [ ]

**7.** Original Issue Date: [ ]

**8.** Interest Commencement Date: [ ] [Issue Date] [Not Applicable]

9. Automatic/optional conversion from one Interest [ ] [Not Applicable]

Basis to another:

10. Additional Business Center(s): [ ] [Not Applicable]

**PROVISIONS RELATING TO INTEREST (IF ANY)  
PAYABLE**

**Fixed Rate Note Provisions** [Applicable/Not Applicable]

11. (a) Fixed Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Fixed Interest Date

(b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date

(c) Day Count Fraction: [Actual/Actual (ICMA)] [30/360]

(d) Determination Date(s): [ ] [Not Applicable]

**Zero Coupon Note Provisions** [Applicable/Not Applicable]

12. (a) Accrual Yield: [ ]

(b) Reference Price: [ ]

(c) Calculation Agent (if any): [ ]

**Floating Rate Note Provisions** [Applicable/Not Applicable]

13. (a) Calculation Agent responsible for calculating the Interest Rate and Interest Amount (if not the Agent): [ ]

(b) Interest Period(s) or specified Interest Payment Date(s): [ ]

(c) Business Day Convention: [Floating Rate/Following Business Day/Modified Following Business Day/Preceding Business Day]

(d) First Interest Payment Date: [ ]

(e) Calculation Date: [ ]

(f) Interest Rate Basis/Bases: [CD Rate/CMT Rate/Commercial Paper Rate/Eleventh District Cost of Funds Rate/EURIBOR/Federal Funds Rate/LIBOR/Prime Rate/Treasury Rate]

(g) Designated CMT Reuters Page: [Not Applicable] [Reuters 7051 Page/Reuters Page T7052]

(h) Designated EURIBOR Page: [Not Applicable] [EURIBOR 01/[ ]]

(i) Designated LIBOR Currency: [Not Applicable] [USD/[ ]]

(j) Designated LIBOR Page: [Not Applicable] [LIBOR 01/[ ]]

(k) Initial Interest Rate: [ ]

(l) Initial Interest Reset Date: [ ]

(m) Interest Reset Period: [ ]

(n) Interest Reset Dates: [ ]

(o) Index Maturity: [Not Applicable] [ ]

(p) Designated CMT Maturity Index: [Not Applicable] [ ]

(q) Margin(s): [plus/minus] [ ] per cent. per annum

- (r) Minimum Interest Rate (if any): [      ] per cent. per annum
- (s) Maximum Interest Rate (if any): [      ] per cent. per annum
- (t) Day Count Fraction: [[Actual/Actual (ISDA)] [Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360] [360/360] [Bond Basis]  
[30E/360] [Eurobond Basis]  
[30E/360 (ISDA)]]

## **PROVISIONS REGARDING REDEMPTION/MATURITY**

- 14.** Maturity Date: [      ]
- 15.** Redemption at Issuer's option: [Applicable/Not Applicable]
  - (a) Initial Redemption Date(s): [      ]
  - (b) Redemption Price of each Note: [[      ] per Note of [      ] Specified Denomination]
- 16.** Repayment at holder's option: [Applicable/Not Applicable]
  - (a) Optional Repayment Date(s): [      ]
  - (b) Repayment price of each note: [      ] per Note of [      ] Specified Denomination]
- 17.** Minimum Denomination for early redemption/repayment: [      ]

## **THIRD PARTY INFORMATION**

[[[      ]] has been extracted from [      ]]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [      ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of **NATIONWIDE BUILDING SOCIETY**

By: ..... *Duly Authorised* By: ..... *Duly Authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (a) Listing and Admission to trading: [ ]
- (b) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings: The [Program/Notes to be issued] [has/have] been rated:

- [Moody's Investors Service Limited: [ ]]
- [Standard & Poor's Credit Market Services Europe Limited: [ ]]
- [Fitch Ratings Ltd.: [ ]]
- [DBRS [ ]]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Placement Agent(s), so far as the Issuer is aware, no person involved in the issue of the notes has an interest material to the offer. The [Manager(s)/Dealer(s)] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

### 4. YIELD (*Fixed Rate Notes only*)

Indication of yield: [ ]

### 5. OPERATIONAL INFORMATION

- (a) CUSIP: [ ]
- (b) ISIN Code: [ ]
- (c) Common Code: [ ]
- (d) Any clearing system(s) other than The Depository Trust Company and the relevant identification number(s): [ ][Not Applicable]
- (e) Names and addresses of additional Paying Agent(s) (if any): [ ]

