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IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the following Offering Circular. You must read this disclaimer carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE OFFERING CIRCULAR MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE OFFERING CIRCULAR HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUCH SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described therein (the "Securities"), you must not be in the United States or be, or be acting on behalf of, a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the email and accessing the Offering Circular, you shall be deemed to have represented to Nationwide Building Society (the "Society") and to each of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, The Royal Bank of Scotland plc and UBS Limited (together, the "Joint Bookrunners") that:

- (1) you are outside the United States and are not a U.S. person, as defined in Regulation S under the Securities Act, nor acting on behalf of a U.S. person and, to the extent you purchase any Securities you will be doing so pursuant to Regulation S under the Securities Act;
- (2) the electronic mail address to which the attached Offering Circular has been delivered is not located in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, and
- (3) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Society, the Joint Bookrunners and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling any of the foregoing accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Society.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular, electronically or otherwise, to any other person. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to ensure that it is free from viruses and other items of a destructive nature. Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any Joint Bookrunner any affiliate of any Joint Bookrunner is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by such Joint Bookrunner or such affiliate, as the case may be, on behalf of the Society in such jurisdiction.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy any Securities in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken in any jurisdiction by the Society or the Joint Bookrunners that would, or is intended to, permit a public offering of the securities, or possession or distribution of the Offering Circular or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required.

Recipients of the Offering Circular who intend to subscribe for or purchase any Securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Offering Circular.

The Offering Circular is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "relevant persons"). The Offering Circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons. The Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 would not, if the Society was not an authorised person, apply to the Society.



Nationwide Building Society

(Incorporated in England under the Building Societies Act 1986, as amended)

£1,000,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities

Issue price: 100.014 per cent.

Nationwide Building Society (the "**Society**") will issue £1,000,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Securities**") at an issue price of 100.014 per cent. of their nominal amount. The Securities are expected to be provisionally admitted to trading on the main standard of the SIX Swiss Exchange AG ("**SIX Swiss Exchange**") from 11 March 2014. Application will be made to the SIX Swiss Exchange for listing of the Securities in accordance with the Standard for Bonds of the SIX Swiss Exchange. References in this Offering Circular to Securities being "listed" (and all related references) shall mean that such Securities have been admitted to trading on the SIX Swiss Exchange and have been listed on the SIX Swiss Exchange. It is anticipated that the Securities will be issued on or about 11 March 2014 (the "**Issue Date**").

The Securities will be denominated in sterling and will bear interest on their nominal amount from (and including) the Issue Date at the applicable Interest Rate described below. Subject as set out in the conditions of issue of the Securities (the "**Conditions**"), interest shall be payable on the Securities semi-annually in arrear in equal instalments on 20 June and 20 December in each year, except that the first payment of interest, to be made on 20 June 2014, will be in respect of the period from and including the Issue Date to but excluding 20 June 2014. For each Interest Period which commences prior to 20 June 2019 (the "**First Call Date**"), the Interest Rate shall be 6.875 per cent. per annum. For each Interest Period which commences on or after the First Call Date, the Interest Rate shall be the sum of: (a) the 5-year Mid-Swap Rate in relation to that period; and (b) the initial credit spread of 4.88 per cent. per annum. Any payment of interest may be cancelled (in whole or in part) in the sole discretion of the Board of Directors of the Society, and shall be cancelled (in whole or in part) in certain circumstances described herein, including (without limitation) if the Society has insufficient distributable items available for paying interest or for regulatory reasons.

If the CET1 Ratio (calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation (as defined in the Conditions)) or a consolidated basis, and as further defined in the Conditions) of the Society falls below 7.00 per cent. (the "**Conversion Trigger**"), the Society will: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (as defined in the Conditions) (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of holders of the Securities (the "**Securityholders**")) write down the Securities by reducing the nominal amount of each Security to zero; and (c) issue to each Securityholder such number of Core Capital Deferred Shares ("**CCDS**") as is equal to the aggregate nominal amount of that Securityholder's Securities divided by the Conversion Price (such write-down and issue of CCDS being referred to as a "**Conversion**", and "**Converted**" being construed accordingly). Such cancellation of interest, write-down of the Securities and (subject as provided in the Conditions) issue of CCDS to Securityholders shall occur on the Conversion Date specified in the Conversion Notice (as defined herein). Once the nominal amount of a Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The Prudential Regulation Authority (the "**PRA**") or other relevant authority may also require the Securities to be written off or converted to Common Equity Tier 1 capital in certain circumstances, with a view to preserving or restoring the viability of the Society, pursuant to an applicable statutory loss absorption regime.

The Securities have no fixed repayment date. The Society may, subject as provided herein, elect to repay all, but not some only, of the Securities at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions): (i) on the First Call Date or each date that falls five, or a multiple of five, years following the First Call Date (the First Call Date and each such date, each a "**Reset Date**"); or (ii) at any time following the occurrence of certain tax events or in the event that the entire nominal amount of the Securities fully ceases (or would fully cease) to be part of the Society's Tier 1 Capital (as defined in the Conditions).

Investing in the Securities involves significant risks. Please review carefully the section entitled "*Risk Factors*" in this Offering Circular.

Attention is drawn to the description in "*Certain Provisions of the Act and Requirements of the Supervisory Authority*" of the ways in which a building society can, without the consent of Securityholders, amalgamate with or transfer its rights and obligations to another building society or a company pursuant to the relevant legislation.

The Securities are expected to be rated BB+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and BB+ by Fitch Ratings Ltd. ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Securities will be issued in registered form in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Securities will initially be represented by a global certificate in registered form (the "**Global Certificate**") registered in the name of a nominee for a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about the Issue Date. The Global Certificate will only be exchangeable for definitive Certificates in certain limited circumstances as described under "*Summary of Provisions Relating to the Securities while Represented by the Global Certificate*".

Structuring Adviser and Joint Bookrunner

UBS Investment Bank

Joint Bookrunners

Citigroup

Deutsche Bank

The Royal Bank of Scotland

The date of this Offering Circular is 6 March 2014.

The Securities will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, as amended (the "Act"), and will not be protected deposits for the purposes of the Financial Services Compensation Scheme ("FSCS") established under the Financial Services and Markets Act 2000 (the "FSMA").

This Offering Circular comprises an offering circular for the purposes of giving information with regard to the Society and its subsidiary undertakings (the Society together with its subsidiary undertakings, "Nationwide" or the "Group") and the Securities. The Society (the principal office of which is Nationwide House, Pipers Way, Swindon, SN38 1NW) accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Society (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular and references herein to this Offering Circular shall be construed accordingly.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Society or the Joint Bookrunners (as defined in "*Subscription and Sale*"). Neither the delivery of this Offering Circular nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society or the Group since the date of this Offering Circular.

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered, sold or delivered, directly or indirectly, within the United States of America (the "**United States**" or "**U.S.**") or to U.S. persons (as defined in Regulation S under the Securities Act) otherwise than in accordance with applicable United States securities laws and regulations.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Society or the Joint Bookrunners to subscribe for or purchase, any Securities. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Society and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Securities and on distribution of this Offering Circular, see "*Subscription and Sale*".

The Securities may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where sterling (the currency for principal and interest payments) is different from the potential investor's currency;

- (iv) understands thoroughly the terms of the Securities and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Securities are legal investments for it, (2) Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

IN CONNECTION WITH THE ISSUE OF THE SECURITIES, UBS LIMITED AS STABILISING MANAGER(S) (THE "STABILISING MANAGER(S)") (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) MAY OVER-ALLOT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECURITIES 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 SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to "pounds", "pence", "sterling", "£" and "p" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**" or "**UK**") and references to "euro" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

Terms used in this Offering Circular shall, unless otherwise defined, or as the context otherwise requires, have the same meanings as are given to them in the Act or, as the case may be, the Rules of the Society (the "**Rules**") or the Memorandum of the Society (the "**Memorandum**").

CONTENTS

	Page
Overview of the Securities	6
Risk Factors	14
Documents Incorporated by Reference	51
Overview of Certain Provisions of the Rules of the Society and the Act Relating to the Securities	52
Conditions of Issue of the Securities	55
Summary of Provisions Relating to the Securities while Represented by the Global Certificate	84
Certain Provisions of the Act and Requirements of the Supervisory Authority	88
Use of Proceeds	90
Description of the Society	91
Taxation	112
Subscription and Sale	116
General Information	118

OVERVIEW OF THE SECURITIES

This overview must be read as an introduction to this Offering Circular and any decision to invest in the Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. Words and expressions defined in "Conditions of Issue of the Securities" shall have the same meanings in this section.

Issuer of the Securities:	Nationwide Building Society
Description of the Securities:	£1,000,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the " Securities ") to be issued by the Society on 11 March 2014 (the " Issue Date ").
Joint Bookrunners:	Citigroup Global Markets Limited Deutsche Bank AG, London Branch The Royal Bank of Scotland plc UBS Limited
Registrar and Principal Paying Agent:	Citibank, N.A., London Branch
Issue Date:	11 March 2014.
Status of the Securities:	The Securities will constitute direct, unsecured and subordinated investments in the Society (subordinated in the manner set out below) which will at all times rank <i>pari passu</i> without any preference among themselves.
Subordination of the Securities:	On a winding-up or dissolution of the Society on or prior to the Conversion Date (other than an Excluded Dissolution), the rights and claims of Securityholders in respect of their Securities shall rank: <ul style="list-style-type: none">junior to the claims of all creditors (including all subordinated creditors) and investing members (as regards the principal and interest due on such investing members' share investments) of the Society including, without limitation (but subject as follows), claims in respect of obligations of the Society which constitute Tier 2 Capital, but in each case excluding claims in respect of Parity Obligations and claims in respect of deferred share investment ("Senior Obligations");<i>pari passu</i> among themselves and with any claims ranking, or expressed to rank, <i>pari passu</i> therewith (including, without limitation, all claims in respect of permanent interest bearing shares of the Society as regards the principal and interest due thereon) ("Parity Obligations"); and

- senior to all claims under any deferred share (core capital) investment in the Society (including the CCDS) and any other claims ranking, or expressed to rank, junior to either the Securities or any Parity Obligations ("**Junior Obligations**").

The terms "**investing members**", "**deferred share investment**" and "**deferred share (core capital) investment**" have the meanings ascribed to them in the Rules.

"Excluded Dissolution" means a dissolution of the Society by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Act, or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended.

Claim on a winding-up or dissolution:

Subject to the above, holders of the Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full.

Solvency Test:

No payment of principal or interest in respect of the Securities shall be due and payable unless the Society is able to make such payment and still be solvent (within the meaning given in Condition 4.4) immediately thereafter, in each case except in the winding-up or administration of the Society (the "**Solvency Test**").

See also Condition 4 of "*Conditions of Issue of the Securities*".

Conversion:

If the CET1 Ratio (calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or a consolidated basis) of the Society falls below 7.00 per cent. (the "**Conversion Trigger**"), the Society will: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Securities by reducing the nominal amount of each Security to zero; and (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Securities divided by the Conversion Price (such write-down and issue of CCDS being referred to as a "**Conversion**", and "**Converted**" being construed accordingly).

Once the nominal amount of a Security has been written down, the nominal amount will not be restored in any circumstances,

including where the relevant Conversion Trigger ceases to continue.

The "Conversion Price" shall be £80, subject to adjustment in certain circumstances provided in Condition 8.5.

See also Condition 8 of "*Conditions of Issue of the Securities*".

Core Capital Deferred Shares (CCDS):

If a Conversion Trigger were to occur, the CCDS to be issued to Securityholders are expected to have the same terms as, and to be consolidated and form a single series with, any outstanding CCDS of the Society.

As at the date of this Offering Circular there are 5,500,000 CCDS outstanding. The outstanding CCDS are registered securities comprising deferred share (core capital) investments of the Society within the meaning of the Rules. The CCDS are cleared in Euroclear and Clearstream, Luxembourg and traded in minimum transfer amounts of 250 CCDS (which minimum transfer amount may, with regulatory consent, be reduced by the Society in its discretion in the future). The existing CCDS are admitted to trading on the London Stock Exchange plc's main market for listed securities and have ISIN GB00BBQ33664. Information regarding the past performance of the existing CCDS can be obtained from the London Stock Exchange plc. Past performance is not an indication of future performance.

The Conditions of Issue of the CCDS which are currently outstanding are incorporated by reference in this Offering Circular.

Repayment and Purchase:

The Securities will constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no fixed repayment date.

Society's Option to Repay

The Society may elect to repay all, but not some only, of the Securities then outstanding on 20 June 2019 (the "First Call Date") or on any fifth anniversary of the First Call Date thereafter at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

Purchases

The Society or any other member of the Group may at any time purchase Securities in any manner and at any price.

Conditions to Repayment and Purchase

Any such repayment or purchase of the Securities is subject to:

- (i) the Society obtaining such approval, consent or non-objection from, or making such notification required

within prescribed periods to, the Regulator, or obtaining such waiver of the then prevailing Capital Regulations from the Regulator, as is required under the then prevailing Capital Regulations; and

- (ii) if and to the extent then required under prevailing Capital Regulations, either: (A) the Society having replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the Society having demonstrated to the satisfaction of the Regulator that the own funds of the Society would, following such repayment or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Regulator considers necessary at such time; and
- (iii) if, at the time of such repayment or purchase, the prevailing Capital Regulations permit the repayment or purchase only after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i) and (ii) above, the Society having complied with such other pre-condition(s).

Optional Repayment for Tax Reasons or Regulatory Reasons

In addition, the Society may elect to redeem, in whole but not in part, the Securities upon the occurrence of a Tax Event or a Regulatory Event (each as defined in Condition 7) at their nominal amount, in each case together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

Such repayment is subject to the same conditions as set out above under "*Conditions to Repayment and Purchase*" and also to the circumstances giving rise to the repayment being such that the Regulator is satisfied that such circumstances were not reasonably foreseeable as at the Issue Date and, in the case of a Tax Event only, the consequences of such event not being avoidable by the Society taking reasonable measures available to it and the change in tax treatment also being material.

Impact of Solvency Test and Conversion Trigger on Repayment

If the Society has elected to repay the Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date, and the Securities will continue to remain outstanding on the same basis as if no repayment notice had been given.

Further, if the Society has elected to repay the Securities but, prior to the repayment of the nominal amount, a Conversion Trigger occurs, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date and, instead, a Conversion shall occur in respect of the Securities as described in "*Write-Down and Conversion*" above.

See also Condition 7 of "*Conditions of Issue of the Securities*".

Interest:

The Securities will bear interest from (and including) the Issue Date on their nominal amount, in accordance with the provisions of Condition 5 (i) for each Interest Period which commences prior to the First Call Date, at the Initial Interest Rate of 6.875 per cent. per annum and (ii) for each Interest Period which commences on or after the First Call Date, at the applicable Reset Interest Rate, as calculated by the Principal Paying Agent.

"Reset Interest Rate" means, in relation to a Reset Period, the sum of: (a) the 5-year Mid-Swap Rate in relation to that Reset Period; and (b) the Margin of 4.88 per cent. per annum.

Subject to Conditions 4.4, 6 and 8, interest shall be payable on the Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in Condition 5, except that the first payment of interest, to be made on 20 June 2014, will be in respect of the period from and including the Issue Date to but excluding 20 June 2014.

Interest Payment Dates:

20 June and 20 December in each year, commencing on (and including) 20 June 2014.

Interest Cancellation:

Optional Cancellation of Interest

The Society may, at the discretion of the Board but subject at all times to the requirements for mandatory cancellation of Interest Payments referred to below, elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date.

Mandatory Cancellation of Interest

An Interest Payment shall be cancelled mandatorily if and to the extent that the amount of such Interest Payment otherwise due, together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such Interest Payment Date.

In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. "Maximum Distributable Amount" means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced). See further the risk factor entitled "CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments" commencing on page 39 of this Offering Circular.

Consequences of Interest Cancellation

Any Interest Payment (or part thereof) not paid on any relevant Interest Payment Date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) in accordance with any of Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise.

See also Condition 6 of "*Conditions of Issue of the Securities*".

Enforcement:

The Conditions will contain no express events of default and as such the ability of a Securityholder to enforce the terms of the Securities will be very limited. See also "*Conversion*", "*Repayment and Purchase*" and "*Interest Cancellation*" above.

Additional Amounts:

All payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any Taxes of the United Kingdom, unless such withholding or deduction is required by law.

If any such withholding or deduction for or on account of any Taxes is required by law, additional amounts will be payable by the Society subject to certain exceptions as are more fully described in Condition 10 of "*Conditions of Issue of the Securities*".

Form:

The Securities will be issued in global registered form.

	<p>The Securities (a) will be deferred shares for the purposes of section 119 of the Act, (b) will not be protected deposits for the purpose of the FSCS established under the FSMA, (c) will not be withdrawable and (d) will be deferred share investments (but not deferred share (core capital) investments) for the purposes of the Rules.</p>
Denomination:	The Securities will be issued in denominations of £100,000 and higher integral multiples of £1,000 in excess thereof.
Governing Law:	The Securities and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.
Rating:	The Securities are expected to be rated BB+ by S&P and BB+ by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing and Admission to Trading:	The Securities are expected to be provisionally admitted to trading on the main standard of the SIX Swiss Exchange from 11 March 2014. Application will be made to the SIX Swiss Exchange for listing of the Securities in accordance with the Standard for Bonds of the SIX Swiss Exchange.
Successions and Transfer:	Condition 13 contains provisions applicable to the Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company.
	Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Securities without the consent of the Securityholders, subject to certain restrictions. Such provisions could potentially result in amendments to the Conversion provisions of the Securities, including the nature of the instrument into which the Securities would convert upon the occurrence of a Trigger Event and, in circumstances where the entity resulting from such amalgamation or transfer does not have a viable instrument which could be delivered upon Conversion, the Conversion feature of the Securities may be replaced with a permanent write-down feature.
Selling and Transfer Restrictions:	The United States and the United Kingdom.
	The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). The Securities are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of the Securities and distribution of this

Offering Circular, see "Subscription and Sale".

Use of Proceeds:

The net proceeds of the issue of the Securities (estimated to be approximately £990,640,000) will be used by the Society to strengthen its regulatory capital base and for general business purposes consistent with the Society's principal purpose as a UK building society.

Risk Factors:

Prospective investors should carefully consider the information set out in "Risk Factors" in conjunction with the other information contained in or incorporated by reference in this Offering Circular.

Clearing Systems:

The Securities have been accepted for clearing through the facilities of Euroclear and Clearstream, Luxembourg.

Securities held through an account with Euroclear and/or Clearstream, Luxembourg will be registered in the name of Citivic Nominees Limited as nominee (the "Nominee") who shall be the Securityholder for those Securities for the purposes of the Conditions, and not the investors holding the beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg. An investor holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg will not be a member of the Society by virtue of its investment in the Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of Securities in the manner provided above. Investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be.

ISIN:

XS1043181269.

Common Code:

104318126.

Swiss Security Number:

23.875.099.

Swiss Paying Agent:

UBS AG will act as Swiss paying agent. The Swiss paying agent will not have a role in facilitating or making payments under the Securities for so long as the Securities are represented by a Global Certificate. The Swiss paying agent is being appointed solely to fulfil the listing requirements of the SIX Swiss Exchange.

RISK FACTORS

Investors should ensure that they understand the risks of investing in the Securities before they make their investment decision. They should make their own independent decision whether to invest in the Securities and decide whether an investment in such Securities is appropriate or proper based upon their own judgement and upon advice from such advisers as they consider necessary.

Securities held through an account with Euroclear and/or Clearstream, Luxembourg will be registered in the name of a nominee for Euroclear and Clearstream, Luxembourg (the "Nominee"). For so long as the Securities are so held, the Nominee shall be the sole legal holder of those Securities for the purposes of the Conditions of Issue of the Securities (the "Conditions"), rather than the investors holding the beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg, as the case may be (see "Summary of Provisions Relating to the Securities while Represented by the Global Certificate").

Such investors will be subject to the same risks set out below as the Securityholder (as defined in the Conditions) save where their rights are more restricted as a result of their holding Securities through Euroclear and/or Clearstream, Luxembourg (see paragraph "Summary of Provisions Relating to the Securities while Represented by the Global Certificate – Meetings; Membership rights whilst the Securities are held through Euroclear and/or Clearstream, Luxembourg", below). Other than where defined in the Conditions, references in this Offering Circular to Securityholders shall include references to such investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg, as well as holders of Securities in definitive form.

Factors that may affect the Society's ability to fulfil its obligations under the Securities

Nationwide's business and financial performance has been and will continue to be affected by general economic conditions in the UK, the Eurozone and elsewhere, and adverse developments in the UK or global financial markets could cause Nationwide's earnings and profitability to decline

Nationwide is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. Since mid-2008, the global economy and the global financial system, and the Eurozone in particular, 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 was 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 recapitalisations 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 adversely affected, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, the liquidity of the global financial markets and market interest rates, which have had, and may continue to have, a material adverse effect on Nationwide's business, operating results, financial condition and prospects.

Although market conditions have generally improved, in recent years, there have been periods of significant volatility in financial markets around the world. The financial turbulence in 2008 and its after-effects on the wider economy have led to generally more difficult earning conditions for the financial sector and, at the

time, resulted in the failures of a number of financial institutions in the United States, the United Kingdom and elsewhere in Europe and unprecedented action by governmental authorities, regulators and central banks around the world. A number of countries in Europe, such as Greece, Italy, Ireland, Portugal and Spain (the "**GIIPS**"), have been particularly affected by the difficult financial and economic conditions since 2008 and are struggling with large sovereign debts and/or public budget deficits. These factors, together with weak economies and disruption in the capital markets, necessitated a range of international rescue packages and other assistance, including for Greece and Ireland in 2010, Portugal in 2011, Greece and Spain in 2012 and, most recently, Cyprus in March 2013. The perceived risk of default on the sovereign debt of certain of the GIIPS intensified in the latter part of 2011 and into 2012, particularly in relation to Greece. This raised concern about the contagion effect such a default would have on other European Union economies as well as the ongoing viability of the euro currency and the European Monetary Union ("**EMU**").

Reflecting these and other concerns, in January 2012 one of the major international credit rating agencies lowered its long-term ratings in respect of nine European sovereigns, further increasing market uncertainty. Furthermore, the effectiveness of the actions aimed at stabilising European economies and reducing debt burdens is not assured and the possibility remains that the euro could be abandoned as a currency by countries that have already adopted its use or, in an extreme scenario, abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU Member States.

The effects on the European and global economies of the potential dissolution of the EMU, exit of one or more European Union Member States from the EMU and the redenomination of financial instruments from euro to a different currency, are impossible to predict fully. However, if any such events were to occur they would likely:

- result in significant market dislocation;
- heighten counterparty risk; and
- adversely affect the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities.

If any such events were to occur, Nationwide would be immediately exposed to potential losses on its portfolio of treasury assets and to redenomination risks as one or more individual countries introduced new currencies. In addition, Nationwide anticipates that such an event would be likely to adversely impact the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting the Group's net interest margin.

The UK economic recovery is expected to remain modest by historic standards in the 2014-2015 financial year, with the International Monetary Fund (in its January 2014 World Economic Outlook update) predicting UK real GDP growth of 2.4 per cent. in 2014. Uncertainty surrounding the Eurozone recovery presents a risk of a renewed slowdown in economic activity in the UK's principal export markets which would have a corresponding effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures and an ongoing compression of real household incomes, and there is the additional risk that levels of unemployment could increase and there could be further declines in real disposable incomes.

The exact nature of the risks that Nationwide faces and the manner and the extent to which they ultimately will impact Nationwide 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 the control of Nationwide.

At the onset of the financial turbulence noted earlier, Nationwide experienced a decline in its net interest margin. The initial decline was due to the very low level of the Bank of England ("**BoE**") base rate, as wider spreads on new mortgage pricing were outweighed by increased costs of retail funding principally from

increased competition for UK retail savings following disruptions to the wholesale funding markets and by the Society's Base Mortgage Rate ("BMR") commitment to existing borrowers whereby the Society guaranteed existing customers that its BMR will be no more than 200 basis points above the BoE base rate. The decline in net interest margin also reflected the fact that customers have continued to benefit from the Society's decision not to implement the mortgage tracker floor when the Society's BMR reached 2 per cent., 0.75 per cent. below their contractual floor limit of 2.75 per cent. Although recent trends in mortgage and savings pricing (driven, in part, by the BoE's Funding for Lending Scheme ("Funding for Lending")) have reduced the impact of continuing low base rates, the Society currently does not expect any increase in the base rate until 2015 and, accordingly, is likely to continue to be affected by the effects of a constrained net interest margin in the interim.