## TAXATION

### U.S. Federal Income Taxation

**THE DISCUSSION OF TAX MATTERS IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE OR LOCAL TAX PENALTIES, AND WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES. EACH INVESTOR SHOULD SEEK ADVICE BASED ON SUCH PERSON'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following summary describes certain U.S. federal income tax consequences of the purchase, ownership and disposition of notes. Except where noted, this discussion deals only with U.S. Holders (as defined below) that acquire the notes at their original issuance and that will hold the notes as capital assets and does not deal with investors subject to special tax rules, such as those of dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, partnerships or pass-through entities for U.S. federal income tax purposes, traders in securities that elect to use mark-to-market method of accounting for their securities holdings, persons liable for alternative minimum tax or holders of notes whose "functional currency" is not the U.S. dollar. The discussion below is based upon the provisions of the U.S. Internal Revenue Code of 1986 (the "Code"), final, temporary and proposed Treasury regulations promulgated thereunder, rulings and judicial decisions now in effect, all of which are subject to change possibly with retroactive effect or possible differing interpretations so as to result in U.S. federal income tax consequences different from those discussed below. This summary assumes that there will be no substitution of another entity in the place of the Issuer as principal debtor in respect of the notes. If an entity treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partnership holding notes should consult its tax advisors.

The discussion set forth below assumes that all notes issued pursuant to the medium-term note program constitute debt for U.S. federal income tax purposes. If any note did not constitute debt for U.S. federal income tax purposes, the tax consequences of the ownership of such note could differ materially from the tax consequences described herein. This summary does not address the U.S. federal income tax consequences of every type of note which may be issued under the program, such as notes with an original maturity of more than 30 years or with certain contingent payment features, and additional or modified disclosure concerning certain U.S. federal income tax consequences relevant to such type of note may be provided as appropriate.

As used herein, a "**U.S. Holder**" of a note means a beneficial owner that is, for U.S. federal income tax purposes, (i) a citizen or individual resident alien of the United States, (ii) a corporation created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (X) that is subject to the supervision of a court within the United States and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust or (Y) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY AND DOES NOT ADDRESS EVERY TYPE OF NOTE THAT CAN BE ISSUED UNDER THE PROGRAM. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

### *Payments of Interest*

Except as set forth below, interest (including the payment of any additional amounts) on a note will generally be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder's method of tax accounting. Interest income (including original issue discount, if any, as discussed below) on the notes will generally be treated as foreign source income for purposes of the U.S. foreign tax credit.

### **Original Issue Discount**

U.S. Holders of notes issued with original issue discount (“**OID**”) will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of such notes should be aware that they generally must include OID in gross income as ordinary income in advance of the receipt of cash attributable to that income. However, U.S. Holders of such notes generally will not be required to include separately in income cash payments received on the notes, even if denominated as interest, to the extent such payments do not constitute “qualified stated interest” (as defined below). Notes issued with OID will be referred to as “Original Issue Discount Notes”.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described under “—*Foreign Currency Notes*” below.

For U.S. federal income tax purposes, a note with an “issue price” that is less than its stated redemption price at maturity (the sum of all payments to be made on the note other than “**qualified stated interest**”) will be issued with OID unless such difference is *de minimis* (i.e., less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of an Amortizing Note, the weighted average maturity). The “issue price” of each note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The term “qualified stated interest” means stated interest that is unconditionally payable over the entire term of the note in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments.

In the case of a note issued with *de minimis* OID, the U.S. Holder generally must include such *de minimis* OID in income as at the time principal payments on the note are made in proportion to the amount paid for the note. Any amount of *de minimis* OID that has been included in income will be treated as capital gain.

Certain notes may be redeemed prior to their Maturity at the option of the Issuer and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. In the case of notes that provide for alternative payment schedules, OID is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder’s yield and (ii) the issuer will exercise or not exercise options in a manner that minimizes the holder’s yield.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includable in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the note’s “adjusted issue price” at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is a Floating Rate Note that is treated as a “variable rate debt instrument” under U.S. Treasury regulations, both the “yield to maturity” and “qualified stated interest” generally will be determined solely for purposes of calculating the accrual of OID as though the note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its date of issue or, in

the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Floating Rate Note is indexed in any manner. Different rules may apply if a Floating Rate Note is treated as a “contingent payment debt instrument” under U.S. Treasury regulations.

Certain Notes may be treated as contingent payment debt instruments for U.S. federal income tax purposes. Under applicable U.S. Treasury regulations, interest on contingent payment debt instruments is treated as OID and must be accrued on a constant-yield basis based on a yield to maturity that reflects the rate at which the issuer would issue a comparable fixed-rate instrument with no contingent payments but with terms and conditions otherwise similar to the contingent payment debt instruments (the “**comparable yield**”), based on a projected payment schedule determined by the issuer (the “**projected payment schedule**”). This projected payment schedule must include each non-contingent payment on the note and an estimated amount for each contingent payment, and must produce the comparable yield.