There were signs of a pick up in activity in the UK housing market in the second half of 2013, though transaction levels remain below pre-2008 crisis levels. Similarly, after remaining relatively flat for three years, house price growth accelerated in the second half of 2013. As the wider economy continues to recover, supported by policy measures such as the Help to Buy scheme, Nationwide expects buyer activity to improve further (see "*In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact Nationwide*" below). There is a risk, however, that house price growth will continue to accelerate faster than earnings, stretching affordability and leaving households more vulnerable to shocks, such as unexpectedly early or large increases in interest rates that could ultimately lead to higher retail loan losses. There is potential for activity and prices to decline should the labour market situation deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy.

Similarly, the outlook for the commercial property market continues to be uncertain. Potential for further weakening in tenant demand and investor appetite means the impairment outlook for Nationwide's commercial lending business remains uncertain. Worsening economic and market conditions could result in increased commercial loan losses which would adversely impact Nationwide's financial and operational performance. Nationwide expects that the volume of impaired property finance loans, and its levels of provisioning in respect of them, is likely to remain elevated in the near term as historic weakness in the UK economy and the commercial real estate market continues to affect the commercial loan book. Any further loan loss provisions recorded against Nationwide's commercial real estate lending could adversely affect its profitability in the next few years although the Society has increased confidence that it will see an improvement in impairments in 2014/15 as the progressive impact of economic upturn on the portfolio becomes more evident.

The UK commercial property market was negatively impacted by the recession with peak (June 2007) to trough (July 2009) falls in capital values averaging 44 per cent. and conditions remain challenging. Prime commercial property values showed some signs of recovery in the second half of 2013 and Nationwide expects modest capital growth to continue into the medium term. At 30 September 2013, the proportion of Nationwide's commercial loans three months or more in arrears was 5.06 per cent. (4 April 2013: 4.50 per cent.), with arrears balances of £48 million (4 April 2013: £81 million). Nationwide booked a total commercial impairment charge of £225 million in the six month period to 30 September 2013, which is £32 million higher than in the six month period to 30 September 2012.

If margin compression were to result from the withdrawal of funding support and/or in the face of increased competition, 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.

Nationwide's earnings are largely driven by the mortgage and savings markets. Stagnation in these markets limits Nationwide's ability to grow and to reprice its assets and liabilities in order to manage its net interest margin, thereby adversely impacting its financial performance. In addition, cost is an

increasingly important element of consumers' purchasing decisions, which may adversely affect the amount of income that Nationwide is able to generate

In the run-up to the financial crisis of 2008, mortgage pricing became increasingly complex. In a market where intermediaries accounted for over half of all new business applications and market risks were perceived as low, margins became squeezed and, in some cases, were negative at point of sale, with reliance on customers maturing onto back book rates (for example, the Society's BMR or Standard Mortgage Rate ("SMR") to which customers transfer after their initial fixed rate or tracker rate (each, a front book rate) expires) for a period of time in order to make a positive return.

The mortgage market was severely impacted by the global financial crisis, with gross new mortgage lending in the UK falling from approximately £357 billion at 31 December 2007 to approximately £142 billion for the year to 31 December 2012, according to BoE data. This reduction in market size has made it more difficult to reprice assets rapidly, so that it is more difficult to compensate for the Society's contractual obligation to its BMR mortgage customers—and to build a portfolio of mortgages that will in time transfer onto the Society's SMR.

The margin available on new mortgages is higher than that available before the global financial crisis, but competition for the highest quality mortgages is intense and is likely to continue, putting downward pressure on returns available for the lowest risk-weighted mortgage assets. At the same time, price comparison websites have become more popular and widely used, allowing customers more easily to compare products and make buying decisions based on price. Whilst Nationwide aims to provide better long-term pricing to its customers, it is not able to offer the best front book price on all products at all times to all customers, and there is a risk that there will always be a number of other providers offering better short-term pricing that will attract customers who may otherwise have joined or stayed with Nationwide. In consequence, there is a risk that industry pricing will be forced lower, impacting on Nationwide's ability to deliver its strategic income targets and impacting on its financial performance.

For a number of years, the retail savings market has been under pressure from restrictions on households' ability and propensity to save, historically low interest rates and severe competition from banks seeking to lower their loan to deposit ratios and to reduce their reliance on wholesale funding. The net result of these pressures was an increase in the relative price for retail savings, adversely impacting Nationwide's ability to manage its net interest margin. However, most financial institutions have now succeeded in reducing their reliance on wholesale funding. In addition, the Society believes that Funding for Lending has reduced competition for retail deposits by providing financial institutions with cheap funding. See "*In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact Nationwide*" below.

Negative fair value adjustments could have a material adverse effect on Nationwide's operating results, financial condition and prospects

The dislocations in the financial markets have resulted in Nationwide recording in its results over the last three financial years impairment charges and negative fair value adjustments with respect to securities and other investments that it holds. 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 Nationwide's exposure through its liquidity and investment portfolios to financial institutions in GIIPS and residential mortgage backed securities and covered bonds collateralised on assets originated in GIIPS. In addition, the value that Nationwide ultimately realises for its securities and other investments may be lower than the current fair value. Any of these factors could require Nationwide to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects.

The Group's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or its access to wholesale funding markets becomes limited and/or becomes more expensive, and this may have an adverse effect on its business and profitability

Financial institutions such as Nationwide are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk that an institution may not have sufficient funds at any time to make full payment in respect of liabilities falling due at that time.

Nationwide raises funds principally through accepting retail deposits and in the wholesale funding market. It also has a core portfolio of liquid investments as well as a range of other assets which are a further source of liquidity to it. However, if access to liquidity is constrained for a prolonged period of time, Nationwide's cost of funding would increase as competition for retail deposits would intensify and the cost of accessing the wholesale markets would rise. This would adversely affect Nationwide's profitability.

These risks can be exacerbated by 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 the Group to grow its business or even maintain it at current levels. The Group's 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 its 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 the Group's 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 (including increased competition for current and savings account products and easier current account switching for consumers) could lead to a reduction in the Group's ability to access retail deposit funding on appropriate terms in the future. Given the relative size of Nationwide's retail deposit base, it is particularly exposed to any serious loss of confidence by its retail depositors which results in significant withdrawals of deposits over a sustained period.

The maintenance and growth of the level of Nationwide's 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 Nationwide's margins and profit in recent years. Investors should note that extreme circumstances market-wide, such as the severe dislocation experienced in credit markets following the onset of the global financial crisis, a prolonged and severe restriction on the Group's access to liquidity (including to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence which results in high levels of withdrawals from the Group's retail deposit base, could affect the Group's ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances, the Group may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on the Group's solvency.

In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact Nationwide

In past years the Government, acting through the BoE or otherwise, has provided significant support to UK financial institutions, including through the Special Liquidity Scheme, 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, which was introduced in October 2008 and under which the Government guaranteed eligible bank and building society debt securities for a limited period. Nationwide no longer participates in either of these schemes.

On 1 August 2012, Funding for Lending became operational. The aim is to boost the incentive for banks and building societies to lend to UK households and non-financial companies. Funding for Lending is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to Funding for Lending is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more and at a lower cost than those that scale back their lending. Under Funding for Lending, 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. On 24 April 2013, the scheme was extended for a further 12 months, with drawings now permitted until the end of January 2015 and the funding under the scheme now running until January 2019. In November 2013, it was announced that the terms of the Funding for Lending scheme extension were to be changed, to further re-focus lending to small and medium sized enterprises ("SMEs") during the course of 2014.

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 participated in the Funding for Lending scheme and, as at 20 February 2014, Nationwide had drawings of £8.5 billion of UK Treasury Bills under the scheme, with no further utilisation by Nationwide currently anticipated. 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 when Funding for Lending ends, currently scheduled at the end of January 2015. Any significant reduction or withdrawal of Government support will increase funding costs for those institutions (including Nationwide) which have previously utilised that support. In the case of Nationwide, this may result in an increase in its funding costs and a reduction in its net interest margin. In addition, financial institutions which 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 also expects to face increased competition for funding, particularly retail deposit funding on which it is reliant, although that competition is expected to be driven by increased mortgage lending volumes rather than the cessation of Funding for Lending. This competition could further increase its funding costs and so adversely impact its results of operations and financial position.

The extension to Funding for Lending announced in April 2013 has skewed the incentive towards lending to SMEs, by weighting net lending to that sector by a factor of ten in 2013 and five in 2014. This will benefit eligible institutions which are providing loans to SMEs. As Nationwide does not currently lend to SMEs, there is a risk that its competitive position will be damaged through other institutions having access to new Funding for Lending scheme funds which it does not enjoy with the result that Nationwide might not be able economically to match the pricing of those competitors in the mortgage market.

Worsening economic and market conditions and/or increasing interest rates could result in increased retail loan losses which would adversely impact Nationwide's financial and operational performance

The performance of Nationwide's retail lending portfolios has been strong over the past three and a half financial years, with levels of arrears and default that are both below industry averages according to the Council of Mortgage Lenders ("CML") research. However, despite some deleveraging, the personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices.

Increased unemployment could lead to borrowers who lose their jobs being unable to service the loan payments in a timely fashion which would result in higher levels of arrears both in Nationwide's secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in Nationwide's impairment charges in respect of these portfolios.

Rising interest rates would put pressure on borrowers who have been made redundant and whose loans are linked to the base rate and who may have become accustomed to the current low interest rate environment. A significant portion of Nationwide's outstanding mortgage loan products are potentially subject to changes in interest rates. Accordingly, borrowers with a mortgage loan that is subject to a variable rate of interest or where the interest rate adjusts following an initial fixed rate or low introductory rate are exposed to increased monthly payments as and when their mortgage interest rate adjusts upward. In an increasing interest rate environment, 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 and this could lead to an increase in arrears in Nationwide's retail lending portfolios as well as an increase in Nationwide's retail loan impairment charges.

Rating downgrades and/or negative market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on Nationwide's performance

If sentiment towards the banks, building societies and/or other financial institutions operating in the UK (including Nationwide) were to deteriorate further, or if Nationwide's ratings and/or the ratings of the sector were to be further adversely affected, this may have a materially adverse impact on Nationwide and restrict its ability to source regulatory capital. In addition, any such change in sentiment or further reduction in ratings could result in an increase in the costs of, 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 future declines in those aspects of Nationwide's business identified by the rating agencies as significant or otherwise could adversely affect the rating agencies' perception of its credit and cause them to take further negative ratings actions. Any downgrade in Nationwide's credit ratings could adversely affect its liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts, undermine confidence in its business, increase its borrowing costs, limit its access to the capital markets, or limit the range of counterparties willing to enter into transactions with it, as many institutions require their counterparties to satisfy minimum ratings requirements. A downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on its business, results of operations and financial condition. Nationwide has experienced all of these effects in different degrees when downgraded in the past, although it is not possible to quantify the extent to which the particular effects experienced were due to the downgrade or other facts, such as prevailing market conditions at the time of the downgrade and the extent to which the downgrade had been anticipated by the market. Nationwide's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure to successfully implement its strategies. When conducting its regulatory and internal stress tests, Nationwide models the potential impact on its liquidity of a ratings downgrade, including through the loss of unsecured funding and secured funding capacity.

In February and April 2013 respectively, Moody's Investors Service Limited ("Moody's") and Fitch reduced the UK's long-term ratings, from Aaa to Aa1 (in the case of Moody's) and from AAA to AA+ (in the case of Fitch) and, subsequently on 18 December 2013, Fitch affirmed its AA+/F1+ long- and short-term unsolicited sovereign credit ratings for the UK. On 20 December 2013, S&P affirmed its AAA/A-1+ long- and short-term unsolicited sovereign credit ratings for the UK, with a negative outlook. Although these actions have not impacted the respective agencies' ratings of Nationwide, any further downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact Nationwide's own rating, borrowing costs and ability to fund itself and have a material adverse effect on Nationwide's operating results and financial condition.

A further UK sovereign downgrade or the perception that such a downgrade may occur could depress consumer confidence, restrict the availability, and increase the cost, of funding for individuals and companies, further depress economic activity, increase unemployment and reduce 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, the 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 Nationwide's operations

Nationwide is currently one of the three largest household savings providers and the third largest provider of residential mortgages in the United Kingdom, with estimated market shares of 10.8 per cent. (as calculated by Nationwide based on BoE data) and 11.5 per cent. (according to BoE data), respectively, at 30 September 2013. Nationwide's strategy is based on maintaining a market share of at least 10 per cent. in savings, growing its market share of mortgages to 12 per cent. and increasing its share of personal current accounts from an estimated level of around 5.2 per cent. at 31 January 2013 to 10 per cent. It is also aiming to achieve market shares of at least 5 per cent. in all other product areas, using the growth in banking relationships as a prime tool to facilitate broader market share growth. For a more detailed discussion of Nationwide's strategy, please refer to the section entitled "*Description of the Society – Strategy*" below.

Nationwide competes mainly with other providers of personal financial services, including banks, building societies and insurance companies, and operates in an increasingly competitive UK personal financial services market. Each of the main personal financial services markets in which Nationwide operates is mature and slow growing, so that growth requires taking market share from competitors. Some of Nationwide's competitors have publicly commented that they intend to grow their market share. Such banks may engage in enhanced marketing activities which may result in customers switching their accounts to such competitors or may limit Nationwide's ability to attract new customers. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. If Nationwide is unable to match the efficiency of its competitors in these respects, it risks losing one of its significant competitive advantages and being unable to match its strategic growth aspirations.

Nationwide competes primarily on its policy (on the basis of its mutuality) of offering consistent long-term good value and better service to its customers. The UK market for financial services and the mortgage market in particular have been reshaped by the recent financial crises. 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 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 impacted lenders' margins. Competition may intensify further in response to consumer demand, technological changes, the impact of consolidation by Nationwide's competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, Nationwide's business, financial condition and results of operations could be materially adversely affected. In particular, the implementation of the Independent Commission on Banking's (the "**ICB**") recommendation to separate retail banking activities from the wholesale and investment banking activities carried on by large banking groups operating in the UK between 2015 and 2019 could reduce the distinctiveness of the building society model and potentially reduce Nationwide's current competitive advantage as a building society. This may, in time, alter the business models of ring-fenced banks and may therefore alter adversely the competitive position of the Society and other mutual institutions.

Each of the major UK banks has announced that it will focus on improving its customer service. If Nationwide's customer service levels were perceived by the market to be only in line with, or materially below, those of competitor UK financial institutions, it could lose existing and potential new business. If Nationwide is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its business, financial condition and results of operations.

Failure by Nationwide to control its financial, lending and operational risks may result in adverse effects to its business, financial condition and/or reputation

Nationwide's success as a financial institution depends on its ability to manage and control its financial risk, (which includes liquidity and market risk) and its credit risk. It is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial

instruments. Nationwide has 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 borrower or counterparty is unable to meet its obligations to Nationwide as they fall due. If Nationwide fails to manage and control these risks, the Society could become unable to meet its own obligations, including those under the Securities, resulting in material adverse effects to its business, financial condition and reputation.

Nationwide's businesses are also dependent on its 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 authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures (particularly in relation to electronic banking applications), natural disasters, terrorist action or the failure of external systems, for example, operational problems at other institutions. Although Nationwide has implemented strong risk controls and loss mitigation actions, and substantial resources are devoted to further developing efficient procedures and to staff training, it is not possible to implement procedures which completely eliminate each of the operational risks noted above. Notwithstanding the above, this risk factor should not be taken to imply that the Society will be unable to comply with its obligations as an entity with securities admitted to listing on the SIX Swiss Exchange or as a supervised firm regulated under FSMA.

Market risks may adversely impact Nationwide's business

The most significant market risks that Nationwide faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect Nationwide's interest rate margin realised 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 currency. The performance of financial markets may also cause changes in the value of Nationwide's investment and liquidity portfolios.

Although Nationwide has implemented a risk framework to control these risks and its exposures are constantly measured and monitored, Nationwide maintains residual exposures to changes in these risk factors and there can be no assurance that risk management methods will remain effective, particularly in unusual or extreme market conditions.

Reputational risk could cause harm to Nationwide and its business prospects

Nationwide's ability to attract and retain customers and conduct business with its counterparties could be adversely affected to the extent that its reputation or the reputation of its brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to Nationwide and its business prospects. Reputational issues include, but are not limited to: failing to appropriately address potential conflicts of interest; breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements); acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices); 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; failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and generally poor company performance. A failure to address these or any other relevant issues appropriately could make customers, depositors and investors unwilling to do business with Nationwide, which could adversely affect its business, financial condition and results of operations and could damage its relationships with its regulators. Nationwide cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

Nationwide is exposed to risks relating to the mis-selling of financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice

Nationwide is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. In particular:

- certain aspects of its business may be determined by the BoE, the PRA, the Financial Conduct Authority (the "FCA"), HM 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 mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined 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 or any of which could result in the incurrence of significant costs, may require provisions to be recorded in Nationwide's financial statements and could adversely impact future revenues from affected products; and
- Nationwide may be liable for damages to third parties harmed by the conduct of the manner in which it has conducted one or more aspects of its business.

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

Nationwide also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the High Court or elsewhere, or where complaints are made against it or members of its industry generally to the FOS or another relevant body. For example, a recent High Court judgment on the mis-selling of payment protection insurance ("PPI") has resulted in very significant provisions for customer redress in respect of PPI being made by several UK financial services providers. Nationwide's total provision for customer redress is reflected in charges of £71 million in the six months ended 30 September 2013, £73 million in the financial year ended 4 April 2013, £103 million in the financial year ended 4 April 2012 and £16 million in the financial year ended 4 April 2011, with the increases in the financial years ended 4 April 2012 and 4 April 2013 following a significant escalation in PPI claims activity across the industry generally. Although Nationwide's PPI product sales ceased in 2007 and Nationwide views its historical sales volumes as relatively low and subject to a rigorous sales process, there can be no assurance that its estimates for potential liability are correct, and its reserves taken to date might prove inadequate. There is currently a significant regulatory focus on the sales practices and reward structures that financial institutions have used when selling financial products. Many financial institutions (including Nationwide) are reviewing their sales practices and reward structures with a view to ensuring that they are appropriate and match regulatory and customer expectations. However, no assurance can be given that financial institutions (including Nationwide) will not incur liability for past actions which are determined to have been inappropriate and any such liability incurred could be significant and materially adversely affect Nationwide's results of operations and financial position.

In addition, a number of financial institutions (including the Society) have recently agreed, following discussions with the FCA, to repay customers who were sold card protection insurance and identity protection products issued by Card Protection Plan Limited ("CPP"). As well as CPP selling directly to customers, other financial institutions (including the Society) introduced customers to the CPP products. It has been agreed that CPP redress will be paid through a scheme of arrangement due to commence in February 2014.

In the light of a review of compliance with consumer credit legislation being undertaken across the industry, Nationwide is undertaking a comprehensive revision of its own documentation and processes. A number of

areas which require further enquiry have been identified and whilst the Society's investigations are still at a relatively early stage, the Society has recognised a charge in the six months ended 30 September 2013 of £71 million in respect of potential costs in relation to matters which may require remediation. Nationwide's findings to the date of this Offering Circular have not revealed any customer detriment. No assurance can be given that the Society will not incur liability in connection with any past non-compliance with such legislation or with other similar legislation, and any such non-compliance could be significant and materially adversely affect Nationwide's results of operations and financial position and its reputation.

Future legislative and regulatory changes could impose operational restrictions on Nationwide, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects

Nationwide conducts its business subject to ongoing regulation by the FCA and the PRA. The regulatory regime requires Nationwide to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If Nationwide fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

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

Regulators and other bodies in the UK and worldwide have produced a range of proposals for future legislative and regulatory changes which could impose operational restrictions on Nationwide, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business results, financial condition or prospects. These include, among others:

- on 19 June 2013, the Parliamentary Commission on Banking Standards ("PCBS") published its final report ("Changing banking for good"). This was followed by the publication of the Government's response on 8 July 2013, accepting the overall conclusions of the final report and all of its principal recommendations. Among other things, this included proposals for: (i) a new senior persons regime governing the conduct of bank staff; (ii) the introduction of a criminal offence for reckless misconduct by senior bank staff; and (iii) steps to improve competition in the banking sector. On 18 December 2013, the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") which includes provisions to address certain of the PCBS's recommendations received royal assent; further detail in respect of matters covered in the Banking Reform Act will be provided by way of secondary legislation. From 1 March 2014, the PRA has a secondary objective in respect of competition; otherwise, the relevant provisions of the Banking Reform Act are not yet in force and it is not known when such provisions will come into force. The Banking Reform Act and future related secondary legislation will have a substantial impact on banks and building societies in the UK generally, including Nationwide;
- the Banking Reform Act also introduces a power for HM Treasury to require UK banks and building societies to hold primary loss-absorbing capital (including by way of bail-in bonds) and obliges the FCA to establish a new payment systems regulator. These provisions came into force on 1 March 2014;
- other measures contained in the Banking Reform Act, but which are not yet in force (and the date on which they will come into force is presently unknown), include: (i) ring-fencing domestic retail banking services of UK banks; (ii) introduction of a power for the UK authorities to bail in debt issued by UK banks and building societies; (iii) elevating the ranking of FSCS insured depositors on a winding-up to rank ahead of all other unsecured creditors; and (iv) a cap on the cost of pay day loans. Building societies (including Nationwide) will be subject to the bail-in powers (see "*Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery*

directive" below) and will be affected by the change to the ranking of insured depositors, under which deposits that are eligible for protection under the FSCS are preferential debts and therefore in the event of Nationwide's insolvency will rank ahead of other unsecured creditors. The Government also intends to commence powers, already available in building societies legislation but not yet in force, which will have the effect that building society shareholding members (other than holders of deferred shares) will rank equal to ordinary unsecured creditors on a winding-up or dissolution. At European Union level, structural reform measures that are similar to some of those contained in the Banking Reform Act are also under consideration, following the report of the European Commission's high level expert group on reforming the structure of the EU Banking Sector (the "**Liikanen Group**"). This report's proposals were heavily influenced by the UK experience. The Society does not anticipate that the report's proposals will have any impact on the UK building societies due to the Banking Reform Act and existing Act restrictions, provided the UK seeks a derogation under the EU proposals;

- in June 2012, the European Commission published a legislative proposal for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, the Bank Recovery and Resolution Directive ("**BRRD**"). The draft BRRD contemplates that it will be implemented in Member States by 31 December 2014, except for certain bail-in provisions which are to be implemented by 1 January 2016. The draft BRRD is not in final form and technical or legal changes may be made to it in the course of the legislative process. See further "*Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery directive*" below;
- HM Treasury announced that consumer credit regulation will be transferred to the FCA from 1 April 2014 in accordance with provisions under the Financial Services Act 2012 (the "**FS Act**"). Following the transfer, the carrying on of certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval and the FCA will have power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. The FS Act also provides for formalised co-operation to exist between the FCA and the FOS (which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses), particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes; and
- the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers in March 2011. The proposal requires, among other things, standardised pre-contractual information, adherence to business conduct rules, a ban on certain tying practices (i.e. offering or selling a credit agreement in a package of products) and a right of the borrower to make early repayment. Until the final form of the proposed directive is formally adopted by the European Council and it together with UK implementing legislation is published, it is not certain what effect the adoption and implementation of the proposed directive would have on Nationwide's mortgage business.

There is also a risk that the recent restructuring of regulatory bodies, in particular, the creation of multiple regulators in the UK and the transfer of the responsibility for regulation of consumer credit in the UK from the OFT to the FCA in April 2014, could lead to a lack of co-ordination and the emergence of inconsistencies between the different regulatory bodies. Any such development could adversely impact Nationwide's ability to manage its business efficiently and subject it to increased costs through managing an increasingly complex compliance burden.

At this point it is impossible to predict the effect that any of the proposed changes will have on Nationwide's operations, business and prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the Government and/or the European Commission. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on Nationwide's operations, structure, costs and/or capital requirements.

Accordingly, Nationwide cannot assure investors 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 its operations, business, results, financial condition or prospects.

Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery directive

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the PRA, the FCA and the BoE as part of a special resolution regime (the "**SRR**"). These powers enable the authorities, among other things, to resolve a bank or building society in circumstances in which the authorities consider its failure has become highly likely and a threat is posed to the public interest. There are a number of stabilisation options under the SRR, including options applicable to building societies which provide for: (i) private sector transfer of all or part of the business of the relevant building society; (ii) transfer of all or part of the business of the relevant building society to a "bridge bank" established by the BoE; and (iii) temporary public ownership (nationalisation) of the relevant building society. In each case, the Banking Act grants additional powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

In accordance with the Banking Reform Act, the Banking Act is to be amended by secondary legislation. These amendments, among other things, will introduce a further stabilisation option, in the form of a bail-in tool, as part of the SRR. Related amendments are also to be made to building societies legislation. HM Treasury has published and received comments on its consultation paper, which details draft secondary legislation modifying the application of the bail-in provisions in the context of building societies, but is yet to release its final policy statement.

In addition, pursuant to amendments made to the Banking Act, which have not yet come into force, provision has been made for stabilisation tools to be used in respect of banking group companies. HM Treasury has consulted on secondary legislation that specifies the definition of such companies. This consultation closed on 21 November 2013. Once in force, and subject to implementation of the secondary legislation, the amendments to the Banking Act would allow all of the current stabilisation options under the SRR and the proposed bail-in stabilisation power to be applied to any of Nationwide's group companies that meet the definition of a "banking group company" once that definition has been finalised.

In Europe, among other things, the BRRD will introduce a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provide for special rules for cross-border groups. The resolution tools and powers referred to in the BRRD include certain tools and powers which overlap in part with those available under the Banking Act and also certain further tools, including a bail-in tool as discussed above. The BRRD requirements in respect of a capital write-down will cover instruments already in issue when the directive is implemented.

If at any time Nationwide becomes (or is perceived to be likely to become) subject to the SRR or the resolution powers under the BRRD (as implemented in the UK) the market price or value of the Securities may be severely adversely affected, and/or the Securityholders may lose all or substantially all of their investment in Securities.

The value of the Securities may be materially adversely affected by any bail-in power which takes effect in the UK

As mentioned under "*Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery directive*" above, the Government has introduced a UK bail-in power, to be provided to the BoE as part of the SRR contained in the Banking Act. The power will allow the BoE to write-down or convert any securities of UK deposit taking institutions on a standalone basis (that is, separately from the exercise of any other stabilisation option). The provisions of the Banking Reform Act which will introduce

the bail-in stabilisation option under the Banking Act are not yet in force and it is not known when such provisions will come into force.

The SRR powers under the Banking Act are expected to be exercised in a manner which is broadly consistent with the principle of treating the liabilities of the institution in accordance with the priority they would have on a liquidation. The Securities are deeply subordinated instruments and are intended to qualify as Additional Tier 1 capital of the Society, and on a liquidation of the Society would rank junior to all other liabilities of the Society (other than the Society's permanent interest bearing shares and its other Tier 1 capital). The use of the powers afforded to the authorities under the SRR, and the further powers under the BRRD when implemented in the United Kingdom, could in each case result in the Securityholders losing their entire investment in the Securities, including potentially through:

- the transfer of Securities out of the hands of the holders;
- the write-down and/or cancellation of Securities in connection with a transfer of Securities out of the hands of holders; or
- transfers of the business or assets of the Society resulting in the Securityholders holding investments in an entity with reduced or no assets.

The bail-in power under the Banking Reform Act also permits the modification of liabilities owed by the Society, which could include modifications to the conditions of issue of the Securities or the effect of such conditions.

In addition, the bail-in power includes the possibility that the authorities may require the Society to put in place a plan that contains specific measures designed to restore its long term viability and a timetable for their implementation.

As with the exercise of any other stabilisation option under the SRR, this bail-in power will only be available to be used in respect of Nationwide in circumstances in which authorities consider that its failure has become highly likely and a threat is posed to the public interest. Although any use of the power in relation to Nationwide may enable it to continue in existence, the associated write-down or conversion of Securities or other debt instruments issued by the Society may result in the Securityholders losing some or all of their investment. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of the Securities.

Nationwide may be adversely affected by other legal and regulatory provisions at the point of non-viability

The draft BRRD also contains a specific power allowing resolution authorities to write-down or convert capital instruments (a term which would include the Securities) to ensure that such instruments fully absorb losses at the point of non-viability ("**BRRD Non-Viability Loss Absorption**"). The draft BRRD contemplates that it will be implemented in the UK and other EU Member States by 31 December 2014, with the BRRD Non-Viability Loss Absorption provisions becoming effective as of 1 January 2015. The bail-in power contained in the draft BRRD provides that the authorities may in certain circumstances require the write-down or conversion to Common Equity Tier 1 capital instruments of certain unsubordinated obligations of the relevant institution. This power is expected to be implemented not later than 1 January 2016. The PRA has recognised that as part of its transposition of the BRRD, the UK regulatory framework will need to be reviewed so as to ensure consistency with the BRRD. Accordingly, it is not yet possible to assess the full impact of the draft BRRD on the Securities although, once it is implemented in the UK, the availability of any BRRD bail-in power has the potential to materially and adversely affect the value of the Securities and, if such power were exercised, could result in the Securityholders losing some or the entire amount of their investment in the Securities.

Nationwide is subject to regulatory capital requirements which are subject to change

Nationwide is subject to capital requirements that could have an impact on its operations. The implementation of Basel III, CRD IV (each as defined below) and ICB recommendations may hinder growth.

On 16 December 2010 and on 13 January 2011, the Basel Committee on Banking Supervision 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, a new leverage ratio and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for financial institutions, including building societies. A revised version of these proposals was issued in June 2011.

The Basel III reform package has been implemented in the European Economic Area (the "**EEA**") through a regulation (the Capital Requirements Regulation) and an associated directive (Capital Requirements Directive (the "**CRD**")) (together, "**CRD IV**"), which were published in the Official Journal of the European Union on 27 June 2013. The regulation establishes a single set of harmonised prudential rules which will apply directly to all credit institutions in the EEA with the directive containing less prescriptive provisions which will need to be transposed into national law. The regulation gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

Nationwide's capital is reported as a ratio of risk-adjusted assets expressed as a percentage in different measures – Common Equity Tier 1 capital, Additional Tier 1 capital and total capital. If Nationwide fails, or is perceived to be likely to fail, to meet its minimum regulatory capital requirements, this may result in administrative actions or regulatory sanctions against it.

Effective management of Nationwide's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits Nationwide's ability to effectively manage its balance sheet and capital resources (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets (which are pro-cyclical under the current Capital Requirements Regulation, resulting in risk weighting increasing in economic downturns), delays in the disposal of certain assets or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have a material adverse impact on its business, financial condition, results of operations, liquidity and/or prospects.

Key elements of CRD IV include the following:

- ***Increased capital requirements*** – higher minimum Common Equity Tier 1 ratios and the introduction of conservation, countercyclical and systemic risk buffers, which are to be phased in over the period January 2014 to December 2018;
- ***Common Equity Tier 1 ratio*** – a risk-based ratio calculated as Common Equity Tier 1 capital divided by risk weighted assets, as calculated on the basis set out in CRD IV. As part of its assessment of capital adequacy of major banks and building societies (performed at the request of the UK Financial Policy Committee (the "**FPC**"), with results announced on 20 June 2013), the PRA introduced certain adjustments to the measurement of Common Equity Tier 1 and required all firms to meet a fully phased Common Equity Tier 1 ratio of at least 7 per cent.;
- ***Definition of capital*** – the Society's permanent interest bearing shares, and other subordinated debt which does not meet CRD IV recognition criteria, will be phased out over the period from 1 January 2014 to 31 December 2021;

- **Additional capital charges** – an additional capital charge for credit valuation adjustment ("CVA") risk is imposed. The majority of Nationwide's CVA charge relates to the use of derivative instruments (with highly-rated counterparties) to manage interest rate and foreign exchange risk associated with covered bond issuances. The capital charge for financial transactions with large counterparties also increases and deferred tax assets will be risk weighted at 250 per cent.;
- **Securitisation exposures** – certain securitisation exposures can either be deducted 100 per cent. from Common Equity Tier 1 capital or risk weighted 1,250 per cent. Nationwide has elected to apply the 1,250 per cent. risk weighting approach from 1 January 2014. This means that Nationwide is required to hold more capital against these exposures than it did before 1 January 2014;
- **Deductions from capital** – expected losses in excess of provisions are deducted in full from Common Equity Tier 1 capital, gross of tax. Under Basel II, only 50 per cent. of the deduction was from Core Tier 1 capital and was net of tax. The Common Equity Tier 1 capital pension adjustment (net deficit add-back) available under Basel II is removed;
- **New liquidity metrics** – two new liquidity ratios will be introduced. These are a short-term liquidity stress ratio, referred to as the Liquidity Coverage Ratio, and a longer-term ratio, referred to as the Net Stable Funding Ratio. Both ratios are required to be maintained at levels in excess of 100 per cent., when fully implemented; and
- **New leverage ratio** – a new ratio, calculated by dividing Tier 1 capital by total assets (the leverage ratio) is required to be maintained at a level of at least 3 per cent. This requirement will be harmonised at EU level from 1 January 2018, until which date the UK regulators may apply such measures as they consider appropriate.

In December 2013 the PRA published its policy statement PS7/13 "Strengthening capital standards: implementing CRD IV, feedback and final rules" on the UK rules, as applicable to Nationwide, which implement certain permitted national discretions in CRD IV. Whilst CRD IV allows regulators to phase in the new measures over a period of time, the PRA has chosen to accelerate this timetable, with most capital deductions to apply in full from 2014.

The capital deduction for the excess of expected losses over provisions and the removal of the pension add-back to Common Equity Tier 1 capital will have a significant impact on Nationwide. Recognition as capital of the legacy Tier 1 capital and Tier 2 capital instruments (for example, certain permanent interest bearing shares and subordinated debt instruments) are grandfathered in line with the provisions in CRD IV. At present, the Society's Pillar 2A requirements can be met by any form of capital. However, from 1 January 2015, the PRA expects firms to meet Pillar 2A with at least 56 per cent. in Common Equity Tier 1 capital, no more than 44 per cent. in Additional Tier 1 capital and at most 25 per cent. in Tier 2 capital.

There are still some areas of the PRA's intended approach which are not yet finalised. In particular, as part of the PRA consultation during the course of 2014 on its approach to Pillar 2, the PRA will consider its approach to setting Pillar 2A capital and the extent to which firms should disclose Pillar 2A guidance and its approach to the Pillar 2B PRA buffers which are likely to replace the existing capital "planning buffers". Accordingly there is a risk that Nationwide will be required to hold higher levels of or better quality capital than is currently anticipated or planned for. If and to the extent that the PRA adopts capital or other requirements which exceed those proposed under Basel III, this may adversely impact Nationwide's competitiveness relative to any banks and financial institutions subject to less stringent requirements.

Implementation of the ICB's recommendations regarding loss-absorbing capital may impact on Nationwide's overall capital requirements

In June 2010, the Government established the ICB to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition. The ICB's reform recommendations, published in September 2011, and the Government's response supporting such recommendations (as set out

in HM Treasury White Paper entitled "Sound banking: delivering reform") includes proposals to increase capital and loss-absorbency to levels that exceed the proposals under Basel III. These requirements, as well as the other recommendations of the ICB, will be phased in between 2015 and 2019. The Banking Reform Act has given effect to the ICB's recommendations insofar as they have been accepted by HM Treasury. However the Banking Reform Act is, effectively, enabling legislation only and, as such, much of the detailed implementation of the ICB's recommendations (where supported by Parliament) will be set out in secondary legislation which is expected before the end of the current parliament. Draft secondary legislation was published in July 2013, including legislation to establish the framework through which non-capital primary loss-absorbing capital requirements will be imposed on systemically important UK banks and building societies. This could take the form of a liabilities based measure (Minimum Requirement for Eligible Liabilities) implemented in accordance with the EU Recovery and Resolution Directive. For further information, please refer to the section entitled *"Future legislative and regulatory changes could impose operational restrictions on Nationwide, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects"* above.

Until the legislation is finalised, Nationwide cannot predict the impact such rules will have on its overall capital requirements or how they will affect its compliance with the capital and loss absorbency requirements of Basel III. However, the introduction of the new rules and proposals could require Nationwide to increase its capital, liquidity and funding requirements or otherwise adversely affect its business or profitability.

Nationwide may fail to meet the PRA's expectations in relation to its leverage ratio by 31 December 2015, which may result in regulatory action

In June 2013, following its assessment of the capital adequacy of major UK banks and building societies, the PRA introduced its leverage ratio target and subsequently, following discussions between the PRA and the Society, requested that the Society plan to achieve a leverage ratio of 3 per cent. by 31 December 2015. As a result, the Society prepared and agreed a plan with the PRA to achieve this target through organic profit generation.

However, because the plan is forward looking, there is a risk that Nationwide's financial position and results may diverge from the current expectations of management on which the plan has been based and any such divergence could adversely affect Nationwide's profitability which, in turn, could affect its ability to achieve the 3 per cent. leverage ratio by 31 December 2015. Factors that could impact on Nationwide's profitability include general economic and market conditions in the UK and elsewhere, the level of interest rates, increased competition, the level of impairments, and provisions arising from conduct risk, to the extent that they adversely impact Nationwide's financial position or results of operations in the period to 31 December 2015.

The PRA has confirmed to the Society that achieving the leverage ratio by 31 December 2015 is an expectation rather than a formal regulatory requirement and that any failure to achieve the leverage ratio would not result in a pre-determined regulatory action. Should the Society fail to achieve the leverage ratio as planned it would expect to enter into discussions with the PRA and consider what actions to take in light of the circumstances then existing, taking into account its capital requirements. Such actions could include, for example, the issuance of additional regulatory capital, deleveraging its assets and other management actions. It is not possible to predict how the PRA would react although the reasons for the failure and the extent of the difference between the actual leverage ratio at 31 December 2015 and the expected 3 per cent. ratio would both be factors which the PRA would take into account in determining what, if any, action it would take at the time.

In addition, it is possible that the PRA may amend the basis on which its leverage ratio is calculated, may seek to expedite the timetable within which it must be achieved or may impose other requirements which the Society will need to satisfy. (Although the Basel Committee published on 12 January 2014 its final recommendations for Basel III's leverage ratio framework and disclosure requirements which provided certain concessions to lenders, the framework's requirement to maintain a leverage ratio at a level of at least 3 per cent. remained unchanged.) It is not currently possible to predict with accuracy the nature or, therefore,

quantify the extent of any impact of any such amendments, changes or requirements on the Society, but any such factors could adversely impact the Society's capital calculations, funding requirements and ability to lend and consequently adversely affect its business or profitability.

Financial Services Compensation Scheme

The regulatory response to the financial crisis of 2008 has been largely designed for the bank public limited company ownership model (for example, the requirement for financial institutions to increase their capital levels (in respect of which considerably more options are available to public limited companies than are available to building societies) and the imposition of levies by the FSCS, which are not determined on a basis that reflects the relative risk of the business models of individual institutions). The FSCS pays compensation to eligible customers of authorised 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 the Society – Financial Services Compensation Scheme*". Based on its share of protected deposits, Nationwide pays levies to the FSCS to enable the scheme to meet claims against it. The amount provided for in Nationwide's accounts to meet its obligations to the FSCS was £133 million as at 4 April 2013 and was £37 million as at 30 September 2013. 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. Any such levies may be in significant amounts that may have a material impact on Nationwide's profits. For example, in March 2012 the FSCS and HM Treasury agreed the refinancing of £20.4 billion in loans made to the FSCS by HM Treasury to fund the compensation payments made by the FSCS to customers whose savings were put at risk by bank failures in 2008 and 2009. As a result, the FSCS was required to pay a significantly increased amount of interest which it will recover through additional levies on the financial services industry. Following recoveries since March 2012, the FSCS currently has outstanding loans of approximately £16.7 billion.

In common with other financial institutions which are subject to the FSCS, Nationwide also has a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure. For example, the ongoing administration of the Dunfermline Building Society will result in future levies although the quantum of any such future levies will only become known once any capital loss is crystallised by the administration of Dunfermline Building Society. The total quantification and timing of such losses have yet to be determined however FSCS have confirmed that an initial levy of £100m will be raised in August 2014. Nationwide's share could be significant (reflecting the fact that the share is calculated by reference to the level of each institution's protected deposits and, as at 4 April 2013, Nationwide's share of such deposits was 11.7 per cent.).

Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any further claims against the FSCS and concomitant increased FSCS levies payable by Nationwide. Any such increases in Nationwide's costs and liabilities related to the levy may have a material adverse effect on the results of operations of Nationwide. Further costs and risks to Nationwide may also arise from discussions at national and European Union 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.

Following a review by the former Financial Services Authority of the FSCS funding model, the revised FSCS funding arrangements took effect on 1 April 2013. The FCA is responsible for the new arrangements which require contributions from firms according to their funding class. There are three PRA funding classes and five FCA funding classes; a particular class will meet compensation claims up to the threshold limit for that class, but FCA funding classes may receive additional support from other classes up to the amount of the relevant FCA 'retail pool'. A failure of a firm in one of the FCA intermediation funding classes may entail contributions from the wider retail pool (comprising contributions from each of the five FCA funding classes and additional FCA 'provider' funding classes) who would pay towards the costs. This alternative funding model was introduced to acknowledge the joint responsibilities of providers and distributors, but this may

mean that Nationwide, as a provider, may incur higher contributions to the FSCS as a result of the failure of distributors.

In December 2013, political agreement was reached on the new EU directive on deposit guarantee schemes, which introduces financing requirements targeting ex ante deposit guarantee scheme funds of 0.8 per cent. of covered deposits to be collected from deposit-taking entities over a ten year period (the UK currently operates an ex post financing where fees are required after a payment to depositors has occurred). In case of insufficient ex ante funds, the deposit guarantee scheme will collect immediate ex post contributions from the banking sector, and, as a last resort, they will have access to alternative funding arrangements such as loans from public or private third parties. The political agreement is subject to technical finalisation and formal approval by the co-legislators and as such it is unclear the impact the new directive will have on the levies paid by Nationwide; it is possible, as a result of the new directive, that future FSCS levies on Nationwide may differ from those at present, and such reforms could result in Nationwide incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

Demutualisation, mutual society transfers and consequences of the Act may have an adverse impact on Securityholders

Subject to regulatory confirmation, the Society's members and its Board of Directors determine whether it remains a building society or if it demutualises (save in circumstances where a direction is given under Section 42B of the Act or a UK authority makes an instrument or order under the Banking Act (as amended by section 56 of the FS Act) which results in a demutualisation taking place or, subject to HM Treasury making an order under section 17(3) of the Banking Reform Act (which section came into force on 1 March 2014), the BoE requires the conversion or transfer of the Society's business to a company in relation to the exercise of the bail-in stabilisation option).

The Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. In addition, the Act (as modified by the Mutual Societies (Transfers) Order 2009 made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (commonly known as the "**Butterfill 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 Butterfill Act). At present, the claims of Nationwide's depositors and other unsecured and unsubordinated creditors would rank ahead of share accounts (which term excludes any deferred shares) and the Society's members' rights to any surplus in the event of its liquidation, and the claims of its subordinated creditors would rank behind share accounts but ahead of members' rights to any surplus in the event of its liquidation. If, however, the Society transfers its business to a specially formed company or an existing company (as defined in the Act) or to a subsidiary of another mutual society, all of its 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 its successor.

Under section 90B of the Act (which was inserted by the Butterfill Act, although not yet in force), HM 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 such 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 HM Treasury specifies in the order for these purposes) or to members (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 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. As at the date of this Offering Circular, no date has been appointed for this provision to come into force, although the Government has announced that it would be appropriate to commence these powers in connection with the introduction of the bail-in tool provided for in the Banking Reform Act.

Following a transfer of the Society's business to a company (including where the transfer is to a subsidiary of another mutual society), its obligations under the Securities 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 Securities, (b) equally with Parity Obligations (as defined below) including permanent interest bearing shares (or, if applicable, any instruments issued in replacement of Parity Obligations upon the transfer of the Society's business) and (c) behind other unsecured subordinated and unsubordinated creditors (including inter-bank lenders and retail depositors) and any statutorily preferential creditors.

Factors which are material for the purpose of assessing the market risks associated with the Securities

In making an investment decision, potential investors should carefully consider the risks of an investment in the Securities. In particular, potential investors should be aware of the following:

Upon the occurrence of a Conversion Trigger, the Securityholders will lose some or all of their investment in the Securities

Investors may lose all or part of their investment in the Securities if the Common Equity Tier 1 ratio of the Society calculated on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or the Common Equity Tier 1 ratio of the Society calculated on a consolidated basis (each such ratio, a "**CET1 Ratio**") falls below 7.00 per cent. (a "**Conversion Trigger**" (see further the definitions of such terms set out in Condition 8 of "*Conditions of Issue of the Securities*")). Upon the occurrence of a Conversion Trigger, the Society shall: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Securities by reducing the nominal amount of each Security to zero; and (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Securities divided by the Conversion Price.

A Conversion shall be deemed effective with effect from the relevant Conversion Date stated in the Conversion Notice to be given by the Society and without the requirement for any further formality. Once the nominal amount of a Security has been written down, the nominal amount of such Security will not be restored in any circumstances (including where the relevant Conversion Trigger ceases to continue), the Security will be cancelled and no further interest will accrue or be payable on such Security at any time thereafter. Any interest which is accrued and unpaid to the date of the relevant Conversion Trigger shall be immediately cancelled (whether or not such interest has become due for payment). A Securityholder will not (i) receive, other than the relevant number of CCDS as is equal to the aggregate nominal amount of that holder's Securities divided by the Conversion Price, any shares or other participation rights in the Society or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Society or any other member of the Group or (ii) be entitled to any subsequent re-transfer or any other compensation in the event of any change in either CET1 Ratio of the Society.

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which may be outside the control of the Society. Accordingly, investors may be unable to accurately predict if and when a Conversion Trigger may occur. See "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio of the Society*" and "*The two different CET1 Ratios of the Society may be affected by different factors*" below.

Further, the Conditions provide that the Securityholders, and not the Society, shall be responsible for paying any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion as a consequence of any disposal or deemed disposal of their Securities (or any interest therein) and/or the issue or delivery to them of any CCDS (or any interest therein) upon Conversion.

In addition to Conversion of the Securities in accordance with Condition 8, the Securities may also be written off, written down, converted to CCDS or otherwise modified in a manner which is materially adverse to investors in circumstances where the BoE or other resolution authorities exercise powers under EU and UK recovery and resolution regimes. See "*Risks relating to the Securities under the Banking Act 2009 and the proposed European Union resolution and recovery directive*" below.

As the Conversion Price is fixed at the time of issue of the Securities, Securityholders will bear the risk of fluctuations in either CET1 Ratio of the Society and the price of the CCDS

The market price and liquidity of the Securities is expected to be affected by fluctuations in either CET1 Ratio of the Society and the market price of the CCDS. Fluctuations in either CET1 Ratio of the Society may be caused by changes in the amount of Common Equity Tier 1 capital and/or Risk Weighted Assets, each calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or, as the context requires, a consolidated basis, as well as changes to definitions under the capital adequacy standards, methods of calculating Risk Weighted Assets and guidelines of the relevant authority. Any indication that either CET1 Ratio of the Society is moving towards the level of a Conversion Trigger may have an adverse effect on the market price of the Securities and any trading market for the Securities may be severely limited. In addition, the market price of the Securities may be more sensitive generally to adverse changes in the Society's and the Group's financial condition than the market prices of securities without a similar conversion or write-down feature, and may become increasingly volatile as either CET1 Ratio of the Society falls. The level of the CET1 Ratios of the Society may significantly affect the trading price and liquidity of any trading market in the Securities and also of the CCDS. In addition, any decline in the market price of the CCDS may have an adverse effect on the market price of the Securities. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to more conventional investments. These adverse effects can be expected to become increasingly pronounced as either CET1 Ratio of the Society approaches 7.00 per cent.

In addition, because a Conversion Trigger will only occur at a time when either of the Society's CET1 Ratios has deteriorated significantly, a Conversion Trigger may be accompanied by a deterioration in the market price of the CCDS, which may be expected to continue after the occurrence of the Conversion Trigger. Therefore, following a Conversion Trigger, the realisable value of the CCDS may be significantly below the Conversion Price. The Conversion Price is fixed at the time of issue of the Securities at £80, and is subject to only limited anti-dilution adjustments, as described under "*Securityholders have limited anti-dilution protection*" below. As a result, the Conversion Price may not reflect the market price of the CCDS at the time of conversion (or at any other time), and the market price could be significantly lower than the Conversion Price.

In addition, there may be a delay in a holder receiving its CCDS following a Conversion Trigger, during which time the market price of the CCDS may further decline. As a result, the realisable value of the CCDS received upon a Conversion Trigger could be substantially lower than that implied by the price paid for the Securities at the time of their purchase.

Risks relating to the Securities under the Banking Act 2009 and the proposed European Union resolution and recovery directive

Under the Banking Act, substantial powers have been granted to HM Treasury, the PRA, the FCA and the BoE as part of the special resolution regime (SRR). In accordance with the Banking Reform Act, the Banking Act is to be amended by secondary legislation. These amendments, among other things, introduce a further stabilisation option, in the form of a bail-in tool, as part of the SRR. Related amendments are also to be made to building societies legislation. HM Treasury has published and received comments on its consultation paper, which details draft secondary legislation modifying the application of the bail-in provisions in the context of building societies, but is yet to release its final policy statement.