Nationwide will be required to provide to holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments on such notes. The applicable Final Terms will either contain the comparable yield and projected payment schedule, or will provide an address to which a U.S. Holder of a contingent payment debt instrument can submit a written request for this information. A U.S. Holder will generally be bound by the comparable yield and the projected payment schedule determined by Nationwide unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly and timely justifies and discloses such schedule to the U.S. Internal Revenue Service (“**IRS**”). Nationwide's determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

Gain from the sale or other disposition of a contingent payment debt instrument will be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the U.S. Holder's total interest inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be capital loss. Prospective purchasers should consult their tax advisers as to the U.S. federal income tax consequences of purchasing contingent payment debt instruments.

U.S. Holders may elect to treat all interest on any note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. The election is to be made for the taxable year in which the U.S. Holder acquired the note, and may not be revoked without the consent of the IRS.

#### **Notes Subject to Redemption**

Certain of the notes: (i) may be redeemable at the option of the Issuer prior to their maturity, (ii) may be repayable at the option of the holder prior to their stated maturity, or (iii) may be otherwise subject to mandatory redemption. Notes containing such features may be subject to rules that are different from the general rules discussed above, which will depend, in part, on the particular terms and features of such notes.

#### **Short-Term Notes**

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale or other disposition of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or other disposition. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine

OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

#### ***Further Issuances***

Nationwide may, without the consent of the Holders of outstanding notes, issue additional notes with identical terms. These additional notes, even if they are treated for non-tax purposes as part of the same series as the original notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional notes may be considered to have been issued with OID even if the original notes had no OID, or the additional notes may have a greater amount of OID than the original notes. These differences may affect the market value of the original notes if the additional notes are not otherwise distinguishable from the original notes.

#### ***Market Discount***

If a U.S. Holder purchases a note (other than a Short-Term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its revised issue price, the amount of the difference will be treated as "market discount" for U.S. federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a U.S. Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such note at the time of such payment or disposition. In addition, the U.S. Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such note.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless the U.S. Holder elects to accrue on a constant yield method. This election to accrue market discount on a constant interest method is to be made for the taxable year in which the U.S. Holder acquired the note, applies only to that note, and may not be revoked without the consent of the IRS. A U.S. Holder of a note may elect to include market discount in income currently as it accrues (on either a ratable or constant-yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

#### ***Acquisition Premium; Amortizable Bond Premium***

A U.S. Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest will be considered to have purchased such note at an "acquisition premium". Under the acquisition premium rules, the amount of OID which such U.S. Holder must include in its gross income with respect to such note for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

A U.S. Holder that purchases a note (including an Original Issue Discount Note), for an amount in excess of the sum of all amounts payable on the note after the purchase date other than qualified stated interest will be considered to have purchased the note at a "bond premium". A U.S. Holder generally may elect to amortize bond premium over the remaining term of the note on a constant yield method as an offset to interest when includable in income under the U.S. Holder's regular accounting method. In the case of instruments that provide for alternative payment schedules, bond premium is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder's yield and (ii) the issuer will exercise or not exercise options in a manner that minimizes the holder's yield. Bond premium on a note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the note. The election to amortize premium on a constant yield method once made applies to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

### ***Sale, Exchange and Retirement of Notes***

A U.S. Holder's tax basis in a note will, in general, be the U.S. Holder's cost therefor, increased by OID, market discount or any income attributable to *de minimis* OID or *de minimis* market discount previously included in income by the U.S. Holder and reduced by any amortizable bond premium and any cash payments on the note other than qualified stated interest. Upon the sale, exchange, retirement or other disposition of a note, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid qualified stated interest, which will be treated as a payment of interest for U.S. federal income tax purposes) and the adjusted tax basis of the note. Except as with respect to certain Short-Term Notes or market discount as described above, with respect to gain or loss attributable to changes in exchange rates, with respect to certain Foreign Currency Notes as described below, and with respect to contingent payment debt instruments as described above, such gain or loss will be capital gain or loss. Gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a note will generally be treated as U.S. source gain or loss. Capital gains of individuals derived in respect of capital assets held for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### ***Foreign Currency Notes***

The following is a summary of the principal U.S. federal income tax consequences to a U.S. Holder of the ownership of a note denominated in a currency other than the U.S. dollar (a "**Foreign Currency Note**").

#### *Qualified Stated Interest Payments*

Cash basis U.S. Holders are required to include in income the U.S. dollar value of the amount of interest received, based on the "spot rate" for such foreign currency in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. No exchange gain or loss is recognized with respect to the receipt of such payment.