The bail-in power will allow the BoE to modify, write-down or convert any securities of UK deposit taking institutions (which would include the Securities) on a standalone basis (that is, separately from the exercise of any other stabilisation option). The provisions of the Banking Reform Act which will introduce the bail-in stabilisation option under the Banking Act are not yet in force and it is not known when such provisions will come into force.

The SRR powers under the Banking Act are expected to be exercised in a manner which is broadly consistent with the principle of treating the liabilities of the institution in accordance with the priority they

would enjoy on a liquidation. The Securities are deeply subordinated instruments and are intended to qualify as Additional Tier 1 capital of the Society, and on a liquidation of the Society would rank junior to all other liabilities of the Society (other than the Society's permanent interest bearing shares and its other Tier 1 capital). The use of the powers afforded to the authorities under the SRR, and the further powers under the BRRD when implemented in the United Kingdom, could in each case result in the Securityholders losing their entire investment in the Securities, including potentially through:

- the transfer of Securities out of the hands of the holders;
- the write-down and/or cancellation of Securities in connection with a transfer of Securities out of the hands of holders; or
- transfers of the business or assets of the Society resulting in the Securityholders holding investments in an entity with reduced or no assets.

The bail-in power under the Banking Reform Act also permits the modification of liabilities owed by the Society, which could include modifications to the conditions of issue of the Securities or the effect of such conditions.

As with the exercise of any other stabilisation option under the SRR, this bail-in power is only available to be used in respect of Nationwide in circumstances in which authorities consider that its failure has become highly likely and a threat is posed to the public interest. Although any use of the power in relation to Nationwide may enable it to continue in existence, the associated write-down or conversion of Securities or other debt instruments issued by the Society may result in the Securityholders losing some or all of their investment. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of the Securities.

In Europe, among other things, the BRRD (which is expected to be implemented from 1 January 2015) will introduce a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provide for special rules for cross-border groups. The resolution tools and powers referred to in the BRRD include certain tools and powers which overlap in part with those available under the Banking Act and also certain further tools, including a bail-in tool as discussed above. The BRRD requirements in respect of a capital write-down will cover instruments already in issue when the directive is implemented. The tools and powers include those enabling relevant authorities to effect the write off or conversion to equity of tier 1 capital instruments (which would include the Securities) and tier 2 capital instruments of the relevant institutions at the point of non-viability.

See further "*Risks relating to the Banking Act 2009 and the proposed European Union resolution and recovery directive*", "*The value of the Securities may be materially adversely affected by any bail-in power which takes effect in the UK*" and "*Nationwide may be adversely affected by other legal and regulatory provisions at the point of non-viability*" above and "*Any change in English law or administrative practice that affects the Securities could be prejudicial to the interests of holders of the Securities*" below.

The obligations of the Society under the Securities are unsecured and deeply subordinated, and the rights of the holders of CCDS will be further subordinated

The Securities constitute direct, unsecured and subordinated investments in the Society ranking (a) junior to the claims of all creditors (including all subordinated creditors) and investing members (as regards the principal and interest due on such investing members' share investments) of the Society including, without limitation (but subject as follows), claims in respect of obligations of the Society which constitute Tier 2 Capital, but in each case excluding claims in respect of Parity Obligations and claims in respect of deferred share investment ("**Senior Obligations**"); (b) *pari passu* among themselves and with any claims ranking, or expressed to rank, *pari passu* therewith (including, without limitation, all claims in respect of permanent interest bearing shares of the Society as regards the principal and interest due thereon) ("**Parity Obligations**"); and (c) senior only to all claims under any deferred share (core capital) investment in the

Society (including the CCDS) and any other claims ranking, or expressed to rank, junior to either the Securities or any Parity Obligations ("**Junior Obligations**"), all as more particularly described in Condition 4.

The claims of the holders of the Securities in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, will be for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). However, such claims shall be deeply subordinated as provided above, and Securityholders will only be eligible to recover any amounts in respect of their claims if all claims in respect of more senior-ranking obligations of the Society have first been paid in full. If, on a winding-up or dissolution of the Society which commences prior to any Conversion Date, the assets of the Society are insufficient to enable the Society to repay the claims of more senior-ranking creditors in full, the Securityholders will lose their entire investment in the Securities. If there are sufficient assets to enable the Society to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of the Securities and all Parity Obligations in full, Securityholders will lose some (which may be substantially all) of their investment in the Securities.

For the avoidance of doubt, the holders of the Securities shall, in a winding-up or dissolution of the Society which commences prior to any Conversion Date, have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

As described above under "*Upon the occurrence of a Conversion Trigger, the Securityholders will lose some or all of their investment in the Securities*", the Securities will, in certain circumstances, be irrevocably (without the need for the consent of Securityholders) written-down to zero and converted into CCDS. The claims of CCDS holders in a winding-up or dissolution of the Society are the most junior-ranking of all claims. Claims in respect of CCDS are not for a fixed nominal amount, but rather are limited to a proportionate and capped share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Society.

Therefore, if a winding-up or dissolution of the Society occurs following the Conversion Date, each Securityholder will be effectively further subordinated from being the holder of a subordinated investment to being the holder of CCDS, will not have a claim for a fixed amount in the winding-up and there is an enhanced risk that holders will lose all or some of their investment.

The rights of Securityholders will be limited between the occurrence of a Conversion Trigger and the Conversion Date

Although the Society currently expects that beneficial interests in the Securities will be transferrable between the occurrence of a Conversion Trigger and the Conversion Date, there is no guarantee that an active trading market will exist for the Securities following the occurrence of a Conversion Trigger. Accordingly, the price received for the sale of any beneficial interest under a Security during this period may not reflect the market price of such Security or the CCDS.

Furthermore, transfers of beneficial interests in the Securities may be restricted following the occurrence of a Conversion Trigger, for example if the clearance and settlement of transactions in the Securities is suspended by Euroclear and/or Clearstream, Luxembourg at an earlier time than currently expected. In such a situation it may not be possible to transfer beneficial interests in the Securities in such clearing system and trading in the Securities may cease through such clearing system. In addition, Euroclear and Clearstream, Luxembourg will each suspend all clearance and settlement of transactions in the Securities on a specific date (the "**Suspension Date**") to be notified to Securityholders in the Conversion Notice. As a result, holders of the Securities will not be able to settle the transfer of any Securities through Euroclear and/or Clearstream, Luxembourg following the Suspension Date, and any sale or other transfer of the Securities that a holder of the Securities may have initiated prior to the Suspension Date with respect to Euroclear or Clearstream,

Luxembourg that is scheduled to match or settle after the Suspension Date will be rejected by such clearing system and will not be matched or settled through such clearing system.

The Securities will cease to be admitted to trading on the SIX Swiss Exchange after the Suspension Date.

Moreover, although the Securityholders will become beneficial owners of the CCDS upon the issuance of such CCDS to the Nominee in its capacity as nominee holder of the CCDS and the CCDS will be registered in the name of the Nominee in such capacity, no holder will be able to sell or otherwise transfer any CCDS until such time as they are finally delivered to the Euroclear or Clearstream, Luxembourg securities account of such holder.

Upon Conversion, the CCDS will be delivered to the Nominee for and on behalf of Euroclear and Clearstream, Luxembourg

While the Securities and the CCDS are each represented by global certificates registered in the name of the Nominee, upon Conversion the aggregate number of CCDS to be issued pursuant to the Conditions are expected to be issued directly to the Nominee for and on behalf of Euroclear and Clearstream, Luxembourg. Investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg accounts are entitled to receive beneficial interests only in the CCDS and will only be entitled to the rights in respect of such beneficial interests in CCDS as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be. Registration of book-entry interests in the CCDS will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants. There is no guarantee that such book-entry interests will be registered within any specific time period or that such method of issuance of CCDS will be most appropriate process at any given time.

Interest Payments may be cancelled on a discretionary or mandatory basis

Payment of interest on any Interest Payment Date is at the sole discretion of the Board of Directors of the Society. The Society may elect not to pay interest, in whole or in part, on any Interest Payment Date. The Society may make such election for any reason. Additionally, the PRA has the power under Article 104 of CRD to restrict or prohibit payments of interest by the Society to holders of Additional Tier 1 instruments. Any interest not paid will be cancelled, and Securityholders will have no right to receive such cancelled interest (or any amount in respect thereof) in any circumstances.

In addition, payment of interest will be prohibited if and to the extent that (i) payment cannot be made in compliance with the Solvency Test, (ii) the Society has insufficient Distributable Items, (iii) payment would result in a breach of any maximum distributable amount then applicable to the Society and/or (iv) following the occurrence of a Conversion Trigger, each as further described below.

Solvency Test

The Conditions provide that no payment of principal or interest in respect of the Securities shall be due and payable unless the Society is able to make such payment and still be solvent immediately thereafter (except in the winding-up or administration of the Society) (the "**Solvency Test**"). For these purposes, the Society shall be considered to be solvent if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities.

If and to the extent that, on any Interest Payment Date, the Society is unable to make an Interest Payment and still be solvent immediately thereafter, such Interest Payment shall not become due and will be cancelled.

Insufficient Distributable Items

Payments of interest due on any Interest Payment Date will be prohibited and will not be paid if and to the extent that the amount of such Interest Payment otherwise due, together with any interest payments or

distributions which have been paid or made or which are required to be paid or made during the then current Financial Year (as defined in Condition 19) on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items) shall, in aggregate, exceed the amount of Distributable Items (as defined in Condition 19) of the Society as at such Interest Payment Date. See further "*The level of the Society's Distributable Items is affected by a number of factors and insufficient Distributable Items may restrict the Society's ability to make interest payments on the Securities*" below.

Maximum Distributable Amount

The Society shall not be permitted to pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Society (as calculated in accordance with Article 141 or any applicable law transposing or implementing that Article) to be exceeded. See further "*CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments*" below.

Conversion Trigger

Upon the occurrence of a Conversion Trigger, the Society will cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date, whether or not such interest has become due for payment. See further "*Upon the occurrence of a Conversion Trigger, the Securityholders will lose some or all of their investment in the Securities*" above.

Consequences of cancellation

Any interest payment (or part thereof) cancelled and not paid on any relevant Interest Payment Date or repayment date by reason of any of Conditions 4.4, 6 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter, and Securityholders will have no claim for any amount in respect of interest not paid in such circumstances and no right to receive any additional interest or compensation as a result of such non-payment. Non-payment of any Interest Payment (or part thereof) will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise. Thus, any Interest Payment not paid as a result of the Society's election to cancel interest or as a result of the mandatory restrictions described above will be lost and the Society will have no obligation to make payment of such interest or to pay interest thereon.

The Society's distribution policy in respect of the CCDS, as published in its prospectus dated 22 November 2013, provides that in determining the interim or final distributions (if any) to be declared in respect of the CCDS in respect of any given financial year, the Board will have regard to all relevant factors which it considers to be appropriate, including the profitability of the Society, its resources available for distribution and the capital and liquidity position of the Society at the time of declaring the distribution. The Securities are senior in ranking to CCDS. It is the Board's current intention that, whenever exercising its discretion to declare distributions in respect of the CCDS, or its discretion to cancel interest on the Securities, the Board will take into account the relative ranking of these instruments in its capital structure. However, the Board may at any time depart from this policy at its sole discretion.

If the Society elects to cancel, or is prohibited from paying, interest on the Securities at any time, there is no restriction (other than any restriction imposed by any applicable law or regulation) on the Society from otherwise making distributions or any other payments to the holders of the CCDS or any other securities of the Society, including securities ranking *pari passu* with or junior to the Securities.

If at any time the Securities are Converted in accordance with the Conditions or in circumstances described under "*Any change in English law or administrative practice that affects the Securities could be prejudicial to the interests of holders of the Securities*" below, no interest shall accrue from that time on the Securities. Consequently, no interest will be payable after the Conversion of the Securities.

Any actual or anticipated cancellation or reduction of interest payments can be expected to have a significant adverse effect on the market price of the Securities and any trading market for the Securities could be severely restricted. In addition, as a result of the interest cancellation and reduction provisions of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation or reduction and may be more sensitive generally to adverse changes in the Society's financial condition.

The level of the Society's Distributable Items is affected by a number of factors and insufficient Distributable Items may restrict the Society's ability to make interest payments on the Securities

The level of the Society's Distributable Items is affected by a number of factors. The Society's future Distributable Items, and therefore its ability to make interest payments under the Securities, are a function of its existing Distributable Items and its future profitability. In addition, the Society's Distributable Items may also be adversely affected by the servicing of more senior instruments.

The level of the Society's Distributable Items may be affected by changes to regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Society's Distributable Items in the future.

Further, the Society's Distributable Items, and therefore its ability to make interest payments under the Securities, may be adversely affected by the performance of its business in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Society's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

The Society shall not make an interest payment on the Securities on any Interest Payment Date or repayment date (and such Interest Payment shall therefore be cancelled) if the level of Distributable Items is insufficient to fund that payment, as discussed in the risk factor "*Interest Payments may be cancelled on a discretionary or mandatory basis*" above and as provided in Condition 6.2.

CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments

Under CRD IV, institutions are required to hold a minimum amount of regulatory capital equal to 8 per cent. of risk weighted assets. In addition to these so-called "own funds" requirements under CRD IV, supervisors may add extra capital to cover other risks (thereby increasing the regulatory minimum required under CRD IV) and the Society may also decide to hold an additional amount of capital. CRD IV also introduces capital buffer requirements that are in addition to the minimum capital requirement and required to be met with Common Equity Tier 1 capital. It introduces five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to Nationwide as determined by the PRA.

Under Article 141 (*Restrictions on distributions*) of the Directive that is part of CRD IV, EU Member States must require that institutions that fail to meet the "combined buffer requirement" (broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution), the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution) will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to

Common Equity and Additional Tier 1 instruments and variable remuneration). The restrictions will be scaled according to the extent of the breach of the "combined buffer requirement" and calculated as a percentage of the profits of the institution since the last distribution of profits or "discretionary payment". Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary distributions" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce discretionary payments, including potentially exercising the discretion to cancel (in whole or in part) interest payments in respect of the Securities.

The Society currently intends to maintain an internal management buffer comprising Common Equity Tier 1 capital over the combined buffer requirement. There can be no assurance, however, that the Society will continue to maintain such internal management buffer or that any such buffer would be sufficient to protect against a breach of the combined buffer requirement resulting in restrictions on payments on the Securities. See further "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" above.

The PRA announced on 29 November 2013 that it had decided that firms can meet any future Pillar 2A requirement with a blend of regulatory capital, at least 56 per cent. of which must be Common Equity Tier 1 from 1 January 2015 onwards. For further information, please refer to the section entitled "*Nationwide is subject to regulatory capital requirements which are subject to change*" above.

The Society's capital requirements are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. In addition, the PRA, in Policy Statement PS7/13 (*Strengthening capital standards: implementing CRD IV, feedback and final rules, December 2013*), reaffirmed its view (originally expressed in consultation paper CP5/13) that, with respect to the relationship between Pillar 2A individual capital guidance and the combined buffer requirement, Pillar 2A capital should sit below the CRD IV buffers and that capital used to meet the Pillar 2A requirement cannot be counted towards meeting the buffers. Pillar 2A individual capital guidance is not currently disclosable, and accordingly this order of 'stacking' Pillar 2A capital and CRD IV buffer capital may result in reduced transparency to investors as to the point at which Nationwide would cease to comply with its buffer capital requirement. Accordingly, investors in the Securities may not be able to assess or predict accurately the proximity of the risk of Interest Payments being prohibited from time to time as a result of the operation of Article 141 of CRD IV.

The PRA noted in PS7/13 that it was reviewing its approach to setting Pillar 2A capital and, as part of that review, the PRA would consider whether and, if so, to what extent firms should disclose Pillar 2A capital guidance.

Securityholders may be subject to disclosure obligations and/or may need approval from the Society's regulator under certain circumstances

As the holders of the Securities may receive CCDS if a Conversion Trigger occurs, an investment in the Securities may result in holders having to comply with certain disclosure and/or regulatory approval requirements pursuant to applicable laws and regulations, and/or under the terms of issue of the CCDS, following a Conversion. Non-compliance with such disclosure and/or approval requirements may lead to the incurrence of substantial fines or other criminal and/or civil penalties. Accordingly, each potential investor should consult its legal advisers as to the terms of the Securities, in respect of its existing holding and the level of holding it would have if it receives CCDS following a Conversion Trigger.

Securityholders will bear the risk of changes in the market price of the Securities due to changes in either CET1 Ratio of the Society

The market price of the Securities is expected to be affected by changes in either CET1 Ratio of the Society. Changes in either CET1 Ratio of the Society may be caused by changes in the amount of Common Equity Tier 1 capital and/or Risk Weighted Assets (each of which shall be calculated by the Society on either a fully

loaded and individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or, as the context requires, a fully loaded and consolidated basis (and such calculations shall be binding on the holders of the Securities)), as well as changes to their respective definition and interpretation under the Capital Regulations. See "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio of the Society*" and "*The two different CET1 Ratios of the Society may be affected by different factors*" below.

On 20 February 2014, the Society publicly reported its unaudited CET1 Ratio calculated on a consolidated basis as at 31 December 2013. The Society currently intends to publicly report on a quarterly basis (as at the period end): (a) its CET1 Ratio, calculated on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation); and (b) its CET1 Ratio, calculated on a consolidated basis. However, there can be no assurance that the Society will publicly report either of such CET1 Ratios on a quarterly, rather than half-yearly, basis. In addition, during each such quarterly or half-yearly period, as the case may be, there will be no published updating of either CET1 Ratio of the Society and there may be no prior warning of adverse changes in either or both CET1 Ratios. However, any indication that either CET1 Ratio is moving towards the level of a Conversion Trigger may have an adverse effect on the market price of the Securities. A decline or perceived decline in either CET1 Ratio of the Society may significantly affect the trading price of the Securities.

The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio of the Society

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which may be outside the control of the Society. Moreover, because the relevant authority may instruct the Society to calculate either CET1 Ratio of the Society as at any date, a Conversion Trigger could occur at any time, including if the Society is subject to recovery and resolution actions by the relevant United Kingdom resolution authority, or the Society might otherwise determine to calculate such ratio in its own discretion. Moreover, the relevant United Kingdom resolution authority is likely to allow a Conversion Trigger to occur rather than to resort to the use of public funds.

Either of the Society's CET1 Ratios may fluctuate during a quarterly period. The calculation of such ratios could be affected by one or more factors, including, among other things, changes in the mix of the Group's business, major events affecting its earnings, distributions payments by the Society, regulatory changes (including changes to definitions and calculations of regulatory CET1 Ratios and their components, including Common Equity Tier 1 and Risk Weighted Assets, in each case on either an individual consolidated basis or a consolidated basis) and the Group's ability to manage Risk Weighted Assets in both its ongoing businesses and those which it may seek to exit. In addition, the Group has capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. As a result, the CET1 Ratios of the Society are exposed to foreign currency movements.

The calculation of either CET1 Ratio of the Society may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the PRA could require the Society to reflect such changes in any particular calculation of either of its CET1 Ratios.

Accordingly, accounting changes or regulatory changes may have a material adverse impact on the Group's calculations of regulatory capital, including Common Equity Tier 1 capital and Risk Weighted Assets on either an individual consolidated basis or a consolidated basis, and either of its CET1 Ratios.

It will be difficult to predict when, if at all, a Conversion Trigger and subsequent Conversion may occur. Accordingly, the trading behaviour of the Securities is not necessarily expected to follow the trading behaviour of other types of securities. Any indication that a Conversion Trigger and subsequent Conversion may occur can be expected to have a material adverse effect on the market price of the Securities.

The two different CET1 Ratios of the Society may be affected by different factors

The factors that influence the CET1 Ratio of the Society as calculated on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) may not be the same as the factors that influence the CET1 Ratio of the Society as calculated on a consolidated basis. For example, an event that has a negative impact on any of the Society's subsidiaries may have a greater or lesser relative impact on the CET1 Ratio of the Society calculated on an individual consolidated basis than on the CET1 Ratio of the Society calculated on a consolidated basis, depending on whether or not that subsidiary is included for the purposes of calculating the CET1 Ratio of the Society on an individual consolidated basis as well as on a consolidated basis. As at the date of this Offering Circular, Nationwide International Limited ("NIL") is included on a consolidated basis but not on an individual consolidated basis. The Society currently expects that NIL will be changed from a subsidiary to a branch during its current financial year and that NIL will thereafter be included in a calculation of the CET1 Ratio of the Society on both a consolidated basis and an individual consolidated basis. There can be no assurance, however, that this will be the case, nor that, in the future, any calculation of the CET1 Ratio of the Society on an individual consolidated basis will include all of the Society's subsidiaries.

Since a Conversion Trigger will occur if either the CET1 Ratio of the Society calculated on an individual consolidated basis or the CET1 Ratio of the Society calculated on a consolidated basis falls below 7.00 per cent., regardless of whether or not the other CET1 Ratio also falls below that threshold, the additional uncertainties resulting from differences in the factors affecting the two CET1 Ratios may have an adverse impact on the market price or the liquidity of the Securities.

Each CET1 Ratio of the Society will be affected by the Group's business decisions and, in making such decisions, the Group's interests may not be aligned with those of the holders of the Securities

As discussed in "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio of the Society*" and "*The two different CET1 Ratios of the Society may be affected by different factors*" above, either CET1 Ratio of the Society could be affected by a number of factors. Each CET1 Ratio of the Society will also depend on the Group's decisions relating to its businesses and operations, as well as the management of its capital position. The Group will have no obligation to consider the interests of the holders of the Securities in connection with its strategic decisions, including in respect of its capital management. Holders of the Securities will not have any claim against Society or any other member of the Group relating to decisions that affect the business and operations of the Group, including the Group's capital position, regardless of whether they result in the occurrence of a Conversion Trigger. Such decisions could cause holders of the Securities to lose all or part of the value of their investment in the Securities.

Securityholders have limited anti-dilution protection

The number of CCDS to be issued and delivered on Conversion in respect of each Security will be the nominal amount of the Securities outstanding immediately prior to the Conversion on the Conversion Date divided by the Conversion Price, rounded down to the nearest whole number of CCDS. The Conversion Price is £80, subject to only limited adjustments in accordance with Condition 8.5. See Condition 8 for the complete provisions regarding the Conversion Price.

The Conversion Price will be adjusted in the event of rights issues (i.e. issues of CCDS in compliance with the pre-emption rights afforded to CCDS holders under the terms of the CCDS) or grants of other subscription rights or certain other events which affect the CCDS, but only in the limited situations and to the extent provided in Condition 8.5. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the CCDS and the adjustment events that are included are less extensive than those often included in the terms of convertible securities.

Furthermore, the Conditions do not provide for certain undertakings from the Society which are sometimes included in securities that convert into the ordinary shares of an issuer to protect investors in situations where

the relevant conversion price adjustment provisions do not operate to compensate for the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the CCDS nor an undertaking restricting issues of new capital with preferential rights relative to the CCDS.

Accordingly, corporate events or actions in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the CCDS and therefore the Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Society may need to raise additional capital. Further capital raisings by the Society could result in the dilution of the interests of the Securityholders, subject only to the limited anti-dilution protections referred to above.

The Society is entitled, without the consent of the holders of the Securities, to issue further Securities, Senior Obligations or Parity Obligations at any time

The Society is entitled, without the consent or approval of Securityholders, to issue further Securities that are consolidated and form a single series with the Securities and/or other instruments ranking *pari passu* with, or in priority to, the Securities. An offering of such securities may adversely affect the amounts (if any) which holders of the Securities may be eligible to receive on a winding up or dissolution of the Society, and could have an adverse effect on the market price of the Securities as a whole.

In addition, there is no prohibition on the Society issuing other securities which are intended to qualify as Additional Tier 1 capital but on terms that such securities would be (i) written down or converted to CCDS at a CET1 Ratio which is lower than either 7.00 per cent. CET1 Ratio at which the Securities are to be converted into CCDS, (ii) converted to CCDS at a conversion price which is lower than the Conversion Price in respect of the Securities and/or (iii) written down or converted to CCDS in part only. Whilst the Society does not currently intend to issue any such Additional Tier 1 capital securities, the issue of any such securities in the future may have a significant adverse effect on the market price of the Securities, and could result in the Securities being converted into CCDS at a time when such other securities are not written down or converted (in whole or in part) and/or whilst other securities are converted to CCDS at a more favourable conversion price.

The Securities are not protected liabilities of the Society and holders of the Securities will not benefit from a Government compensation scheme

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms, such as the Society, paying compensation to customers if the Society is unable, or likely to be unable, to pay certain claims (including in respect of deposits and insurance policies) made against it (together, "**Protected Liabilities**").