Accrual basis U.S. Holders may determine the amount of income recognized with respect to such interest payment in accordance with either of two methods. Under the first method, the U.S. Holder will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued. Under the second method, an accrual basis holder may elect to translate interest income at the spot rate on the last day of the accrual period (or last day of the taxable year in the case of an accrual period that straddles the holder's taxable year) or on the date the interest payment is received if such date is within five days of the end of the accrual period. Upon receipt of an interest payment on such note (including, upon the sale of such note, the receipt of proceeds that include amounts attributable to accrued interest previously included in income), such U.S. Holder will recognize ordinary income or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date received) and the U.S. dollar value of the interest income that such U.S. Holder has previously included in income with respect to such payment.

#### *Original Issue Discount*

OID on a note that is also a Foreign Currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars in the same manner as interest income accrued by a holder on the accrual basis, as described above. Additionally, a U.S. Holder will recognize exchange gain or loss when the OID is paid (including, upon the sale of such note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date of payment) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a note will be viewed: first, as the receipt of any stated interest payments called for under the terms of the note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

#### *Market Discount*

The amount of market discount on Foreign Currency Notes includable in income will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the Foreign Currency Note is retired or otherwise disposed of. If the U.S. Holder has elected to accrue market discount

currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period (or portion thereof within the U.S. Holder's taxable year), and the U.S. Holder will recognize exchange gain or loss with respect to market discount determined using the approach applicable to the accrual of interest income described above.

#### *Amortizable Bond Premium*

Bond premium on a Foreign Currency Note will be computed in the applicable foreign currency. With respect to a U.S. Holder that elects to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss (which is generally ordinary income or loss) will be realized based on the difference between spot rates at such time and at the time of acquisition of the Foreign Currency Note. A U.S. Holder that does not elect to amortize bond premium will translate the bond premium, computed in the applicable foreign currency, into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

#### *Sale or Other Disposition of Foreign Currency Notes*

Upon the sale, exchange, retirement or other taxable disposition of a Foreign Currency Note, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid interest, which will be treated as a payment of interest for federal income tax purposes) and the U.S. Holder's adjusted tax basis in the Foreign Currency Note.

If a U.S. Holder receives foreign currency on the sale, exchange or retirement of a Foreign Currency Note, then the amount realized generally will be based on the spot rate of the foreign currency on the date of sale, exchange or retirement. For purchases and sales of Foreign Currency Notes traded on an established securities market as defined in applicable Treasury regulations by a cash method taxpayer, however, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of Foreign Currency Notes traded on an established securities market, provided that the election is applied consistently. This election cannot be changed without the consent of the IRS.

A U.S. Holder's tax basis in a Foreign Currency Note generally will be the U.S. Holder's cost therefore, which, in the case of a U.S. Holder that purchases a Foreign Currency Note with foreign currency, will be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note determined at the time of such purchase. If the notes are traded on an established securities market, as defined in applicable Treasury regulations, cash method taxpayers (and electing accrual method taxpayers) will determine the U.S. dollar cost of the note on the settlement date. A U.S. Holder that purchases a note with previously owned foreign currency will recognize exchange gain or loss at the time of purchase attributable to the difference at the time of purchase, if any, between the U.S. Holder's tax basis in such foreign currency and the fair market value of the note in U.S. dollars on the date of purchase. Such gain or loss will be ordinary income or loss.

Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other disposition of a Foreign Currency Note will generally be treated as U.S. source gain or loss. Subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other disposition, the note has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

A U.S. Holder will recognize exchange gain or loss attributable to the movement in exchange rates between the time of purchase and the time of disposition (including the sale, exchange, retirement or other disposition) of a Foreign Currency Note. Such gain or loss will be treated as ordinary income or loss (and will not be treated as interest income or expense, except to the extent provided in U.S. Treasury regulations or administrative pronouncements of the IRS) and generally will be U.S. source gain or loss. The realization of such gain or loss will be limited to the amount of overall gain or loss realized on the disposition of a Foreign Currency Note.

#### *Exchange Gain or Loss With Respect to Foreign Currency*

A U.S. Holder's tax basis in foreign currency received as interest on (or OID with respect to), or received on the sale, exchange, retirement or other disposition of, a Foreign Currency Note will be the U.S. dollar value thereof at the spot rate at the time the holder received such foreign currency. As discussed above, if the Foreign Currency Notes are

traded on an established securities market, a cash basis U.S. Holder (or, upon election, an accrual basis U.S. Holder) will determine the U.S. dollar value of the foreign currency by translating the foreign currency received at the spot rate of exchange on the settlement date of the sale, exchange or retirement. Accordingly, no foreign currency gain or loss will result from currency fluctuations between the trade date and settlement date of a sale, exchange or retirement. Any gain or loss recognized by a U.S. Holder on a sale, exchange, retirement or other disposition of foreign currency will be ordinary income or loss and generally will be U.S. source gain or loss.