The Securities are not, however, Protected Liabilities of the Society and, moreover, are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

Any change in English law or administrative practice that affects the Securities could be prejudicial to the interests of holders of the Securities

The Conditions of the Securities are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact on the holders of the Securities of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

In particular, such changes could impact the definitions of Common Equity Tier 1 and Risk Weighted Assets, each calculated on either an individual consolidated basis or a consolidated basis, and therefore the calculation of each CET1 Ratio of the Society, as described in further detail above. Any change in law that

affects the calculation of either CET1 Ratio of the Society would also affect the determination of whether a Conversion Trigger may occur. Any such change which impacts the calculation of any of the aforementioned capital measures (or the anticipation of any such change), or any amendments or changes to Article 141 of the Directive or Pillar 2A requirements can be expected to have an adverse effect on the market value of the Securities or may affect the ability to make any Interest Payment. In addition, any change in law or regulation that would cause a Regulatory Event (as defined in Condition 19) or Tax Event (as defined in Condition 19) may entitle the Society, at its option, to repay all, but not some only, of the Securities.

Further, changes in law could impact the regime for resolving banks and building societies in the event of a failure. As noted above under "*Risks relating to the Securities under the Banking Act 2009 and the proposed European Union resolution and recovery directive*", the BRRD is expected to be implemented as of 1 January 2015. Many of the proposals contained in the draft BRRD have already been implemented in the Banking Act or are awaiting implementation through secondary legislation following the amendments to the Banking Act made under the Banking Reform Act. It is currently unclear as to what extent the provisions of the Banking Act, or secondary legislation enacted pursuant to the Banking Act, may need to change once the draft BRRD is implemented. Accordingly, it is not yet possible to assess the full impact of the draft BRRD on the Society, and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of holders of the Securities, the price or value of an investment in the Securities and/or the ability of the Society to satisfy its obligations under the Securities.

Such legislative and regulatory uncertainty could affect an investor's ability to accurately value the Securities and, therefore, affect the trading price of the Securities given the extent of any impact on the Securities that one or more regulatory or legislative changes, including those described above, could have.

The Securities are perpetual instruments and the Society has no obligation to redeem the Securities. As a result, an investor in the Securities should be prepared to hold its Securities for a significant period of time

The Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date or fixed redemption date. The Society does not have an obligation to redeem the Securities at any time and Securityholders do not have any right to require the Society to redeem or purchase the Securities. The terms of the Securities do not provide for any events of default. The Society has, subject to supervisory consent, (a) the option to purchase the Securities in the open market or otherwise at any price, (b) the option to repay the Securities on the First Call Date or on any Reset Date thereafter at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions) and (c) the option to repay the Securities in certain limited circumstances upon the occurrence of a Tax Event or a Regulatory Event at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). Any such repayment will be effected only to the extent permitted by applicable regulations at the relevant time. As a result, an investor in the Securities should be prepared to hold its Securities in perpetuity.

If the Securities are repaid, there can be no assurance that Securityholders will be able to reinvest the amounts received upon repayment at a rate that will provide the same rate of return as their investment in the Securities.

In addition, the repayment features of the Securities are likely to limit their market value. During any period when the Society has the right to elect to repay the Securities, the market value of the Securities will generally not be expected to rise substantially above the price at which they can be repaid.

Holders of the Securities have very limited rights in relation to the enforcement of payment of principal or interest on the Securities

Any Interest Payment (or part thereof) cancelled and not paid on any relevant Interest Payment Date or repayment date shall not accumulate or be payable at any time thereafter. Non-payment of any Interest

Payment (or part thereof) which is cancelled in accordance with the Conditions will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise. There is no right of acceleration in the case of such non-payment of interest on the Securities or in the performance of any of the Society's other obligations under the Securities.

Subject also to the subordination of the Securities (as described in "*The obligations of the Society under the Securities are unsecured and deeply subordinated, and the rights of the holders of CCDS will be further subordinated*" above), holders of the Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full. For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of Senior Obligations and Parity Obligations.

The High Court has primary jurisdiction to hear and determine all disputes relating to the Society and the Securities

Subject to the discretion of the High Court of Justice in England to transfer cases to a County Court, no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act.

Investors in the Securities who hold beneficial interests in the Securities (and, upon Conversion, the CCDS) through an account in Euroclear and/or Clearstream, Luxembourg will not be members of the Society and must rely on Euroclear and Clearstream, Luxembourg procedures

Securities held through an account with Euroclear and/or Clearstream, Luxembourg will be registered in the name of Citivic Nominees Limited as nominee (the "**Nominee**"). The Nominee shall be the sole holder for those Securities for the purposes of the Rules and the Conditions.

Accordingly, an investor holding beneficial interests in the Securities through an account in Euroclear and/or Clearstream, Luxembourg will not be a member of the Society by virtue of its investment in the Securities and will not directly benefit from the Rules, the Memorandum or the Act. Such investor shall be entitled to rights in respect of its beneficial interest in the Securities, as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be, and must rely on the procedures of such relevant clearing systems to enforce its rights. The Society has no responsibility or liability for the records relating to beneficial interests in any Securities.

Upon Conversion, such investor would receive only beneficial interests in the CCDS through its account in Euroclear and/or Clearstream, Luxembourg and will not, through its holding of CCDS, be a member of the Society by virtue of its investment in the CCDS and will not directly benefit from the Rules, the Memorandum or the Act.

Holders have limited or, if holding their Securities through Euroclear or Clearstream, Luxembourg, no voting rights at general meetings of the members of the Society

In contrast to general meetings of shareholders of a limited company where shareholders may exercise voting rights proportionate to the number of shares they hold, at a general meeting of the members of the Society, each member is entitled to one vote regardless of the size of its investment or interest in the Society. Only a member of the Society is entitled to vote at general meetings.

For so long as any Securities are held by the Nominee for and on behalf of Euroclear and Clearstream, Luxembourg, the Nominee shall be the only member of the Society in respect of those Securities, and shall have one vote in total in respect of all Securities so held by it. Given the difficulty of casting its one vote attaching to all the Securities in a manner which reflects the view of all the investors holding Securities through Euroclear and Clearstream, Luxembourg and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise that vote.

Further, even if definitive Securities were to be issued in the limited circumstances described in "*Summary of Provisions Relating to the Securities while Represented by the Global Certificate*" under "*1. Exchange of the Global Certificate and Registration of Title*", each holder of definitive Securities would be entitled to exercise only one vote at a general meeting of the members of the Society (subject to qualifying as a voting member under the Society's rules), regardless of the amount of Securities held by such holder.

Accountholders will not be entitled to Society Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company

As Accountholders will not be members of the Society (see "*Investors in the Securities who hold beneficial interests in the Securities (and, upon Conversion, the CCDS) through an account in Euroclear and/or Clearstream, Luxembourg will not be members of the Society and must rely on Euroclear and Clearstream, Luxembourg procedures*" above), they will also not be entitled to any Society Conversion Benefits (as defined in Condition 1.3) (including any rights to windfall payments) arising on a demutualisation or other transfer of the Society's business to a company. Any Society Conversion Benefits arising on any such transaction will belong instead to the Nominee, as the registered holder of the Securities in the Securities Register. The Nominee will, on or prior to the date of issue of the Securities, assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Society Conversion Benefits to which it would otherwise become entitled at any time before, or within two years after, its membership of the Society comes to an end.

Further, even if definitive Securities were to be issued in the limited circumstances described in "*Summary of Provisions Relating to the Securities while Represented by the Global Certificate*" under "*1. Exchange of the Global Certificate and Registration of Title*", each holder of definitive Securities would have no right to retain any Society Conversion Benefits and would be required to assign any Society Conversion Benefits to (or waive its right to receive any Society Conversion Benefits in favour of) the Nationwide Foundation (or other charities nominated by The Nationwide Foundation).

No assurance of a market in the Securities; the market price of the Securities may fluctuate which could lead to investors losing some or all of their investment

The Securities represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. Following admission to trading of the Securities on the SIX Swiss Exchange, if a secondary trading market does develop for the Securities, the trading price of the Securities may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Securities. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. There can be no assurance as to the liquidity of any trading market for the Securities or that an active market for the Securities will develop. The Securities contain features which may not align directly to the investment criteria of fixed income investors or traditional equity investors, including investors that have previously invested in mutual regulatory capital. Accordingly, and particularly relating to the fact that the Securities are a new instrument, the market price of the Securities may prove to be highly volatile. If any market in the Securities does develop, it may become severely restricted, or may disappear, if the financial condition and/or either CET1 Ratio of the Society deteriorates such that there is an actual or perceived increased likelihood of the Society being unable, or electing not, to pay interest on the Securities in full, or of the Securities being Converted or otherwise subject

to loss absorption under the Conditions or an applicable statutory loss absorption regime. In addition, the market price of the Securities may fluctuate significantly in response to a number of factors, some of which are beyond the Society's control, including:

- variations in operating results in the Society's reporting periods;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Society's strategy is or may be less effective than previously assumed or that the Society is not effectively implementing any significant projects, such as its transformation programme;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar entities;
- announcements by the Society of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, including changes in regulatory regulations, PRA or FPC requirements;
- additions or departures of key personnel; and
- future issues or sales of Securities or other securities.

Any or all of these events could result in material fluctuations in the price of Securities which could lead to investors losing some or all of their investment.

The issue price of the Securities might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Securities at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Risks related to succession and transfer of the Society's business

Condition 13 contains provisions applicable to the Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company.

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Securities without the consent of the Securityholders, which potentially could be adverse to the interests of Securityholders, subject to certain restrictions. Such provisions could potentially result in amendments to the Conversion provisions of the Securities, including the nature of the instrument into which the Securities would convert upon the occurrence of a Trigger Event and, in circumstances where the entity resulting from such amalgamation or transfer does not have a viable instrument which could be delivered upon Conversion, the Conversion feature of the Securities may be replaced with a permanent write-down feature.

Risks related to the Securities generally

Set out below is a brief description of certain risks relating to the Securities generally:

Holdings of less than £100,000

The Securities are denominated in amounts of £100,000 and integral multiples of £1,000 in excess thereof. In the event that definitive Securities are required to be issued, a holder who holds a nominal amount which is less than £100,000 in its account with the relevant clearing system at the relevant time would need to purchase a nominal amount of Securities such that its holding amounts to at least £100,000 before it may receive a definitive Security in respect of such holding. Except in circumstances set out in the Global Certificate, investors will not be entitled to receive definitive Securities.

U.S. foreign account tax compliance withholding

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") impose a new reporting regime and, potentially, a 30 per cent. 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 Securities 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 their custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and 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 Society's payment obligations under the Securities are discharged once it (or the Registrar or Principal Paying Agent on its behalf) has made the relevant payment to or to the order of the Nominee for the clearing systems (as registered holder of the Securities) and the Society has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to "Taxation – Foreign Account Tax Compliance Act".

Withholding under the EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person established within its jurisdiction to (or for the benefit of) an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise and subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) 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). In April 2013, the Luxembourg Government announced its intention to elect out of the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Savings Directive. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

If a payment to an individual were to be made or collected through an EU 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 pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to the Savings Directive, neither the Society nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. The Society is required to maintain a registrar or agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any other law implementing or complying with, or introduced in order to conform to, the Savings Directive.

A specified majority of holders may bind the minority; the approval of Securityholders is not required prior to a Conversion or to any change to the Rules of the Society

The Conditions of the Securities contain provisions for calling meetings of holders of the Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Securities including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

The agreement or approval of the holders of the Securities shall not be required in the case of any Conversion in accordance with Condition 8 (as described in further detail above). Further, the Conditions do not limit the rights of members to change the Rules of the Society.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Exchange rate risks and exchange controls

The Society will pay principal and interest on the Securities in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a different currency or currency unit (the "**Investor's Currency**"). These include the risk that exchange rates may significantly change (including changes due to devaluation of the sterling 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 sterling would decrease (i) the Investor's Currency-equivalent yield on the Securities, (ii) the Investor's Currency-equivalent value of the principal payable on the Securities and (iii) the Investor's Currency-equivalent market value of the Securities.

The Securities have a fixed rate of interest which will reset on each Reset Date

The Securities will accrue interest at a fixed rate of interest, which will be reset on each Reset Date. Investment in fixed rate instruments involves the risk that if market interest rates subsequently increase above the rate paid on the Securities, this will adversely affect the value of the Securities. The interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Securities and so the market value of the Securities, and have an impact on whether the Society decides to exercise its repayment rights.

Credit ratings may not reflect all risks

S&P and Fitch are expected to assign credit ratings to the Securities. A security 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 without notice. Similar ratings on different types of securities do not

necessarily mean the same thing. The aforementioned rating does not address the likelihood that the interest or principal on the Securities will be paid on any particular date. The ratings do not address the marketability of the Securities or any market price. Any change in the credit ratings of the Securities or the Society could adversely affect the price that a subsequent purchaser will be willing to pay for the Securities. The significance of any rating should be evaluated independently of any other rating. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities.

Risks relating to holding CCDS

Upon Conversion, Securityholders are expected to receive CCDS. Certain risks relating to an investment in CCDS are incorporated by reference into this Offering Circular.

The CCDS in issue are admitted to the Standard Listing segment of the Official List maintained by the FCA and to trading on the London Stock Exchange plc's main market for listed securities. Assuming that, at the time of Conversion, there are CCDS in issue and they are listed and admitted to trading, under the current UKLA listing regime (i) the Society would be obliged to apply for the listing and admission to trading of the CCDS to be issued upon Conversion to occur within 30 days of their issue and (ii) the Society would benefit from an exemption from producing an offering circular in relation to the listing and admission to trading of the CCDS to be issued upon Conversion. However, there can be no assurance that at the time of Conversion other CCDS will be in issue or, if they are in issue, that they will be so admitted to listing and to trading. Further, in contrast to the customary terms of a standard convertible bond, the Society is not contractually obliged to list the CCDS to be issued upon Conversion and may not, for any reason, be in a position to do so either immediately or at all. The limited number of CCDS in issue and that they may remain unlisted may have a material adverse effect on the liquidity of the trading market in the CCDS and so on the price which Securityholders are able to obtain for their CCDS in the secondary market if they are able to sell them at all.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with (i) the Memorandum and Rules of the Society; (ii) the audited consolidated annual financial statements of the Society for the financial years ended 4 April 2012 and 4 April 2013, prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union, together in each case with the audit report thereon; (iii) the unaudited consolidated interim financial statements of the Society for the six-month period to 30 September 2013, together with the review report thereon; (iv) the Interim Management Statement covering the nine month period from 5 April 2013 to 31 December 2013 dated 20 February 2014; (v) the Conditions of Issue of the Core Capital Deferred Shares contained in the Prospectus dated 22 November 2013, pages 79-105 (inclusive); and (vi) the Risk Factors related to the CCDS contained in the Prospectus dated 22 November 2013, pages 48-57 (inclusive).

Such documents shall be incorporated in, and form part of this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Any other information not listed above but contained in any such document is incorporated by reference for information purposes only. Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained from the Society's website at www.nationwide.co.uk and copies may be obtained (without charge) from the principal office of the Society. The content of the website referred to in this paragraph does not form part of this Offering Circular, save for the documents incorporated by reference in this Offering Circular as described above.

In the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Offering Circular which is capable of affecting the assessment of any Securities arising between the date of this Offering Circular and the commencement of dealings in the Securities following their listing on the SIX Swiss Exchange, the Society will prepare and publish a supplement to this Offering Circular.

OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE SECURITIES

The rights and restrictions attaching to the Securities will be governed by the rules of the Society (the "**Rules**"), certain provisions of the Building Societies Act 1986, as amended (the "**Act**") and the Conditions of Issue of the Securities (the "**Conditions**"). Set out below is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the Securityholders, together with certain explanatory notes which are italicised. Terms defined in the Rules or the Conditions will, unless otherwise defined herein or the context otherwise requires, have the same meanings when used in this overview.

1. GENERAL

A person who has a share investment with the Society (including a deferred share investment) is an investing member of the Society. The Securities are a deferred share investment for the purposes of the Rules and therefore a person whose name is entered in the Securities Register (as defined below) as a Securityholder is an investing member of the Society.

Each Securityholder, and all persons claiming through it or on its behalf or under the Rules, shall be bound by the Rules, by the Memorandum of the Society and by the Act.

The Securities will be held by investors through an account with Euroclear and/or Clearstream, Luxembourg and will be registered in the name of Citivic Nominees Limited as nominee (the "Nominee") who shall be the Securityholder for those Securities for the purposes of the Rules and the Conditions. An investor holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg will not be a member of the Society by virtue of its investment in the Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of the Securities in the manner provided above. Investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be.

Registration of title to the Securities in a name other than that of the Nominee will be permitted only if Euroclear and/or Clearstream, Luxembourg have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so. This is considered unlikely to occur. For so long as the Securities remain held in accounts with Euroclear and/or Clearstream, Luxembourg, references in this overview to "Securityholders" and related expressions shall be read as references to the Nominee.

2. REGISTER

The Society shall maintain records constituting the register of members for the purposes of the Securities (the "**Securities Register**"), in which shall be entered the name and address of each Securityholder. Each Securityholder shall notify the Society immediately of any change of name or address and shall produce such evidence of such change as the Society may require.

Transfers and other documents or instructions relating to or affecting the title to any Securities shall also be recorded in the Securities Register. No charge shall be made in respect of any entry in the Securities Register. The Securities Register shall be maintained at the specified office of the Registrar, or at such other place as the Board of Directors of the Society thinks fit.

The Society will appoint Citibank, N.A., London Branch at 13th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB as its registrar for the Securities.

3. MEETINGS OF THE MEMBERS OF THE SOCIETY

As an investing member of the Society, each Securityholder will, subject to the provisions of the Rules, enjoy various membership rights. In particular, Securityholders will, subject to the Rules, be entitled to receive notice of, to participate in a requisition for, to propose resolutions at, to attend, to be counted in a quorum at and to vote at any general meeting or in a postal ballot of the Society.

Each Securityholder will be entitled to exercise one vote (irrespective of the nominal amount of Securities held by it or the size or amount of other relevant investments or interests (if any) conferring membership rights which it may have in the Society) on a resolution at any general meeting or in a postal ballot (whether an ordinary resolution or special resolution or an investing members' resolution, but not a borrowing members' resolution) if that Securityholder held the Securities:

- (a) at the end of the financial year before the voting date;
- (b) on the voting qualification date; and
- (c) on the voting date.

The members' rights attaching to the Securities held through Euroclear and Clearstream, Luxembourg will be held by the Nominee. Such Nominee will be entered in the Securities Register as the holder of the Securities held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those Securities so held. Accordingly, the Nominee shall have one vote (regardless of the nominal amount of Securities held by it and regardless also of the size and amount of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society) on a resolution at any general meeting of the Society or in a postal ballot.

Given the difficulty of casting the single vote in a manner which reflects the views of all investors holding Securities through Euroclear and Clearstream, Luxembourg and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as such vote relates to its holding of the Securities.

The foregoing provisions relate to general meetings of the members of the Society. For provisions relating to the convening of separate meetings of the Securityholders only, see Condition 15 and "Summary of Provisions Relating to the Securities while Represented by the Global Certificate – Meetings; Membership rights whilst the Securities are held through Euroclear and/or Clearstream, Luxembourg".

4. WINDING-UP OR DISSOLUTION

On the winding-up or dissolution of the Society, any surplus remaining after the Society's creditors have been paid and all share investments (other than deferred share (core capital) investments unless and to the extent provided in their terms of issue) have been repaid (according to any order of priority under the terms of issue):

- (a) shall be paid in accordance with the instrument of dissolution (if any), but otherwise
- (b) shall be divided among those investing members of the Society who have held share investments (other than deferred share investments) of at least £100 continuously for two years at the relevant date in proportion to the amount of their share investments at that date and those investing members who hold deferred share investments at the relevant date subject to, and in proportion to the amount specified in, or calculated by reference to, their terms of issue. The relevant date is the earlier of either the date of notice of a winding-up or dissolution resolution or the date of presentation of a winding-up petition.

Holders of the Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution (as defined in Condition 19)) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations (as defined in Condition 19) having been paid in full.

For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

5. DISPUTES AND LEGAL PROCEEDINGS

Section 85 of, and Schedule 14, to the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Under various other enactments, the High Court is empowered to transfer cases over which it has jurisdiction to the County Court.

CONDITIONS OF ISSUE OF THE SECURITIES

The following (save for paragraphs in italics, which do not form part of the conditions of issue) are the conditions of issue of the Securities as they apply to holders of the Securities and are in the form in which they will appear on the reverse of each Certificate:

The £1,000,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Securities**", which term shall include any further Securities issued pursuant to Condition 16(a) which are consolidated and form a single series with the Securities) are issued under the Rules (the "**Rules**") of Nationwide Building Society (subject as provided in Condition 1.3, the "**Society**") for the time being. Securityholders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The Securities are also issued subject to, and with the benefit of, these conditions of issue (the "**Conditions**") and subject to an agency agreement (as amended from time to time, the "**Agency Agreement**") dated 11 March 2014 between the Society and Citibank, N.A., London Branch as registrar and transfer agent (in such capacities, the "**Registrar**") and principal paying agent (in such capacity, the "**Principal Paying Agent**"). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. Securityholders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

*While Securities are held on behalf of investors through an account with Euroclear and/or Clearstream Luxembourg, Securities will be registered in the name of Citivic Nominees Limited as nominee (the "**Nominee**"). The Nominee shall be the Securityholder for all of the Securities for the purposes of the Conditions, and not the investors holding beneficial interests in the Securities through Euroclear and/or Clearstream, Luxembourg. The investors holding the beneficial interests in Securities through Euroclear and/or Clearstream, Luxembourg accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of Euroclear and/or Clearstream, Luxembourg, as the case may be.*

1 General

1.1 *Definitions*

Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out herein, including in Condition 19.

1.2 *Deferred shares*

The Securities:

- (a) are deferred shares for the purposes of section 119 of the Act;
- (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the FSMA;
- (c) are not withdrawable; and
- (d) are deferred share investments (but not deferred share (core capital) investments) for the purposes of the Rules.

1.3 Society Conversion Benefits

Rights to Society Conversion Benefits to which a Securityholder may become entitled by reason of its holding of Securities shall be required to be assigned to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being.

As used herein, "**Society Conversion Benefits**" shall mean any benefits under the terms of any future transfer of the Society's business to a company (other than rights to receive Bonds (following the assumption of the Subordinated Deposit) issued by the Successor Entity as specifically provided for under section 100(2)(a) of the Act and Condition 13) and, if the Society merges with any other building society, "Society" shall, after the date of such merger, extend to such other society.

1.4 Waiver of Society Conversion Benefits

If a Securityholder fails to assign any Society Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that it waives its entitlement to retain any Society Conversion Benefits received by it and covenants promptly to pay and deliver such Society Conversion Benefits to The Nationwide Foundation (or to the Society for payment and delivery to The Nationwide Foundation) and until such time as payment is made, will hold a sum equal to such amount on trust for The Nationwide Foundation.

As investors holding beneficial interests in Securities through Euroclear and/or Clearstream, Luxembourg accounts will not be members of the Society, they will not be entitled to any Society Conversion Benefits. Any Society Conversion Benefits will belong instead to the Nominee, as the registered holder of the Securities in the Securities Register. The Nominee will, on or prior to the Issue Date, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Society Conversion Benefits.

2 Form, denomination, title and transfer

2.1 Form and denomination

The Securities are in registered form and are available and transferable in accordance with the Rules in minimum nominal amounts of £100,000 and integral multiples of £1,000 in excess thereof.

2.2 Title and transfer

Title to the Securities passes only by registration in the Securities Register. The holder of any Securities will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

No legal transfer of Securities shall be valid unless made in the form endorsed on the Certificate or in such other form as the Board may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. Legal title to the Securities will pass upon registration of such transfer in the Securities Register.

2.3 Certificates

A certificate (each a "**Certificate**") will, if so requested in writing by such Securityholder and subject to Condition 3.3, be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be

recorded on the relevant Certificate and in the Securities Register, and will specify the nominal amount of Securities registered in the name of such holder(s) as at the time of issue of such Certificate.

Each new Certificate to be issued following a transfer will be mailed by uninsured mail at the risk of the holder entitled to the Securities to the address specified in the form of transfer within 14 days of the date of registration of the transfer in the Securities Register (or, if later, within 14 days of the written request of the relevant Securityholder to be issued a Certificate).

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the nominal amount of Securities not so transferred will, within 14 days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Securities not so transferred to the address of such holder appearing on the Securities Register or as specified in the form of transfer.

Except in the limited circumstances described herein (see "Summary of Provisions Relating to the Securities While Represented by the Global Certificate – Exchange"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates.

2.4 Formalities free of charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Society or the Registrar but upon payment (or the giving of such indemnity as the Society or the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

3 Securities register

3.1 Registrar

The Society has appointed the Registrar to act as registrar in respect of the Securities under the terms of the Agency Agreement.