#### **Tax Return Disclosure Requirements**

Treasury regulations requiring the reporting of certain tax shelter transactions (“**Reportable Transactions**”) could be interpreted to cover and require reporting of transactions that are generally not regarded as tax shelters, including certain foreign currency transactions. Under these regulations, certain transactions may be characterized as Reportable Transactions based upon any of several indicia, including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Note or foreign currency received in respect of a Foreign Currency Note to the extent that such sale, exchange, retirement or other taxable disposition results in a tax loss in excess of a threshold amount. Persons considering the purchase of such Notes should consult with their tax advisers to determine the tax return obligations, if any, with respect to an investment in such Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

#### **Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code (“**FATCA**”) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a “foreign financial institution”, or “**FFI**” (as defined by FATCA)) that does not become a “**Participating FFI**” by entering into an agreement with the IRS to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of the Issuer (a “**Recalcitrant Holder**”). The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 January 2014 for payments from sources within the United States and will apply to “**foreign passthru payments**” (a term not yet defined) no earlier than January 1, 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the “**grandfathering date**”, which is the later of (a) January 1, 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an “**IGA**”). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a “**Reporting FI**” not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being “**FATCA Withholding**”) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the “**US-UK IGA**”) based largely on the Model 1 IGA.

The Issuer expects to be treated as a Reporting FI pursuant to the US-UK IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from

payments it makes. Accordingly, the Issuer and financial institutions through which payments on the notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the notes, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the notes, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

While the notes are in global form and held within the clearing system, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the notes by the Issuer, any paying agent and the clearing system, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the notes. The documentation expressly contemplates the possibility that the notes may go into definitive form and therefore that they may be taken out of the clearing system. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive notes will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form.**

## **UK Taxation**

The following is a summary of the United Kingdom (“**UK**”) withholding taxation treatment as at the date of this Base Prospectus in relation to payments of principal and interest in respect of the notes issued by Nationwide and does not deal with other UK tax aspects of acquiring, holding or disposing of the notes. This summary relates only to the position of persons who are absolute beneficial owners of the notes. Prospective holders should be aware that the particular terms of issue of any series of the notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of notes. This summary is a general guide and does not purport to be a complete analysis of all tax considerations relating to the notes, and you should treat it with appropriate caution.

You should seek independent professional advice should you have any doubt as to your tax position. If you may be liable to taxation in jurisdictions other than the UK in respect of your acquisition, ownership, holding and disposition of notes, you are particularly advised to consult your professional advisers as to whether you are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the notes. In particular, you should be aware that you may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the notes, even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

### ***UK Withholding Tax on Interest***

#### *Notes Listed on a Recognized Stock Exchange*

Notes issued by Nationwide which carry a right to interest will constitute “**quoted Eurobonds**” provided they are and continue to be listed on a recognized stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognized stock exchange for those purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided that the notes are and continue to be quoted Eurobonds, payments of interest on the notes may be made without withholding or deduction for or on account of UK income tax.

#### *Other Cases*

If the notes do not qualify as quoted Eurobonds, as described in “—*Notes Listed on a Recognized Stock Exchange*”, interest on the notes will generally (subject to certain other exemptions which may be available in certain

circumstances) be paid under deduction of UK income tax at the rate of (currently) 20%, subject to such relief as may be available under the provisions of any applicable double taxation treaty.

#### *Other Rules Relating to UK Withholding Tax*

Where notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined above.

In addition to the above, in relation to UK withholding tax, where interest has been paid under deduction of UK income tax, holders of notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to “interest” in this UK Taxation summary mean “interest” as understood in UK tax law. The statements in this summary do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation. This description of the UK withholding tax position assumes that there will be no substitution of the Issuer of the notes pursuant to the terms and conditions of the notes and does not consider the tax consequences of any such substitution.

#### *Provision of Information*

H.M Revenue & Customs (“HMRC”) has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest (including the amount payable on the redemption of a deeply discounted security); and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. These limitations do not apply to HMRC’s power to obtain information about payments derived from securities.

HMRC has indicated that it will not use its information-gathering power on interest to obtain information about amounts payable on the redemption of deeply discounted securities which are paid before April 6, 2014.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

#### **The Proposed Financial Transactions Tax**

The European Commission has published a proposal for a Directive for a common financial transactions tax (“FTT”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “Participating Member States”).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in notes (including secondary market transactions) in certain circumstances. The issuance and subscription of notes should, however, be exempt.

Under current proposals, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, “established” in a Participating Member State in a broad range of circumstances, including (a) by

transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

The FTT proposal remains subject to negotiation between the Participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of notes are advised to seek their own professional advice in relation to the FTT.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC (the “**Directive**”) on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the government of Luxembourg announced its intention to abolish the withholding system with effect from January 1, 2015 in favor of automatic information exchange under the Directive.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

## TRANSFER RESTRICTIONS

We have not registered the notes under the Securities Act or any other applicable securities laws, and they may not be offered or sold except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States, to qualified institutional buyers, commonly referred to as “QIBs”, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or
- outside of the United States, to certain persons, other than U.S. persons within the meaning of Regulation S, in offshore transactions meeting the requirements of Rule 903 of Regulation S.

### ***Purchasers’ Representations and Restrictions on Resale***

Each purchaser of notes (other than a Placement Agent in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein, will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States within the meaning of Regulation S;
- (2) It is not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Issuer and is not acting on the Issuer’s behalf;
- (3) It acknowledges that the notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (4) It understands and agrees that notes initially offered in the United States to QIBs will be represented by U.S. Global Notes and that notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by International Global Notes;
- (5) If the purchaser is in the United States or is a U.S. person, it shall not resell or otherwise transfer any of such notes except (a) to Nationwide or a Placement Agent or by, through, or in a transaction approved by a Placement Agent, (b) within the United States to a QIB in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States, in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- (6) If the purchaser is outside the United States and is not a U.S. person, if it should resell or otherwise transfer the notes prior to the expiration of the Distribution Compliance Period (as defined in Regulation S) applicable to such notes, it will do so only (a) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (b) to a QIB in compliance with Rule 144A;
- (7) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- (8) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- (9) It acknowledges that the trustee for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to Nationwide and such trustee that the restrictions set forth herein have been complied with; and
- (10) It acknowledges that Nationwide, the Placement Agents and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of

the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify Nationwide and the Placement Agents. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

A legend to the following effect will appear on the face of notes, other than International Global Notes, and which will be used to notify transferees of the foregoing restrictions on transfer. Additional copies of this notice may be obtained from the trustee.

“THE SECURITIES EVIDENCED HEREBY (THE “NOTES”) HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR ANY OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THE NOTES, (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT (“RULE 144A”)), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE U.S. SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF THE NOTES (OR OF ANY PREDECESSOR THEREOF) OR THE LAST DAY ON WHICH THE NATIONWIDE BUILDING SOCIETY (THE “ISSUER”) OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THE NOTES (OR ANY PREDECESSOR THEREOF) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “RESALE RESTRICTION TERMINATION DATE”), OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THE NOTES EXCEPT (I) TO THE ISSUER OR ONE OR MORE PLACEMENT AGENTS FOR THE NOTES (EACH, A “PLACEMENT AGENT” AND COLLECTIVELY, THE “PLACEMENT AGENTS”) OR BY, THROUGH OR IN A TRANSACTION APPROVED BY A PLACEMENT AGENT, (II) SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (III) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT OR (VI) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION. THE HOLDER OF THE NOTES, BY PURCHASING THE NOTES, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THE NOTES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (VI) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.”

“THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN”.

A legend to the following effect will appear on the face of the International Global Notes.

“THE SECURITIES EVIDENCED HEREBY (THE “NOTES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see the section entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination*”.

## PLAN OF DISTRIBUTION

The notes are being offered on a continuous basis for sale by us to or through Barclays Capital Inc., Deutsche Bank Securities Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and UBS Securities LLC together with such other Placement Agent as may be appointed by us with respect to a particular tranche of notes. We refer collectively to these entities as the "Placement Agents". One or more Placement Agents may purchase notes, as principal, from us from time to time for resale to investors and other purchasers at varying prices relating to prevailing market prices at the time of resale as determined by any Placement Agent, or, if so specified in the applicable Final Terms, for resale at a fixed offering price. If we and a Placement Agent agree, a Placement Agent may also utilize its reasonable efforts on an agency basis to solicit offers to purchase the notes. Any Placement Agents of the notes that are not U.S. registered broker-dealers will agree that they will offer and sell the notes within the United States only through U.S. registered broker-dealers. Unless otherwise described in the applicable Final Terms, we will pay a commission to a Placement Agent, ranging from 0.125% to 0.750% of the principal amount of each note depending upon its stated maturity for notes sold through such Placement Agent as agent. Commissions with respect to notes with stated maturities in excess of 30 years that are sold through a Placement Agent as an agent of ours will be negotiated between us and that Placement Agent at the time of such sale.