3.2 Securities register

Pursuant to the Agency Agreement, the Society shall procure that the Registrar maintains the Securities Register, in which shall be entered the name and address of each Securityholder and the nominal amount of the Securities held by each such Securityholder. Each Securityholder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.

3.3 Certificates

A Securityholder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may reasonably require to complete, execute and deliver a Certificate to such Securityholder.

3.4 Entries free of charge

Transfers and other documents or instructions relating to or affecting the title of any Securities shall be recorded in the Securities Register. Subject as provided in Condition 2.4, no charge shall be made in respect of any entry in the Securities Register or any change in relation to such entry. The Securities Register shall be maintained at the specified office of the Registrar or at such other place as the Society and the Registrar shall agree.

4 Status, subordination and rights on a winding-up or dissolution

4.1 Status

The Securities constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated as described in Condition 4.2.

4.2 Subordination

On a winding-up or dissolution of the Society on or prior to the Conversion Date (other than an Excluded Dissolution), the rights and claims of Securityholders in respect of their Securities shall rank:

- (i) junior to the claims of all creditors (including all subordinated creditors) and investing members (as regards the principal and interest due on such investing members' share investments) of the Society including, without limitation (but subject as follows), claims in respect of obligations of the Society which constitute Tier 2 Capital, but in each case excluding claims in respect of Parity Obligations and claims in respect of deferred share investments ("**Senior Obligations**");
- (ii) *pari passu* among themselves and with any claims ranking, or expressed to rank, *pari passu* therewith (including, without limitation, all claims in respect of permanent interest bearing shares of the Society as regards the principal and interest due thereon) ("**Parity Obligations**"); and
- (iii) senior to all claims under any deferred share (core capital) investment in the Society (including the CCDS) and any other claims ranking, or expressed to rank, junior to either the Securities or any Parity Obligations ("**Junior Obligations**").

As used herein, "**investing members**", "**deferred share investment**" and "**deferred share (core capital) investment**" have the respective meanings ascribed thereto in the Rules.

4.3 Rights on a winding-up or dissolution of the Society

Holders of the Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full.

For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

On a winding-up or dissolution of the Society which commences on or after the Conversion Date but before the relevant CCDS have been issued as provided in Condition 8, the Securityholders shall have only those rights as set out in Condition 8.3.

4.4 *Solvency Test*

No payment of principal or interest in respect of the Securities shall be due and payable unless the Society is able to make such payment and still be solvent immediately thereafter, in each case except in the winding-up or administration of the Society (the "**Solvency Test**").

In these Conditions, the Society shall be considered to be solvent if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities. A report as to the solvency of the Society by two authorised signatories or, if the Society is in a winding-up, its liquidator, administrator or other analogous entity (as the case may be), shall, in the absence of manifest error, be treated and accepted by the Society and the Securityholders as correct and sufficient evidence thereof.

4.5 *Set off*

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Society in respect of, or arising under or in connection with, the Securities and each holder shall, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any holder by the Society in respect of, or arising under or in connection with, the Securities is discharged by set-off, such holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Society (or, in the event of its winding-up or dissolution, the liquidator, administrator, receiver or other relevant insolvency official with primary responsibility for the winding-up or dissolution of the Society) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Society (or the liquidator administrator, receiver or, as appropriate, such relevant insolvency official (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

5 Interest

5.1 *Interest Rate*

The Securities bear interest on their nominal amount from (and including) the Issue Date at the applicable Interest Rate in accordance with the provisions of this Condition 5.

Subject to Conditions 6 and 8, interest shall be payable on the Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in this Condition 5, except that the first payment of interest, to be made on 20 June 2014, will be in respect of the period from and including the Issue Date to but excluding 20 June 2014.

Where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a full Interest Period, the relevant day-count fraction (the "**Day-Count Fraction**") shall be determined on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date multiplied by two.

5.2 *Interest accrual*

The Securities will cease to bear interest from (and including) (i) in the case of repayment pursuant to Condition 7.2, 7.3 or 7.4, the date of repayment thereof unless, upon surrender of the relevant Certificate, payment of all amounts due in respect of such Securities is not properly and duly made, in which event interest shall continue to accrue on the Securities, both before and

after judgment, and shall be payable, as provided in these Conditions, up to (but excluding) the Relevant Date, and (ii) in the case of Conversion pursuant to Condition 8, the Conversion Date.

5.3 *Calculation of interest amounts*

Interest in respect of any Security shall be calculated per Calculation Amount. The amount of interest payable (subject to Condition 6) in respect of a Security for a relevant period shall be calculated by (i) determining the product of the Calculation Amount, the relevant Interest Rate and the Day-Count Fraction (as described in Condition 5.1) for the relevant period, (ii) rounding the resultant figure to the nearest penny (half a penny being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the nominal amount of such Security and the denominator of which is the Calculation Amount.

5.4 *Initial Interest Rate and interest amounts*

For each Interest Period which commences prior to the First Call Date, the Interest Rate shall be 6.875 per cent. per annum (the "**Initial Interest Rate**").

Provided the Securities are not Converted, and subject to the Society's discretion (which it may exercise at any time) or obligation to partially or fully cancel Interest Payments pursuant to Condition 6, the Interest Payment in relation to the short first coupon scheduled to be paid on 20 June 2014 will (if paid in full) amount to £19.08 per Calculation Amount and each subsequent semi-annual Interest Payment thereafter for each Interest Period which commences prior to the First Call Date will (if paid in full) amount to £34.38 per Calculation Amount.

5.5 *Reset Interest Rate*

For each Interest Period which commences on or after the First Call Date, the Interest Rate shall be the Reset Interest Rate applicable to the Reset Period in which that Interest Period falls, as calculated by the Principal Paying Agent.

5.6 *Determination of the Reset Interest Rate in relation to a Reset Period*

The Principal Paying Agent will, as soon as practicable after 11.00 a.m. (London time) on each Reset Determination Date in relation to a Reset Period, determine the Reset Interest Rate for such Reset Period and shall promptly notify the Society thereof. The Society shall cause notice of the relevant Reset Interest Rate and the amount of interest which, subject to Conditions 6 and 8, will be payable per Calculation Amount to be given to the Securityholders in accordance with Condition 17 as soon as reasonably practicable after each relevant Reset Determination Date and in any event no later than the relevant Reset Date. Such determination of the relevant Reset Interest Rate shall (in the absence of manifest or proven error) be binding on the Society and the Securityholders.

6 Interest cancellation

6.1 *Optional cancellation of interest*

The Society may, at the discretion of the Board but subject at all times to the requirements for mandatory cancellation of Interest Payments in Condition 6.2, at any time elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date. Upon the Board passing a resolution to elect to cancel (in whole or in part) any Interest Payment under this Condition 6.1, the Society shall give notice of such election to the Securityholders in accordance with Condition 17 as soon as reasonably practicable on or prior to the relevant Interest Payment Date (provided that any failure to give such notice shall not affect the validity of the cancellation of any Interest Payment in whole or in part by the Society as resolved by the

Board and shall not constitute a default under the Securities for any purpose). Such notice shall specify the amount of the relevant cancellation and, accordingly, the amount (if any) of the relevant Interest Payment that will be paid on the relevant Interest Payment Date.

6.2 ***Mandatory cancellation of interest***

The Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the amount of such Interest Payment otherwise due, together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such Interest Payment Date.

In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. "Maximum Distributable Amount" means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced). See further the risk factor entitled "CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Securities in certain circumstances, in which case the Society will automatically cancel such interest payments" commencing on page 39 of this Offering Circular.

As used above, "**Distributable Items**" means, in respect of any Interest Payment, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Interest Payment.

As at the date of this Offering Circular, Article 4(1)(128) of the Capital Requirements Regulation provides as follows: "distributable items" means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.

Upon the Society being prohibited from making any Interest Payment under this Condition 6.2, the Society shall as soon as reasonably practical on or prior to the relevant Interest Payment Date give notice of such non-payment and the reason therefor to the Securityholders in accordance with Condition 17 (provided that any failure to give such notice shall not affect the cancellation of any Interest Payment in whole or in part by the Society and shall not constitute a default under the Securities for any purpose).

6.3 ***Interest non-cumulative; no default***

Any Interest Payment (or part thereof) not paid on any relevant Interest Payment Date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) in accordance with any of

Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise.

7 Repayment and purchase

7.1 *No fixed maturity*

The Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no fixed repayment date. The Securities will become repayable only as provided in this Condition 7 and in Condition 4.

7.2 *Society's option to repay*

The Society may, subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Securities then outstanding on the First Call Date or on any Reset Date thereafter at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Securities accordingly.

7.3 *Repayment for tax reasons*

If a Tax Event has occurred and is continuing, the Society may, at any time but subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Securities accordingly.

As used herein:

A "**Tax Event**" will occur if, as a result of a change in, or amendment to, the laws or regulations of any taxing jurisdiction or, in each case, any political subdivision or any authority thereof or therein having power to tax, including any treaty to which the relevant taxing jurisdiction is a party, or a change in an official application or interpretation of those laws or regulations on or after the Issue Date, including a decision of any court or tribunal which becomes effective on or after the Issue Date (a "**Tax Law Change**"):

- (i) the Society will or would be required to pay holders Additional Amounts (as defined in Condition 10); or
- (ii) the Society would not be entitled to claim a deduction in respect of any interest payable (or, if relevant, equivalent expense accruing) in respect of the Securities in computing its taxation liabilities or the amount of any such deduction would be materially reduced; or
- (iii) the Society would have to bring into account a taxable credit in connection with a Conversion of the Securities; or

- (iv) the Society would incur any other taxation liability or liabilities as a consequence of changes in the value of the Securities for accounting purposes or any other relevant taxation purposes,

provided that the consequences of such event cannot be avoided by the Society taking reasonable measures available to it.

The Society shall make available to the Securityholders at the same time as giving a notice to repay under this Condition 7.3 a copy of an opinion of an independent nationally recognised law firm or other tax adviser in the relevant taxing jurisdiction experienced in such matters to the effect that the circumstances set out one or more of limbs (i) to (iv) of the definition of Tax Event have occurred and are continuing.

7.4 *Repayment for regulatory reasons*

If a Regulatory Event has occurred and is continuing, the Society may, at any time but subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Securities accordingly.

A "**Regulatory Event**" will occur if, as a result of a change (or pending change which the Regulator considers to be sufficiently certain) in the regulatory classification of the Securities under the Capital Regulations, the entire nominal amount of the Securities fully ceases (or would fully cease) to be part of the Society's Tier 1 Capital.

7.5 *Conditions to repayment and purchase*

Any repayment or purchase of the Securities pursuant to this Condition 7 is subject to:

- (i) the Society obtaining such approval, consent or non-objection from, or making such notification required within prescribed periods to, the Regulator, or obtaining such waiver of the then prevailing Capital Regulations from the Regulator, as is required under the then prevailing Capital Regulations; and
- (ii) if and to the extent then required under prevailing Capital Regulations, either: (A) the Society having replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the Society having demonstrated to the satisfaction of the Regulator that the own funds of the Society would, following such repayment or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Regulator considers necessary at such time;
- (iii) in respect of a redemption prior to the fifth anniversary of the Issue Date, if and to the extent then required under prevailing Capital Regulations (A) in the case of redemption upon the occurrence of a Tax Event, the Society has demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Society has demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Securities was not reasonably foreseeable as at the Issue Date; and

- (iv) if, at the time of such repayment or purchase, the prevailing Capital Regulations permit the repayment or purchase only after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i) and (ii) above, the Society having complied with such other pre-condition(s).

In addition, notwithstanding any other provision of these Conditions, if the Society has elected to repay the Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date, and the Securities will continue to remain outstanding on the same basis as if no repayment notice had been given.

Further, if the Society has elected to repay the Securities but, prior to the repayment of the nominal amount, a Conversion Trigger occurs, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Securities or any interest thereon will be due and payable on the scheduled repayment date and, instead, a Conversion shall occur in respect of the Securities as described under Condition 8.

7.6 ***Purchases***

Subject to the Capital Regulations, the Society or any of its Subsidiaries may at any time purchase Securities in any manner and at any price. Subject to applicable law, such Securities may, at the election of the Society, be held, reissued, resold or surrendered to the Registrar for cancellation.

7.7 ***Cancellation***

All Securities repaid, and all Securities purchased by the Society or any of its Subsidiaries as aforesaid and surrendered for cancellation, shall be cancelled forthwith and such Securities may not be reissued or resold.

8 **Conversion**

8.1 ***Conversion on a Conversion Trigger***

If the Society determines, as at any Financial Period End Date or Additional Trigger Calculation Date, that either CET1 Ratio of the Society has fallen below 7.00 per cent. (the "**Conversion Trigger**"), the Society shall immediately notify the Regulator and promptly thereafter shall notify the Securityholders (in accordance with Condition 17) of the occurrence of the Conversion Trigger and, without delay and by no later than one month (or such shorter period as the Regulator may require) following the determination by the Society that the Conversion Trigger has occurred:

- (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment);
- (b) irrevocably (without the need for the consent of Securityholders) write down the Securities by reducing the nominal amount of each Security to zero; and
- (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Securities divided by the Conversion Price (such write-down under Condition 8.1(b) above and issue of CCDS under this Condition 8.1(c) being referred to as a "**Conversion**", and "**Converted**" being construed accordingly).

Such cancellation of interest, write-down of the Securities and (subject as provided in these Conditions) issue of CCDS to Securityholders shall occur on the Conversion Date specified in the Conversion Notice (as defined below).

Fractions of CCDS will not be delivered in connection with any Conversion. Any fractional entitlement to a CCDS which a Securityholder would otherwise obtain as a result of a Conversion will be cancelled, no cash payment or other adjustment will be made in respect thereof and the Securityholder shall have no claim in respect thereof, whether on a winding-up or dissolution of the Society or otherwise.

8.2 Conversion Notice

The Society shall, as soon as reasonably practicable following its determination that a Conversion Trigger has occurred, and in any event not less than 5 days prior to the Conversion Date (provided that shorter notice shall not constitute a default under the Securities for any purpose or affect the Conversion of the Securities on the Conversion Date), give notice (which notice shall be irrevocable) to the Securityholders in accordance with Condition 17 (the "**Conversion Notice**") stating (i) that the Conversion Trigger has occurred, (ii) the Conversion Date, (iii) the prevailing Conversion Price and (iv) the procedures Securityholders will need to follow (if any) to receive CCDS pursuant to Condition 8.1(c).

Not later than the giving of the relevant Conversion Notice, the Society shall deliver to the Principal Paying Agent on behalf of the Securityholders a certificate signed by two authorised signatories of the Society confirming that the Conversion Trigger has occurred.

8.3 Consequences of a Conversion

A write-down of the Securities under Condition 8.1(b) shall be deemed effective with effect from the relevant Conversion Date and without the requirement for any further formality. Upon such write-down, the Securities, and any accrued and unpaid interest in respect thereof (whether or not such interest has become due for payment), shall be immediately cancelled in accordance with Condition 8.1(a).

Such write-down and cancellation of the Securities and cancellation of interest shall be independent of the issue of CCDS to Securityholders under Condition 8.1(c) and, accordingly, shall be effective as of the Conversion Date whether or not the CCDS to be issued to Securityholders under Condition 8.1(c) are so issued on the Conversion Date. If the Society fails to issue such CCDS, or there is any delay in the issue or delivery of such CCDS to any Securityholder, a Securityholder's only right under the Securities against the Society for such failure will be to claim to have such CCDS so issued to it.

The nominal amount by which the Securities are written down shall be applied, directly or indirectly, to paying up the CCDS to be issued to Securityholders under Condition 8.1(c), and the Securityholders shall be deemed irrevocably to have directed and authorised the Society to apply such amounts for such purpose on their behalf.

The paying up of the CCDS is expected to be reflected in the Society's accounts as credits to CCDS nominal and CCDS premium by an aggregate amount equal to the nominal amount by which the Securities are written down. It is anticipated that the paying up and issue of CCDS will be simultaneous with the write-down and cancellation of the Securities.

Once the nominal amount of a Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The write-down and cancellation of the Securities and the cancellation of interest thereon in accordance with this Condition 8 will not constitute a default under the Securities for any purpose. Following the Securities being written down in accordance with this Condition 8, no amount shall at any time be or become due and payable to the Securityholders in respect of the Securities, and the liability of the Society to pay any amounts in respect of the Securities (including the nominal amount of, any interest in respect of and any other amounts in connection with the Securities) shall be automatically released (but this is without prejudice to the right of Securityholders to claim for the issue to them of CCDS pursuant to Condition 8.1(c)).

The Securities are not convertible into CCDS at the option of the Securityholders at any time.

8.4 Conversion Price

The "Conversion Price" is £80, subject to adjustment in accordance with Condition 8.5.

8.5 Conversion Price adjustments

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows, in each case as determined by the Society or any Calculation Agent appointed by the Society for such purpose:

(a) If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of CCDS, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

"A" is the aggregate number of CCDS in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

"B" is the aggregate number of CCDS in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

(b) If and whenever the Society shall issue any CCDS credited as fully paid to the CCDS holders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve, if any), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

"A" is the aggregate number of CCDS in issue immediately before such issue; and

"B" is the aggregate number of CCDS in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such CCDS.

(c) If and whenever the Society shall issue CCDS to CCDS holders as a class by way of rights, or the Society or (at the direction or request or pursuant to any arrangements with the Society) any other company, person or entity shall issue or grant to CCDS holders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any CCDS, or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any CCDS (or shall grant any such rights in respect of existing securities so issued), in each case at a price per CCDS which is less than 95% of the Current Market Price per CCDS on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

"A" is the number of CCDS in issue on the Effective Date;

"B" is the number of CCDS which the aggregate consideration (if any) receivable for the CCDS issued by way of rights, or for the securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of CCDS deliverable on the exercise thereof, would purchase at such Current Market Price per CCDS on the Effective Date; and

"C" is the number of CCDS to be issued or, as the case may be, the maximum number of CCDS which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if, on the Effective Date, such number of CCDS is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 8.5(c), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

As used herein:

"Effective Date" means, in respect of this Condition 8.5(c), the first date on which the CCDS are traded ex-rights, ex-options or ex-warrants or (to the extent it is not reasonably practicable to determine when the CCDS are traded ex-rights, ex-options or ex-warrants) the day following the expiry of the relevant options, warrants or rights; and

"by way of rights" means in compliance with the pre-emption rights afforded to CCDS holders under the terms of the outstanding CCDS of the Society, and related references to "rights" shall be construed accordingly.

- (d) Notwithstanding paragraphs (a), (b) and (c) above, no adjustment to the Conversion Price will be made:
 - (i) as a result of the payment of any Distribution;
 - (ii) to the extent CCDS or other securities (including convertible or exchangeable securities, rights or options in relation to CCDS and other securities) are issued, offered or granted as consideration for the purchase of shares or assets of companies;
 - (iii) if an increase in the Conversion Price would result from such adjustment; or
 - (iv) if it would result in the Conversion Price being reduced below the nominal value of a CCDS (which, as at the Issue Date, is £1).
- (e) Notwithstanding the foregoing provisions:
 - (i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8.5 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Society, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
 - (ii) such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once.

8.6 *Decision of an Independent Financial Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price (including, without limitation, as to the determination of any Effective Date), and following consultation between the Society and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

8.7 *Option schemes and reinvestment plans*

No adjustment will be made to the Conversion Price where CCDS or other securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Society or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme.

8.8 Rounding down and notice of adjustment to the Conversion Price

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.001, shall be rounded down to the nearest whole multiple of £0.001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Society to Securityholders in accordance with Condition 17 promptly after the determination thereof.

8.9 Taxes etc.

The Society shall not be liable for any taxes or capital, stamp, issue, registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the delivery of CCDS upon Conversion. A Securityholder must pay any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion as a consequence of any disposal or deemed disposal of its Securities (or any interest therein) and/or the issue or delivery to it of any CCDS (or any interest therein).

8.10 CCDS

CCDS issued upon Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid CCDS in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such CCDS will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments as of any applicable record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

It is intended that any CCDS issued upon Conversion will, with effect from the Conversion Date or as soon as appropriate thereafter, be consolidated and form a single series with the CCDS of the Society then in issue.

9 Payments

9.1 Method of payment

- (i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of the Registrar if no further payment falls to be made in respect of the Securities represented by such Certificates) in the manner provided in paragraph (ii) below.
- (ii) Interest on each Security shall be paid to the person shown on the Register at the close of business on the fifteenth business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Security shall be made in Sterling by cheque drawn on a bank and mailed to the Securityholder (or to the first named of joint Securityholders) of such Security at its address appearing in the Register. Upon application by the Securityholder to the specified office of the Registrar before the Record Date, such payment of interest may be made by transfer to a Sterling account specified by the payee.

Notwithstanding this Condition 9.1, all payments in respect of Securities held through Euroclear and/or Clearstream, Luxembourg accounts will be credited to the cash accounts of Euroclear

and/or Clearstream, Luxembourg Accountholders in accordance with the relevant clearing system's rules and procedures.

9.2 Payments subject to applicable laws

Payments in respect of the Securities are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 10, and (ii) 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 or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 10) any law implementing an intergovernmental approach thereto.

9.3 Payment initiation

Where payment is to be made by transfer to a Sterling account, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

9.4 Delay in payment

Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Security if the due date is not a Business Day, if the Securityholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 9.1(ii) arrives after the due date for payment.

9.5 Non-payment days

If any date for payment in respect of any Security is not a payment day, the Securityholder shall not be entitled to payment until the next following payment day nor to any interest or other sum in respect of such postponed payment. In this Condition 9, "**payment day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and, where payment is to be made by transfer to a Sterling account, a day which is a Business Day.

10 Taxation

All payments by or on behalf of the Society in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Society will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Securities in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Securities:

- (a) by or on behalf of a Securityholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Securities by reason of it having some connection with the United Kingdom other than the mere holding of the Securities;
- (b) where (in the case of a payment of principal or interest on repayment) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Securityholder would have been entitled to such additional amounts on surrendering such Certificate for payment on the last day of such period of 30 days;
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (d) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Certificate to another registrar or agent in a member state of the European Union; or
- (e) where the Securityholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority.

For the purpose of the foregoing, the Society undertakes that it will maintain a registrar or agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

For a description of applicable United Kingdom taxation considerations, see "United Kingdom Taxation" appearing elsewhere in this Offering Circular.

11 Prescription

Any amounts payable in respect of the Securities in respect of which no cheque has been cashed and no payment claimed shall cease to be payable after 12 years from the appropriate Relevant Date and shall revert to the Society.

12 Replacement of Certificates

A Securityholder who has lost a Certificate shall immediately give notice in writing of such loss to the Society at its principal office and to the Registrar at its specified office. If a Certificate is damaged or alleged to have been lost, stolen or destroyed, a new Certificate representing the same Securities shall be issued by the Registrar, on behalf of the Society, to the Securityholder upon request, subject to delivery up of the old Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Board and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to its investigation of the evidence of such alleged loss, theft or destruction. The duplicate Certificate will be made available at the offices of the Registrar.

13 Succession and transfers

13.1 *Amalgamation or transfer under section 93 or 94 of the Act*

Upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act, the Securities shall become deferred shares in the amalgamated or transferee building society, as appropriate (the "**Resulting Society**"), without any alteration in their terms except as follows.

If the Board, in its sole discretion, considers that, as a result of such amalgamation or transfer, it is necessary to amend the provisions of these Conditions relating to Conversion of the Securities pursuant to Condition 8 in order to give effect to or preserve substantially the economic effect of Conversion for the Securityholders, it may, upon not less than 15 days' notice to Securityholders in accordance with Condition 17 but without the consent or approval of the Securityholders, make such amendments to Condition 8 (and/or any other provision of these Conditions relating to Conversion and any consequent changes) which, as determined by the Board in consultation with an Independent Financial Adviser appointed by the Society for such purpose:

- (a) give effect to and preserve substantially the economic effect of a Conversion of the Securities for the Securityholders; and
- (b) do not result in the terms of the Securities becoming materially less favourable to the Securityholders,

and provided that the following shall be preserved in all material respects: (1) the ranking of the Securities, (2) the Interest Rate on the Securities from time to time, the Interest Payment Dates and the provisions regarding discretionary and mandatory cancellation of interest, (3) any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions, (4) the repayment rights and obligations of the Society and (5) compliance with the prevailing Capital Regulations and requirements of the Regulator in relation to Tier 1 Capital (but, for the avoidance of doubt, not Common Equity Tier 1 capital); and provided further that a certificate to the effect of the foregoing shall have been signed by two authorised signatories of the Society and given to the Registrar on behalf of the Securityholders.

A brief summary of any key changes to the terms of the Securities will, not later than the time at which notice is given to members of resolutions to be proposed to approve the relevant amalgamation or transfer, be available for inspection by the Securityholders at the principal office of the Society and the specified office of the Registrar.