Unless otherwise specified in the applicable Final Terms, any note sold to one or more Placement Agents as principal will be purchased by such Placement Agents at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. A Placement Agent may sell notes it has purchased from us as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with such purchase. The Placement Agent may allow, and such dealers may reallow, a discount to certain other dealers. After the initial offering of notes, the offering price (in the case of notes to be resold at a fixed offering price), the concession and the reallowance may be changed.

We may withdraw, cancel or modify the offering contemplated hereby without notice and may reject offers to purchase notes in whole or in part. Each Placement Agent shall have the right to reject in whole or in part any offer to purchase notes received by it on an agency basis.

In connection with an offering of notes purchased by one or more Placement Agents as principal on a fixed offering price basis, such Placement Agent(s) will be permitted to engage in transactions that stabilize the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If the Placement Agent creates or the Placement Agents create, as the case may be, a short position in notes, that is, if it sells or they sell notes in an aggregate principal amount exceeding that set forth in the applicable Final Terms, such Placement Agent(s) may reduce that short position by purchasing notes in the open market. In general, purchase of notes for the purpose of stabilization or to reduce a short position could cause the price of notes to be higher than it might be in the absence of such purchases.

Neither we nor any of the Placement Agents makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of notes. In addition, neither we nor the Placement Agents makes any representation that the Placement Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

We have agreed to indemnify the Placement Agents against some liabilities (including liabilities under the Securities Act) or to contribute to payments the Placement Agents may be required to make in respect thereof. We have also agreed to reimburse the Placement Agents for some other expenses.

The Placement Agents may from time to time purchase and sell notes in the secondary market, but they are not obligated to do so and may discontinue any such activities at any time and there can be no assurance that there will be a secondary market for the notes or liquidity in the secondary market if one develops. From time to time, the Placement Agents may make a market in the notes.

Certain of the Placement Agents and/or their affiliates have, directly or indirectly, performed investment and commercial banking or financial advisory services for us, for which they have received customary fees and commissions, and they expect to provide these services to us and our affiliates in the future, for which they also expect to receive customary fees and commissions.

Each Placement Agent subscribing for or purchasing notes will be required to represent and agree (i) that it will not offer or sell notes (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Placement Agent or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all notes of the tranche of which such notes are a part (such period, the **“Distribution Compliance Period”**), within the United States or to, or for the account or benefit of, U.S. persons other than in accordance with Rule 144A and (ii) that it will send to each dealer to which it sells any notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Placement Agent subscribing for or purchasing notes agrees and each further purchasing agent appointed under the medium-term note program described in this Base Prospectus that subscribes for or purchases notes will be required to represent and agree that:

- (1) It has complied and will comply with all applicable provisions of the UK Financial Services and Markets Act 2000 with respect to anything done by it in relation to any notes in, from or otherwise, involving the United Kingdom; and
- (2) It has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the UK Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the UK Financial Services and Markets Act 2000 would not, if Nationwide was not an authorized person, apply to Nationwide.

## **SETTLEMENT**

Unless otherwise agreed between the relevant Dealers and Nationwide, you must pay the purchase price of the notes in immediately available funds in the applicable specified currency in New York City three business days after the trade date.

## **INDEPENDENT AUDITORS**

The financial statements as at April 4, 2013, 2012 and 2011, and for the years then ended, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports incorporated by reference herein.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for us by Allen & Overy LLP, our United States and English counsel, with respect to matters of New York law, U.S. federal law and English law and for the Placement Agents by Linklaters LLP, London, England with respect to matters of New York law, U.S. federal law and English law.

## **GENERAL INFORMATION**

1. Nationwide's principal office is Nationwide House, Pipers Way, Swindon SN38 1NW, England.
2. The admission of the program to trading on the regulated market of the London Stock Exchange is expected to take effect on or around August 7, 2013. The price of the notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any series of notes will be admitted to trading on the regulated market of the London Stock Exchange upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in New York after the day of the transaction, unless otherwise agreed between the relevant Dealers and Nationwide.
3. The Global Notes have been accepted for clearance through DTC or its nominees. If the Global Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.
4. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
5. There are no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened) of which Nationwide or its subsidiaries is aware in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of Nationwide or its subsidiaries.
6. Since April 4, 2013, being the date to which our most recent audited consolidated financial statements have been prepared, there has been no material adverse change in the financial position or prospects of Nationwide and its subsidiaries and there has been no significant change in the financial or trading position of Nationwide and its subsidiaries.
7. For so long as the medium-term note program described in this Base Prospectus remains in effect or any notes shall be outstanding, copies and, where appropriate, the following documents may be inspected during normal business hours at the specified office of the paying agent and from our Treasury Division, at Nationwide Building Society, Kings Park Road, Moulton Park, Northampton, NN3 6NW, England, including:
  - (a) our constitutive documents;
  - (b) this Base Prospectus in relation to the senior and subordinated medium-term note program, together with any amendments;
  - (c) the Private Placement Agency Agreement;
  - (d) the Indenture;
  - (e) our most recent publicly available audited consolidated financial statements beginning with such financial statements for the years ended April 4, 2013, 2012 and 2011;
  - (f) the report of PricewaterhouseCoopers LLP in respect of our audited consolidated financial statements for the financial year ended April 4, 2013; and
  - (g) any Final Terms relating to notes issued under the medium-term note program described in this Base Prospectus.
8. There are no material contracts having been entered into outside the ordinary course of our business, and which could result in any group member being under an obligation or entitlement that is material to our ability to meet our obligation to noteholders in respect of the notes being issued.
9. Issue of notes under the Program have been authorized by resolutions of our Board of Directors passed on March 16, 2005 and minutes of delegation of our Group Finance Director dated October 28, 2008.