It may be necessary, upon an amalgamation by the Society with another building society or a transfer of all or substantially all of its engagements to another building society as envisaged by Condition 13.1, for the terms of the Securities as regards Conversion to be amended in certain respects, for example if the CCDS cease to exist or are themselves amended in any relevant respect as a result of, or in connection with, such amalgamation or transfer. The Society anticipates that, in particular, changes may be required if CCDS are no longer the appropriate instrument to deliver to Securityholders upon Conversion of the Securities, or if any adjustments to the Conversion Price (and/or the adjustment provisions relating thereto) are appropriate. With a view to minimising the financial impact of any such amendments on Securityholders, it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments to the Conditions of the Securities should be limited to the minimum necessary in order to ensure that the Conversion provisions remain appropriate in the context of the Resulting Society and preserve substantially the economic effect of Conversion for the Securityholders. Whilst the Society anticipates that any conversion of the Securities following

such amalgamation or transfer would be a conversion into CCDS or instruments of the Resulting Society which are similar to the CCDS, there can be no assurance that this will be the case.

13.2 Transfer of business under section 97 of the Act

Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 as amended (the "**Mutual Societies Transfers Act**") the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the vesting date, assume a subordinated liability (a "**Subordinated Deposit**") to each holder of Securities, which Subordinated Deposit shall be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the Securityholder, in the subscription of undated subordinated bonds (the "**Bonds**") in a principal amount equivalent to the nominal amount of the Securities held by such Securityholder immediately prior to such transfer.

The Bonds (1) may be issued directly or indirectly by the Successor Entity, (2) shall rank junior to any subordinated deposit or subordinated bonds issued by the Successor Entity in respect of Senior Obligations of the Society and senior to any subordinated deposit, subordinated bonds and/or shares issued by the Successor Entity in respect of Junior Obligations of the Society, (3) shall bear the same Interest Rate from time to time and Interest Payment Dates as the Securities and shall preserve the provisions regarding discretionary and mandatory cancellation of interest, (4) shall have the same repayment rights and obligations as the Securities (provided that the first optional repayment date may, if so required in order for the Bonds to qualify as Tier 1 Capital of the Society, be later than the First Call Date) and (5) shall preserve any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions.

The terms of the Bonds will, to the fullest extent permitted by applicable law and regulation, (a) be such as to comply with the prevailing Capital Regulations requirements of the Regulator in relation to Tier 1 Capital (but, for the avoidance of doubt, not Common Equity Tier 1); and (b) include such changes and additional provisions as are deemed necessary by the Board to give effect to and preserve substantially the economic effect of the Conditions of the Securities and are not materially less favourable to the Securityholders than the Conditions of the Securities, all as determined by the Board in consultation with an Independent Financial Adviser appointed by the Society for such purpose; provided that a certificate to the effect of the foregoing shall have been signed by two authorised signatories of the Society and given to the Registrar on behalf of the Securityholders.

A brief summary of the key terms and conditions of the Bonds will, not later than the time at which notice is given to members of resolutions to be proposed to approve such transfer, be available for inspection by the Securityholders at the principal office of the Society and the specified office of the Registrar at that time and, subject as provided above, will be determined by the Board in its absolute discretion.

13.3 Successions and transfers where the resulting entity does not have a viable convert-to instrument

Upon an amalgamation or transfer in accordance with Condition 13.1 or 13.2, the Society shall use reasonable commercial endeavours to procure that the Securities (or any instrument issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) would, in the event of a Conversion Trigger occurring immediately following such amalgamation or transfer, convert into a common equity tier 1 capital instrument of the Resulting Society or, as the case may be, the Successor Entity (or its parent) that is admitted to trading on a European Economic Area regulated market (within the meaning of Directive 2004/39/EC of the European Parliament and of the Council

on markets on financial instruments, as amended) or on another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state.

If, however, notwithstanding such reasonable commercial endeavours, the Society is unable to procure such outcome, then (notwithstanding any provision of Condition 13.1 or 13.2) if a Conversion Trigger occurs on or after the effective date of such amalgamation or transfer, the outstanding Securities (or any instrument issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) shall not be subject to Conversion but instead will be subject to permanent write-down. Accordingly, upon the occurrence of such Conversion Trigger, the full nominal amount of such Securities (or replacement instruments) will automatically be written down to zero, each Security (or replacement instrument) will be cancelled, the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Resulting Society or Successor Entity with respect to, repayment of the aggregate nominal amount of the Securities (or replacement instruments) so written down or delivery of any instrument as a result of such write-down, and all accrued but unpaid interest and any other amounts payable on each Security (or replacement instrument) will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

13.4 *Undertakings*

- (a) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 13.1 or 13.2 will comply with the provisions of Condition 13.1 or, as the case may be, 13.2. The Society undertakes to use all reasonable endeavours to enter into such agreements, and to take such other reasonable steps, as are necessary to give effect to the provisions of this Condition 13 (including, but not limited to, the appointment, if applicable, of an Independent Financial Adviser).
- (b) In connection with any amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act as provided in Condition 13.1, the Society:
 - (i) shall, and shall use all reasonable endeavours to procure that the Resulting Society shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the Securities are, for the time being, listed, traded and/or quoted; and
 - (ii) shall pay, or shall use all reasonable endeavours to ensure that Resulting Society pays, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such deferred shares (if applicable), but will not pay (and each Securityholder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such deferred shares (if applicable) pursuant to Condition 13.1.
- (c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company as provided in Condition 13.2, the Society:
 - (i) shall, and shall use all reasonable endeavours to procure that the Successor Entity shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the Securities are, for the time being, listed, traded and/or quoted;
 - (ii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity to pay (or, in the absence of any such term of transfer, shall itself pay), any stamp duties, stamp

duty reserve taxes and similar capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of the Bonds, but will not pay (and each Securityholder as to itself will be required to pay) any other taxes, stamp duties, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of the Bonds pursuant to Condition 13.2; and

- (iii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity to procure that the Bonds are (A) where the Securities were listed and/or admitted to trading immediately prior to the aforesaid transfer to the Successor Entity, listed and/or admitted to trading (as the case may be) on the same stock exchange (or, if this is wholly impracticable, admitted to trading on another internationally recognised stock exchange or market chosen by the Successor Entity) and (B) admitted to, and traded in, the same clearing system or systems as the Securities or, if this is wholly impracticable, in such other clearing system or systems determined by the Successor Entity provided that this does not materially prejudice the holders of the Bonds.

14 Variations of the Conditions and the Rules

14.1 Variation of the Conditions

Subject as provided in Condition 13, these Conditions may only be varied by the Society (a) with the consent in writing of the Securityholders in accordance with Condition 15.7 or with the sanction of a resolution passed at a separate meeting of the Securityholders held in accordance with Condition 15 and (b) in compliance with prevailing Capital Regulations at such time (including, if then required, obtaining the prior consent of the Regulator).

14.2 Variation of the Rules

- (a) These Conditions do not limit the rights of members of the Society to amend the Rules.
- (b) The Society undertakes not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the Securityholders in that capacity.
- (c) Any amendment to the Rules or any resolution of members of the Society (in either case whether such amendment or resolution is initiated by the Society or by one or more of its members) shall not:
 - (i) limit any rights of any Securityholder to bring an action against the Society for breach of contract in circumstances where the Society is in breach of these Conditions, and furthermore any Securityholder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a Securityholder may sue for a liquidated sum equal to its loss) in circumstances where an amendment has been made to the Rules or any resolution of members of the Society has been passed which is materially prejudicial to the holders of the Securities as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society; or
 - (ii) afford the Society any defence to any claim made in any action referred to under (i) above,

provided, however, that no Securityholder shall be entitled to bring an action against the Society under (i) above, and the Society shall have a valid defence to any such action under (ii) above, if

holders of the Securities have at any time passed a resolution in accordance with Condition 15 (whether at a duly convened meeting of the Securityholders or by way of written resolution) approving, ratifying and/or consenting to the relevant amendment to the Rules or the relevant member resolution, as the case may be.

15 Meetings of the Securityholders

15.1 *Convening the meeting, notice and quorum*

The Society alone may at any time convene a separate meeting of the Securityholders. Every meeting shall be held at such place as the Society may approve.

At least 21 clear days' notice, specifying the hour, date and place of the meeting shall be given to the Securityholders entered in the Securities Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 17. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

Any person (who may, but need not, be a Securityholder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the Securityholders present shall choose one of their number who is present to be chairman.

At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the nominal amount of the Securities for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding Securities or being proxies and representing in aggregate not less than three-quarters of the nominal amount outstanding of the Securities represented at such meeting voting in favour of such question.

15.2 *Adjournment*

If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the Securityholders present in person or by proxy at the adjourned meeting shall be a quorum.

Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 15.1.

The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.

15.3 *Conduct of business of the meeting*

A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.

Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the Securityholders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless it is a Securityholder or is a proxy thereof.

At any class meeting of the Securityholders, every Securityholder or proxy who is present shall have one vote in respect of each £1 in outstanding nominal amount of the Securities held or, as the case may be, in respect of which it is a proxy.

15.4 *Proxies*

A Securityholder entitled to attend a meeting of the Securityholders:

- (a) may appoint one person (whether or not a Securityholder) as its proxy to attend and, on a resolution, to vote at such meeting in its place; and
- (b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed in the manner provided in Schedule 3 to the Agency Agreement.

15.5 *Effect of resolution*

Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the Securityholders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

15.6 *Other matters*

Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.

The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

15.7 *Written resolution*

A resolution may also be passed, without the need for a meeting of Securityholders, by way of a resolution in writing signed by or on behalf of Securityholders holding in aggregate not less than three-quarters in nominal amount of the Securities then. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such Securityholders. Any written resolution passed shall be binding upon all the Securityholders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly.

15.8 Notice

Notice of any resolution duly passed by the Securityholders, whether at a meeting of Securityholders or by written resolution, shall be given in accordance with Condition 17 by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.

16 Further issues

The Society shall be at liberty from time to time without the consent of the Securityholders to create and issue further deferred shares either:

- (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with any series of outstanding deferred shares of the Society (including the Securities); or
- (b) upon such other special terms of issue as the Society may at the time of issue determine.

17 Notices

All notices regarding the Securities shall be valid if sent by post to the Securityholders at their respective addresses in the Securities Register. Any such notice shall be deemed to have been given on the second Business Day following the mailing of such notice. For so long as the Securities are listed or admitted to trading on any stock exchange, such notice shall also be made available in any other manner required by the rules of such stock exchange then in effect.

18 Governing law and rights of third parties

The rights and obligations in respect of the Securities and any non-contractual obligations arising out of, or in connection with, the Securities are governed by, and shall be construed in accordance with, English law.

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Pursuant to section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

19 Definitions

For the purpose of these Conditions:

"5-year Mid-Swap Rate" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period:

- (i) the semi-annual mid-swap rate with a term of five years which appears on the Screen Page as of 11:00 a.m. (London time) on such Reset Determination Date; or
- (ii) if such rate does not appear on the Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate on such Reset Determination Date;

"5-year Mid-Swap Rate Quotations" means the arithmetic mean of the bid and ask rates for the semi-annual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed-for-floating Sterling interest rate swap which:

- (i) has a term of five years commencing on the relevant Reset Date;
- (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and
- (iii) has a floating leg based on 6-month LIBOR rate (calculated on an Actual/365 (Fixed) day count basis);

"Accounting Currency" means Sterling or such other primary currency used in the presentation of the Society's accounts from time to time;

"Accrual Date" has the meaning ascribed thereto in Condition 5.1;

"Act" means the Building Societies Act 1986, as amended;

"Actual/365 (Fixed)" means, in respect of any period, the actual number of days in that period divided by 365;

"Additional Trigger Calculation Date" means any day (other than a Financial Period End Date) on which the CET1 Ratio is calculated upon the instruction of the Regulator or at the Society's discretion;

"Assets" means the unconsolidated gross assets of the Society as shown in its latest published audited balance sheet, but adjusted for subsequent events in such manner as the Board may determine;

"Board" means the Board of Directors of the Society;

"Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

"Calculation Agent" means any calculation agent which may be appointed by the Society from time to time to determine any adjustment or adjustments to the Conversion Price;

"Calculation Amount" means £1,000 in nominal amount of Securities;

"Capital Regulations" means any requirements of United Kingdom law or contained in the regulations, requirements, guidelines and policies of the Regulator, or of the European Parliament and the European Council, then in effect in the United Kingdom relating to capital adequacy and applicable to the Society;

"Capital Requirements Directive" means Directive (2013/36/EU) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time;

"Capital Requirements Regulation" means Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (and amending Regulation (EU) No 648/2012) dated 26 June 2013, as amended or replaced from time to time;

"CCDS" means Core Capital Deferred Shares of the Society;

"CCDS holder" means a holder of a CCDS;

"Certificate" has the meaning ascribed thereto in Condition 2.3;

"CET1 Ratio" means, as at any Financial Period End Date or Additional Trigger Calculation Date, as the case may be, either (a) the ratio of Common Equity Tier 1 of the Society as at such date to the Risk Weighted Assets of the Society as at the same date, in each case calculated by the Society on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) and expressed as a percentage; or (b) the ratio of Common Equity Tier 1 of the Society as at such date to the Risk Weighted Assets of the Society as at the same date, in each case calculated by the Society on a consolidated basis and expressed as a percentage;

"Common Equity Tier 1" means, as at any date, the sum, expressed in the Accounting Currency, of all amounts that constitute common equity tier 1 capital of the Society as at such date, less any deductions from common equity tier 1 capital required to be made as at such date, in each case as calculated by the Society on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or, as the context requires, a consolidated basis, in each case in accordance with the then prevailing Capital Regulations but without taking into account any transitional, phasing-in or similar provisions;

"Conversion" has the meaning ascribed thereto in Condition 8.1;

"Conversion Date" means the date specified as such in the relevant Conversion Notice, which shall be not later than one month (or such shorter period as the Regulator may require) from the occurrence of the Conversion Trigger;

"Conversion Notice" has the meaning ascribed thereto in Condition 8.2;

"Conversion Price" has the meaning ascribed thereto in Condition 8.4;

"Conversion Trigger" has the meaning ascribed thereto in Condition 8.1;

"Converted" has the meaning ascribed thereto in Condition 8.1;

"Current Market Price" means, in respect of a CCDS as at a particular date, the volume weighted average price of the CCDS observed over the 5 dealing days ending on the dealing day immediately preceding such date; provided that if the Society or, if applicable, its appointed Calculation Agent is not able to obtain sufficient information over such 5 dealing days from a relevant screen page on Bloomberg, Reuters or another information service of recognised standing in order to determine such volume weighted average price, it shall request at least four reference banks (selected by the Society or, if appointed, the Calculation Agent in consultation with the Society) to provide it with quotations for (or a best estimate of quotations for) prices of trades in a representative amount of CCDS for each of the 5 dealing days. If one or more of the reference banks provide such quotations, the Current Market Price shall be the arithmetic mean of such quotations as determined by the Society or, if appointed, the Calculation Agent;

"dealing day" means a day on which the London Stock Exchange plc or relevant market is open for business and on which the CCDS may be dealt in (other than a day on which the London Stock Exchange plc or relevant market is scheduled to or does close prior to its regular weekday closing time);

"Distributable Items" has the meaning ascribed thereto in Condition 6.2;

"Distribution" means any dividend on, repayment in part of the nominal amount of, or other distribution on, a CCDS, in each such case, made by the Society in cash (whatever the currency);

"Effective Date" has the meaning ascribed thereto in Condition 8.5(c);

"Excluded Dissolution" means a dissolution of the Society by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Act, or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended;

"Financial Period End Date" means the last day of any semi-annual financial period of the Society;

"Financial Year" means the financial year of the Society (being the one-year period in respect of which it prepares annual audited financial statements) from time to time, which as at the Issue Date runs from (and including) 5 April in one calendar year to (but excluding) the same date in the immediately following calendar year;

"First Call Date" means 20 June 2019;

"FSMA" means the Financial Services and Markets Act 2000, as amended;

"Independent Financial Adviser" means an independent financial institution or adviser (which, for the avoidance of doubt, may (but need not) be any appointed Calculation Agent) with appropriate expertise in the context of its appointment, appointed by the Society at its own expense;

"Initial Interest Rate" has the meaning ascribed thereto in Condition 5.4;

"Interest Payment" means, in respect of an Interest Payment Date, the amount of interest which, subject to Conditions 6 and 8, is payable for the relevant Interest Period in accordance with Condition 5;

"Interest Payment Date" means 20 June and 20 December in each year, starting on (and including) 20 June 2014;

"Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Rate" means the Initial Interest Rate and/or the applicable Reset Interest Rate, as the case may be;

"Issue Date" means 11 March 2014;

"Junior Obligations" has the meaning ascribed thereto in Condition 4.2;

"Liabilities" means the unconsolidated gross liabilities of the Society as shown in its latest published audited balance sheet, but adjusted for contingent liabilities and for subsequent events in such manner as the Board may determine;

"Margin" means 4.88 per cent. per annum;

"Maximum Distributable Amount" has the meaning ascribed thereto in Condition 6.2;

"Parity Obligations" has the meaning ascribed thereto in Condition 4.2;

"Principal Paying Agent" means Citibank, N.A., London Branch or such other principal paying agent appointed by the Society from time to time in respect of the Securities;

"Registrar" means Citibank, N.A., London Branch or such other registrar appointed by the Society from time to time in respect of the Securities;

"Regulator" means the UK Prudential Regulation Authority and any successor or replacement thereto or such other authority in the United Kingdom or the European Union having primary responsibility for the prudential oversight and supervision of the Society;

"Regulatory Event" has the meaning ascribed thereto in Condition 7.4;

"Relevant Date" means whichever is the later of: (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received by the Registrar, the Principal Paying Agent or another registrar or agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Securityholders;

"Reset Date" means the First Call Date and each date that falls five, or a multiple of five, years following the First Call Date;

"Reset Determination Date" means, in relation to a Reset Period, the day falling two Business Days prior to the Reset Date on which such Reset Period commences;

"Reset Interest Rate" means, in relation to a Reset Period, the sum of: (a) the 5-year Mid-Swap Rate in relation to that Reset Period; and (b) the Margin;

"Reset Period" means each period from (and including) any Reset Date and ending on (but excluding) the next Reset Date;

"Reset Reference Bank Rate" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Principal Paying Agent at approximately 12:00 p.m. (London time) on such Reset Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, 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). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Call Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Call Date, 6.875 per cent. per annum;

"Reset Reference Banks" means six leading swap dealers in the interbank market selected by the Principal Paying Agent (excluding the Principal Paying Agent or any of its affiliates) in its discretion after consultation with the Society;

"Risk Weighted Assets" means, as at any date, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of the Society as at such date, as calculated by the Society on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or, as the context requires, a consolidated basis, in each case in accordance with the then prevailing Capital Regulations;

"Screen Page" means Bloomberg screen "ICAB1" or such other page as may replace it on Bloomberg or, as the case may be, on such other information service that may replace Bloomberg, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate;

"Securities" means the £1,000,000,000 Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities of the Society and includes any further Securities issued pursuant to Condition 16(a)

which are consolidated and form a single series with the Securities, and "**Security**" shall be construed accordingly;

"**Securityholder**" means a person whose name and address is entered in the Securities Register as the holder of Securities or, in the case of a joint holding of Securities, the first person whose name is entered in the Securities Register in respect of the joint holding of the Securities;

"**Securities Register**" means the records of the Society maintained by the Registrar for the purposes of the Securities;

"**Senior Obligations**" has the meaning ascribed thereto in Condition 4.2;

"**Society Conversion Benefits**" has the meaning ascribed thereto in Condition 1.3;

"**Solvency Test**" has the meaning ascribed thereto in Condition 4.4;

"**Sterling**" or "**£**" means British pounds sterling;

"**Subsidiary**" means each subsidiary undertaking (as defined under section 119 of the Act) for the time being of the Society;

"**Tax Event**" has the meaning ascribed thereto in Condition 7.3;

"**Tax Law Change**" has the meaning ascribed thereto in Condition 7.3;

"**Tier 1 Capital**" has the meaning given to it (or any successor term) in the Capital Regulations from time to time; and

"**Tier 2 Capital**" has the meaning given to it (or any successor term) in the Capital Regulations from time to time.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE REPRESENTED BY THE GLOBAL CERTIFICATE

The following is a summary of the provisions to be contained in the Agency Agreement and in the Global Certificate which will apply to, and in some cases modify the effect of, the Conditions while the Securities are represented by the Global Certificate:

1. EXCHANGE OF THE GLOBAL CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to Securities in a name other than that of the nominee for Euroclear and Clearstream, Luxembourg, Citivic Nominees Limited, (the "Nominee") will be permitted only if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Registrar is available. References herein to "**Accountholders**" are to each person (other than Euroclear and Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of a particular number of Securities (in which regard any certificate or other document issued by that clearing system as to the number of Securities standing to the account of any person shall be conclusive and binding for all purposes).

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders (as defined above)) may give notice to the Society of its intention to exchange the Global Certificate for definitive Certificates on or after the Exchange Date (as defined below).

On or after the Exchange Date, the Nominee may surrender the Global Certificate to, or to the order of, the Registrar. In exchange for the Global Certificate, the Registrar will deliver, or procure the delivery of, definitive Certificates in minimum nominal amounts of £100,000 and integral multiples of £1,000 in excess thereof printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive Certificates.

For these purposes, "**Exchange Date**" means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

2. PAYMENTS

Payments due in respect of Securities represented by the Global Certificate shall be made by the Registrar or the Principal Paying Agent to, or to the order of, the Nominee. A record of each payment made in respect of Securities represented by the Global Certificate will be endorsed on the appropriate part of the schedule to the Global Certificate by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Securities.

Payment by the Registrar or the Principal Paying Agent to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the Securities. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner (as defined below) who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its Securities for its share of each payment made to such Accountholder.

3. TRANSFERS

Transfers of book-entry interests in the Securities will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

4. NOTICES

For so long as the Securities are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, notices may be given to the Securityholders by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant Accountholders and Beneficial Owners in substitution for despatch and service as required by Condition 17. Such notice shall be deemed to have been given on the date of delivery of the notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for such communication.

5. MEETINGS; MEMBERSHIP RIGHTS WHILST THE SECURITIES ARE HELD THROUGH EUROCLEAR AND/OR CLEARSTREAM, LUXEMBOURG

Save as permitted in paragraph 1 above, investors will hold their Securities directly or indirectly through Accountholders with Euroclear and Clearstream, Luxembourg and will not themselves be entered on the Securities Register as holder of the relevant Securities. Instead, the holder entered on the Securities Register for such Securities shall be the Nominee and the relevant Accountholder's holding of interests in such Securities will be recorded in the internal records of Euroclear and/or Clearstream, Luxembourg, as the case may be.

This means that Accountholders and Beneficial Owners will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the members of the Society or in a postal ballot or to any other similar membership rights. Instead, the members' rights attaching to the Securities held through Euroclear and Clearstream, Luxembourg will be held by the Nominee. Such Nominee will be entered in the Securities Register as the holder of such Securities, and will be entitled to exercise the voting and other members' rights attributable to such Securities. Each member of the Society has one vote at any general meeting of the members of the Society. Accordingly, the Nominee will be entitled to exercise one vote at any such meeting, regardless of the nominal amount of Securities held by it (and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society).

Given the difficulty of casting the single vote at a general meeting of the members of the Society in a manner which reflects the views of all Beneficial Owners of Securities and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as it relates to its holding of Securities.

At a separate meeting of Securityholders only, the Nominee will have one vote per £1,000 in nominal amount of Securities and will act on the instructions of one or more Accountholders (who in turn will act on the direct or indirect instructions of Beneficial Owners holding through such Accountholders) received by it through Euroclear or Clearstream, Luxembourg, as the case may be. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of Securityholders. Those provisions include arrangements pursuant to which a Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its CCDS, or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its Securities shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 15.4(a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of Securityholders. Each proxy shall be appointed in respect of such nominal amount of Securities specified by the Nominee (provided that no two proxies can be appointed in respect of the same Securities). The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of Securityholders, by way of electronic consents communicated through the electronic communications systems of the relevant clearing

system(s) by or on behalf of Securityholders holding in aggregate not less than three-quarters of the number of Securities for the time being outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Society Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Society Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the Securities in the Securities Register. The Nominee will, on or prior to the issue date of the Securities, irrevocably agree to assign to The Nationwide Foundation (or other charities nominated by The Nationwide Foundation) any Society Conversion Benefits.

As used herein:

"Beneficial Owner" means each person who for the time being holds any interests in Securities for its own account (and not only as custodian or an Intermediary for another person) (and **"Beneficial Owners"** shall be construed accordingly); and

"Intermediary" means each of Euroclear and Clearstream, Luxembourg and each Accountholder, custodian, broker or other intermediary who for the time being holds interests in Securities (as custodian or otherwise) for the account of another person (and **"Intermediaries"** shall be construed accordingly).