## GLOSSARY OF FINANCIAL TERMS

Certain financial terminology used by building societies in the United Kingdom differs from that used by financial institutions in the United States. The following is a summary of such differences as they relate to our consolidated financial statements. We have used some of the following U.S. terms and descriptions throughout this Base Prospectus.

<b>UK Term used in financial statements</b>	<b>U.S. equivalent or brief description</b>
Accounts	Financial statements
Allotted	Issued
Amounts written off	Amounts charged off, or written-off
Cash in hand	Cash
Debt securities in issue	Debt
Fees and commissions payable	Fees and commissions expense
Fees and commissions receivable	Fees and commissions income
Freehold	Ownership with absolute rights in perpetuity
General reserve	Retained earnings
Income and Expenditure Account	Income Statement
Interest payable	Interest expense
Interest receivable	Interest income
Life assurance	Life insurance
Loans and advances	Loans or Lendings
Loans fully secured on residential property	Residential mortgage loans
Loans in arrears	Past due loans
Loans in repossession	Acquired property, foreclosed assets or Other Real Estate Owned (“OREO”)
Loans with interest suspended	Loans in non-accrual status
Permanent interest bearing shares and subscribed capital	No direct U.S. equivalent
Profit	Income
Provisions for bad and doubtful debts (in the balance sheet)	Allowance for loan losses
Provisions for bad and doubtful debts (in the income statement)	Provisions for loan losses
Revaluation reserve	No direct U.S. equivalent
Shares (UK retail member deposits)	No direct U.S. equivalent
Tangible fixed assets	Property, Plant & Equipment or Fixed Assets

## PRINCIPAL OFFICE OF THE ISSUER

Nationwide House  
Pipers Way  
Swindon SN38 1NW  
England

## PLACEMENT AGENTS

**Barclays Capital Inc.**  
745 Seventh Avenue  
New York, New York 10019  
U.S.A.

**Citigroup Global Markets Inc.**  
388 Greenwich Street  
New York, New York 10013  
U.S.A.

**Deutsche Bank Securities Inc.**  
60 Wall Street  
New York, New York 10005  
U.S.A.

**J. P. Morgan Securities LLC**  
383 Madison Avenue  
New York, New York 10179  
U.S.A.

**Morgan Stanley & Co. LLC**  
1585 Broadway, 29th Floor  
New York, New York 10036  
U.S.A.

**Credit Suisse Securities (USA) LLC**  
Eleven Madison Avenue  
New York, New York 10010  
U.S.A.

**HSBC Securities (USA) Inc.**  
452 Fifth Avenue  
New York, New York 10018  
U.S.A.

**Merrill Lynch, Pierce, Fenner & Smith Incorporated**  
One Bryant Park  
New York, New York 10036  
U.S.A.

**UBS Securities LLC**  
677 Washington Boulevard  
Stamford, Connecticut 06901  
U.S.A.

## TRUSTEE

**The Bank of New York Mellon**  
Corporate Finance  
101 Barclay Street, 8W  
New York, New York 10286  
U.S.A.

## PRINCIPAL PAYING AGENT

**The Bank of New York Mellon**  
101 Barclay Street  
New York, New York 10286  
U.S.A.

## PAYING AGENT

**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL  
England

## PAYING AGENT

**Credit Agricole Indosuez Luxembourg, S.A.**  
39, Allee Scheffer  
L-2520 Luxembourg  
Grand Duchy of Luxembourg

## LEGAL ADVISERS

*To Nationwide  
as to New York, U.S. federal and English law:*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
England

*To the Placement Agents  
as to New York, U.S. federal law and English law:*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
England

## AUDITORS TO NATIONWIDE

**PricewaterhouseCoopers LLP**  
1 Embankment Place  
London WC2N 6RH  
England