6. CONVERSION

Any Conversion of Securities held in Euroclear or Clearstream, Luxembourg will be effected in accordance with the procedures set out in the Conversion Notice referred to in Condition 8.2 and otherwise in accordance with the relevant procedures of Euroclear and Clearstream, Luxembourg.

7. PRESCRIPTION

Claims against the Society in respect of any amounts payable in respect of the Securities represented by the Global Certificate will be prescribed after 12 years from the due date and shall revert to the Society.

8. PURCHASE AND CANCELLATION

Cancellation of any Securities purchased and surrendered for cancellation in accordance with Condition 7 will be effected by a corresponding reduction in the nominal amount of Securities represented by the Global Certificate.

9. RECORD DATE

For so long as all Securities are held in Euroclear and Clearstream, Luxembourg, the Record Date shall be determined in accordance with Condition 9, provided that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day" (where **"ICSD Business Day"** means a day on which Euroclear and Clearstream, Luxembourg are open for business).

10. DIRECT RIGHTS

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph **"Direct Rights"**, include a Securityholder becoming entitled to bring any action against the Society as contemplated by Condition 14.2) or upon a winding-up or dissolution of the Society, each Beneficial Owner at the time of such breach (each a **"Relevant Person"**) shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding-up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights (**"Direct Rights"**) which such Relevant Person would have had if, at the time of the relevant breach of contract, such Relevant Person had been identified in the Securities Register as the registered holder of such nominal amount of Securities (the

"**Underlying Securities**") as is equal to the nominal amount of CCDS which are credited to such Relevant Person's securities account with Euroclear or Clearstream, Luxembourg (or, as the case may be, with any Intermediary) at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Direct Rights will be acquired automatically at the time of the relevant breach of contract, without the need for any further action on behalf of any person. The Society's obligation hereunder shall be a separate and independent obligation to each Relevant Person by reference to each Underlying Securities of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of Euroclear and Clearstream, Luxembourg and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the nominal amount of Underlying Securities credited to the securities account of each Relevant Person; provided that the records of an Intermediary shall be conclusive evidence of the identity of any Relevant Persons only if accompanied by records of (i) the Accountholder (and any other Intermediary) through which such Intermediary holds the relevant Securities and (ii) Euroclear or Clearstream, Luxembourg (as applicable), which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of Euroclear or Clearstream, Luxembourg (as applicable). For these purposes, a statement issued by Euroclear and/or Clearstream, Luxembourg (as applicable) and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the nominal amount of Underlying Securities credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract, shall be conclusive evidence of the records of the relevant clearing system or (subject to the foregoing proviso) such Intermediary (as the case may be) at the time of the relevant breach of contract.

11. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

References in the Global Certificate and this summary to Euroclear and Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved for the purposes of the Securities by the Registrar.

12. SUCCESSION AND TRANSFERS

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 13.2, the Nominee will (unless otherwise agreed as part of the terms of the transfer at the relevant time) direct that the securities to be delivered to it shall instead be delivered directly to (or to the order of) the Beneficial Owners as if those Beneficial Owners had, at the vesting date, held in definitive form the nominal amount of Securities corresponding to their book-entry interest in the Securities at that time.

CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY

1. AMALGAMATION

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society, as well as confirmation of amalgamation by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which, in the case of the Society, would include the Securities) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned. In the event of such an amalgamation by the Society with another building society, the Securities would, pursuant to their terms, become deferred shares in the successor without any alteration of their terms, except as set out in Condition 13.1.

2. TRANSFER OF ENGAGEMENTS

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its Board of Directors only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities (including the Securities) of the Society, the Securities would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms, except as set out in Condition 13.1.

3. TRANSFER OF BUSINESS

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution passed by borrowing members. The society must also obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the Securities) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, the Securities would be converted into deposits with the successor. Condition 13.2 provides that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor, subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the Society to acquire shares in priority to other subscribers, the right is restricted to shareholding members of the Society who have held their shares throughout the period of two years expiring on a qualifying day specified by the Society in the transfer agreement. Also, all shareholding members' shares, including Securities, are converted into deposits with the successor. On any such transfer, shareholding members of the Society who were

members on the qualifying date but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of the reserves of the Society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain shareholding members of the Society who have held their shares for at least two years expiring on a qualifying day specified by the Society in the transfer agreement.

4. GENERAL

The Society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced as the principal debtor, under all or some of the Securities, by an entity substantially different in nature from the Society at present or with a substantially different capital position. In all cases, the confirmation of the Supervisory Authority is required before any such change can take place.

USE OF PROCEEDS

The net proceeds of the issue of the Securities (estimated to be approximately £990,640,000) will be used by the Society to strengthen its regulatory capital base and for general business purposes consistent with the Society's principal purpose as a UK building society.

DESCRIPTION OF THE SOCIETY

Overview

The Society is a building society, incorporated in England and Wales under the United Kingdom Building Societies Act 1986, as amended, and authorised by the PRA and regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. The Society's FCA Mutuals Public Register Number is 355B. The principal office of the Society is Nationwide Building Society, Nationwide House, Pipers Way, Swindon, SN38 1NW (phone number +44 (0) 1793 513 513). The Society is the largest building society in the United Kingdom in terms of total assets, with £193 billion of assets as at 30 September 2013. It has over 775 branches and 15 million customers, meaning that Nationwide has a relationship with around one quarter of the population of the UK.

Nationwide's core business is providing personal financial services, with retail activities divided into distinct portfolios: residential mortgage loans, savings, general insurance; personal banking products; and financial planning. In addition, Nationwide's activities include specialist lending in both the commercial real estate and buy to let sectors, as well as deposit-taking for SMEs. Additionally, Nationwide maintains an investment portfolio of debt securities for its own account.

Nationwide's strategic agenda for the past six years has consistently focused on:

- ensuring a strong, stable and secure business, with diversified income streams;
- increasing its share of the retail banking market, providing a meaningful alternative to the established plc banks;
- using its mutual status to provide service and products that are demonstrably better than those of its plc banking competitors; and
- transforming and modernising the business.

As at 30 September 2013, Nationwide held approximately 11.5 per cent. (according to BoE data) of total UK residential mortgage balances and approximately 10.8 per cent. (as calculated by Nationwide based on BoE data) of total UK retail savings balances. The Society is the third largest residential mortgage lender in the United Kingdom and one of the three largest household savings providers. Substantially all of Nationwide's activities are in the United Kingdom.

As a mutual organisation, the Society has historically not had equity shareholders, but has been managed for the benefit of its members, being the majority of its retail savings and residential mortgage customers as well as holders of deferred shares, such as permanent interest bearing shares, issued by it. Following the issue on 6 December 2013 of 5,500,000 CCDS, the Society's members will include the registered holder(s) of the CCDS, being, as at the date of this Offering Circular, a nominee for Euroclear and Clearstream, Luxembourg.

Nationwide is focused on serving the interests of its customers and members as a whole, while retaining sufficient profits to increase and further develop its business and to meet all applicable regulatory requirements.

Nationwide benchmarks its products and performance against a group of leading retail banks operating in the UK (Barclays, HSBC, Lloyds, Santander UK and RBS) and typically seeks to offer more consistent long-term good value on savings and prime mortgages than is offered by this peer group. In addition to returning value to members through its competitive products, the Directors believe that the Society provides better service to its customers than that offered by any of its competitors and this is a key component of Nationwide's strategy.

Paragraph 3 of the Memorandum provides that the Society's principal purpose is making loans which are secured on residential property and are funded substantially by its members and the other purposes of the Society are:

- (a) to carry on the businesses of banking, investment, insurance and the provision of financial services and facilities;
- (b) to carry on any businesses connected with the provision of housing or other accommodation or any services relating to housing or other accommodation;
- (c) to carry on any businesses in the fields of information technology, data processing and communications;
- (d) to carry on any businesses involving the provision of goods or other services (whether for consumers or others) or dealing in any property;
- (e) to act as a parent undertaking and investment body and to assist and co-ordinate the activities of any undertakings in which it holds an interest;
- (f) to promote and support community and charitable purposes;
- (g) to carry on or participate in any business or other activity which, in the opinion of the Board of Directors or any duly authorised officer or employee of the Society, may conveniently be carried on in connection with any other activity of the Society or for developing, taking advantage of or protecting any of the property or income of the Society or any connected undertaking of the Society or managing any risks associated with the activities of the Society or any connected undertaking of the Society.

The information contained in this section headed "*Description of the Society*" has been provided by the Society and other sources identified in this section. Any information provided by a third party has been accurately reproduced and as far as the Society is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

History and Development of the Society

Building societies have existed in the UK for over 200 years. From the outset, they were community-based, cooperative organisations 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. The Society's origins go back to the mid-1800s.

Over the past 25 years, many building societies have merged with other building societies or, in some cases, transferred their businesses to the subsidiary of another mutual organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the UK has fallen, from 137 in 1985 to 45 as at 31 October 2013. One consequence of this decrease is that almost all of Nationwide's principal competitors are banks. The Society believes that its mutual status allows it to compete successfully with banks, and it is the Society's strategy to remain a building society.

In 1997, when many of Nationwide's competitors that were building societies demutualised, Nationwide experienced a sharp increase in the number of new retail savings accounts. Nationwide believes that many of these accounts were opened because customers expected the Society to demutualise and wanted to receive any associated windfall distributions. At the Society's annual general meeting in 1998, its members voted against a proposal to demutualise and no subsequent motion to demutualise has since been proposed at a general meeting of the Society. In order to prevent the disruption caused by speculative account opening, Nationwide has generally required all new members opening accounts with it since November 1997 to assign

to charity any windfall benefits which they might otherwise have received as a result of a future demutualisation. As such, a majority of members would not benefit personally from either a demutualisation or takeover of Nationwide, significantly lessening the incentive to vote for demutualisation or any proposed takeover of the Society by a competitor which is incorporated as a limited liability company.

The Society has been involved in a number of mergers and acquisitions in recent years, including:

- a merger with Portman Building Society (which at the time of the merger had assets of approximately £20 billion compared to Nationwide's £160 billion) in August 2007;
- mergers in 2008 with Cheshire Building Society and Derbyshire Building Society which at the time of the mergers had, respectively, assets of approximately £4.6 billion and £6.2 billion (including loans and advances to customers of £3.7 billion and £5.0 billion, respectively) and liabilities of £4.5 billion and £6.2 billion (including customer retail savings of £3.2 billion);
- the acquisitions of approximately £1.5 billion of selected assets and liabilities representing the core part of the Dunfermline Building Society in March 2009 (assets included loans and advances to customers of £1.0 billion and liabilities included customer retail savings and current accounts of £2.3 billion) and a further social housing portfolio of approximately £0.4 billion in June 2009; and
- the acquisition of a prime residential mortgage portfolio of approximately £1.2 billion from the Bank of Ireland in December 2011.

In addition, the Society opened its first branch in the Republic of Ireland in March 2009. The Society believes that these developments have added value to Nationwide, improved its distribution footprint and helped to grow the membership and are a testament to the strength of Nationwide and its ability to provide support to the building society sector in ways which add value to its membership.

The Nationwide brand is the Society's principal retail personal financial services brand. Nationwide retains a branch presence for each of the Derbyshire, Cheshire and Dunfermline brands, although the Directors consider that the strength of the Nationwide brand significantly outweighs those other brands, and the Society intends, by March 2015, to have completed a programme to migrate all of its existing operations onto the Nationwide brand.

Strategy

Nationwide's vision is to be the first choice for financial services in the UK. 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 inter-dependent themes:

- **its 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 on serving their needs.
- **its people:** Nationwide has a culture, underpinned by its heritage, which drives the right customer outcomes and differentiates Nationwide from the banks. It recruits, develops and rewards the right values, professional standards and behaviours in its people.
- **its business model:** Nationwide aims to make sufficient profit to strengthen its balance sheet, to allow it to grow and to invest for the future needs of its members and the sustainability of the Society. Profits above the level necessary to sustain its business are returned to its membership through better product pricing, enhanced service and rewards for loyalty. Nationwide stands up for the rights and interests of its members and, by virtue of its size, scale and reach, acts as the standard bearer of the mutual sector.

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.

In order to achieve its goal of becoming the first choice for financial services in the UK, Nationwide intends to:

- position itself as a meaningful and viable alternative brand;
- promote the benefits of mutuality; and
- diversify its business model.

1. *Position itself as a meaningful and viable alternative brand*

Nationwide is currently one of the leading providers of retail savings and residential mortgage products in the UK. For further information, please refer to the section entitled "*Description of the Society – Overview*" above. Nationwide's aim, however, is to be recognised as the first choice for financial services in the UK. Nationwide is therefore 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.

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. The Society's new banking system, a core part of its transformation programme, has delivered the first products in a new range of current accounts designed to attract new customers and provide greater choice to existing customers;
- optimise 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 programme (see paragraphs "*Distribution network – E-commerce*" and "*Investments*" below). Nationwide also expects to rationalise 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 broader range of banking and savings products and ensure that its processes are orientated to deliver leading customer service. The new banking system delivered through the transformation programme is a key element of this strategy.

2. *Promote the benefits of mutuality*

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 CCDS.

Given the current media focus on negative banking practices in the UK, Nationwide intends to continue to emphasise the safety and security offered by its 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, rating 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, Nationwide expects to increase its use of shared services to reduce costs and improve efficiency.

3. Diversify its business model

Nationwide's core business is providing retail personal financial services. Nationwide recognises 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, Nationwide's personal current account. 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 programme is a key part of its business diversification strategy with its new banking system and internet bank in particular being intended to drive greater penetration into the personal current accounts market. For further information on Nationwide's transformation programme, see paragraph "*Investments*" below. Nationwide also intends to continue to expand its already strong presence in the residential buy to let market and broaden its commercial deposit taking activities.

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:

- achieve at least a 6 per cent. lead over the Society's nearest competitors in customer service satisfaction;
- grow its base of valuable customer relationships to at least 7.5 million;
- grow its market shares in mortgages (to at least 12 per cent.), in personal current accounts (towards its long-term target of 10 per cent.) and in all other active product lines (to at least 5 per cent.) and maintain its market share in savings (of at least 10 per cent.);
- have a Core Tier 1 capital ratio in the top quartile of its peer group;
- maintain average risk weightings in the bottom quartile of its peer group;

- become self-sufficient in capital with a profit of £1 billion per annum;
- run an efficient business with a cost income ratio of between 45 and 50 per cent.; and
- achieve the high performance external benchmark for both employee enablement and engagement as measured by its annual ViewPoint employee survey.

United Kingdom Residential Mortgage Lending to Individuals

The majority of Nationwide's lending portfolio consists of UK residential mortgage loans to individuals, which are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan. This lending can take the form of either prime residential lending (where the borrower is the owner and occupier of the mortgaged property and meets Nationwide's credit requirements for prime lending) or specialist residential lending (which are loans advanced to borrowers who intend to let the mortgage property). Nationwide also has outstanding specialist mortgage loans which were advanced to borrowers who self-certified their income and to other borrowers who did not meet its prime borrower credit requirements, although no such new specialist lending is currently undertaken. Nationwide's policy is for all residential mortgage loans to be fully secured first priority loans on the mortgaged property, to ensure that its claim to the property, in the event of default, is senior to those of other potential creditors. As a result, Nationwide's residential mortgage lending carries lower risk than many other types of lending.

As at 30 September 2013, Nationwide was the third largest mortgage lender in the United Kingdom (as measured by total loans outstanding) with total residential mortgage lending fully secured on residential property of £141.2 billion. During the six months ended 30 September 2013 and during the year ended 4 April 2013, Nationwide's gross new lending amounted to £14.0 billion and £21.5 billion, respectively. Nationwide's residential mortgage loans are generally granted for terms of 21 years, although their typical life is less than this due to the high level of early redemptions, characteristic of the UK residential mortgage market.

As at 30 September 2013, Nationwide's outstanding prime and specialist residential lending was £115.7 billion and £25.6 billion, respectively. The following table sets out a breakdown of Nationwide's prime and specialist residential mortgage lending outstanding balances as at 30 September 2013:

	As at 30 September 2013 (£ billions)
Prime	115.7
Specialist	25.6
of which:	(per cent.)
Buy to let	82%
Self-certified ⁽¹⁾	12%
Other ⁽¹⁾⁽²⁾	6%
Total	100%

Notes:

(1) New loans no longer advanced

(2) Other includes £0.4 billion of sub-prime lending, a majority of which was acquired as part of the mergers with the Cheshire and Derbyshire building societies.

Nationwide's specialist lending division operates through The Mortgage Works (UK) plc ("TMW") which had gross lending during the six months ended 30 September 2013 and during the year ended 4 April 2013 of £1.7 billion and £3.3 billion, respectively, making it an influential lender in the specialist residential mortgage sector. The Society has a national franchise within the United Kingdom, with a regional distribution of residential mortgage lending to individuals generally matching the UK's regional gross domestic product.

The following table sets out the geographical distribution of the Society's residential mortgage loans as at 30 September 2013:

	<u>As at 30 September 2013</u>
Region	
Central England	22%
Greater London	22%
Northern England	20%
South-east England (excluding London)	11%
South-west England	9%
Scotland	9%
Wales and Northern Ireland	7%
Total	<u>100%</u>

Nationwide currently offers fixed rate and tracker rate mortgages. These products have a set rate, or a set methodology for determining a variable rate, for an initial set term, after which the rate reverts to one of the Society's two general variable rates. The Society's fixed-rate products currently offer a term of one, two, three, four or five years, but the Society has from time to time offered longer fixed terms, including 10 and 25 years. The Society's tracker rate products bear interest during the initial term (currently two or three years) at a variable rate that is a fixed percentage above the BoE's base rate. After the end of the initial fixed rate or tracker period, the interest rate reverts to either the Society's base mortgage rate (if the mortgage was originated on or before 29 April 2009) or the Society's standard mortgage rate (if the mortgage was originated on or after 30 April 2009). Both the base mortgage rate and the standard mortgage rate are variable rates set at the Society's discretion, except that the base mortgage rate is guaranteed to be not more than 2 per cent. above the base rate set by the BoE from time to time.

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

The following table sets out the total residential mortgage loans to individuals by product type that Nationwide had outstanding as at 30 September 2013 as a percentage of its total residential mortgage loans to individuals:

	<u>As at 30 September 2013</u>
Mortgage type	
Fixed rate	36%
Tracker rate	8%
Standard variable rate (including BMR)	56%
Total	<u>100%</u>

The following table sets out an analysis of the Society's gross residential mortgage loans advanced by product type during the six months ended 30 September 2013 and during the financial year ended 4 April 2013:

	For the six months ended 30 September 2013	For the financial year ended 4 April 2013
Mortgage type		
Fixed rate	89%	78%
Tracker rate	4%	12%
Standard variable rate (including BMR)	7%	10%
Total	100%	100%

The Directors believe that Nationwide's asset quality has remained strong as a result of its continued prudent approach to lending. The average loan to value ("LTV") ratio of new residential mortgage lending during the six months ended 30 September 2013 and during the year ended 4 April 2013 was 69 per cent. and 67 per cent. respectively, and the indexed LTV ratio for the whole residential portfolio was 49 per cent. at 30 September 2013. Only 4 per cent. of Nationwide's total mortgage book has an indexed LTV ratio in excess of 90 per cent., based on value, as at 30 September 2013. The proportion of Nationwide's mortgage accounts which are three months or more in arrears was 0.70 per cent. as at 30 September 2013, less than half of the CML industry average of 1.75 per cent.

The following table compares Nationwide's residential mortgage loans which are three months or more in arrears as at 30 September 2013 against the UK industry average for such loans as at the same date:

	As at 30 September 2013	
	Nationwide⁽¹⁾	UK industry average⁽²⁾
Arrears		
3-6 months	0.34 ⁽³⁾ %	0.80%
6-12 months	0.23 ⁽³⁾ %	0.57%
Over 12 months	0.13 ⁽³⁾ %	0.38%

Notes:

(1) Nationwide prime and specialist residential lending, including third party originated lending.

(2) Source: CML.

(3) These percentages are based on the total residential mortgage lending portfolio.

Nationwide utilises an automated credit scoring system to assist in minimising credit risk on residential mortgage lending. Nationwide's credit procedures for residential mortgage lending take into account the applicant's credit history, LTV criteria, income multiples and an affordability calculation, or shock test, that tests the applicant's ability to service the loan at higher interest rates.

In current market conditions, Nationwide is particularly keen to support its existing members and has introduced products to support first-time buyers, such as its Save to Buy Savings Account, which is a dedicated savings account to help a first time buyer save a deposit combined with a competitive interest rate on the buyer's mortgage when the buyer is ready to buy his first home. The Directors believe that first-time buyers offer significant potential for additional sources of income through the distribution of insurance and personal investment products. During the six months ended 30 September 2013 and during the year ended 4 April 2013, 30 per cent. and 27 per cent., respectively, by volume of residential mortgage advances that Nationwide made were to first-time buyers and 70 per cent. and 73 per cent., respectively, were to experienced buyers (although the figure includes 16 per cent. and 21 per cent., respectively, of buy to let buyers, which may include non-experienced buyers). The table below sets out Nationwide's share of the first

time buyer market in each of the six month periods ended 30 September 2013 and 30 September 2012 and in each of the years ended 4 April 2013, 4 April 2012 and 4 April 2011, respectively:

	Six months ended		Year ended 4 April		
	30 September		2013 2012 2011		
	2013	2012	2013	2012	2011
Number of first time buyer loans advanced by					
Nationwide	30,431	19,985	42,490	24,081	22,199
Nationwide's share of total number of first time buyer loans advanced (<i>per cent.</i>) ⁽¹⁾	21.8	18.8	19.5	11.7	11.5
Value of all loans advanced by Nationwide (£ <i>billion</i>)	4.2	2.5	5.3	2.9	2.5
Nationwide's share of total value of all loans advanced (<i>per cent.</i>) ⁽¹⁾	22.1	18.5	19.1	11.5	10.7

Notes:

(1) Sources: Nationwide and CML.

Commercial Secured Lending

Nationwide's commercial business stream currently manages three commercial secured lending portfolios which, as at 30 September 2013, accounted for 11.6 per cent. of its total loan assets.

To maintain a prudent balance between its asset classes, Nationwide currently has a 15 per cent. cap on commercial lending as a percentage of its total outstanding lending. Nationwide intends to maintain a low risk exposure to commercial secured lending in its commercial loan portfolio.

Nationwide's commercial loan portfolio consists of loans secured on commercial real estate ("Property Finance Loans"), loans made to UK registered social landlords which are secured on residential property ("RSL Loans") and other secured loans that Nationwide extends to entities that raise capital for Government sanctioned projects such as schools, hospitals and roads under the UK PFI legislation ("PFI Loans"), and includes assets acquired from the Cheshire, Derbyshire and Dunfermline building societies.

The RSL Loans and PFI Loans portfolios are currently closed to new business. In line with its selective risk appetite, Nationwide plans to undertake measured new lending in the Property Finance Loans market whilst also reducing its total exposure.

The following table sets out the amount and proportion of each of these types of loans on a gross basis as at 30 September 2013:

	As at 30 September 2013	
	(£ billions)	(percentage of total commercial loans)
Commercial secured loans		
Property Finance Loans	9.5	50%
RSL Loans	8.1	42%
PFI Loans	1.5	8%
Total	19.1	100%

Property Finance Loans are secured on commercial real estate. Nationwide has limited exposure to development finance within this portfolio. As at 30 September 2013, there were 338 Property Finance Loans in the portfolio which had arrears of more than three months with an aggregate arrears balance of £77.5 million. Nationwide's Property Finance Loans portfolio has been adversely affected by recessionary market conditions in the UK and economic uncertainty and ongoing funding pressures across the banking sector. In addition, a trend towards higher regulatory capital requirements for commercial real estate lending has also significantly reduced the availability of credit for refinance within the sector.

In 2012, Nationwide established a separate Specialised Support Unit to manage out £7.1 billion of Property Finance Loans categorised by Nationwide as default, weak or satisfactory/good. This portfolio is subject to intensive management from dedicated portfolio managers and the division reports directly into Nationwide's Finance Director. Nationwide is actively managing down the portfolio in the Specialised Support Unit which, as at 30 September 2013, had been reduced to £6.1 billion.

RSL Loans are secured on residential property, but the terms of these loans differ significantly from other loans secured on real property in that Nationwide's ability to repossess the property on a default is limited by legislation. UK registered social landlords provide affordable housing supported by Government grants. This portfolio historically has carried a lower risk than Nationwide's other commercial lending activities, and there are currently no arrears of three months or more in Nationwide's RSL Loan portfolio. To date Nationwide has not raised any loss provisions against this portfolio.

PFI Loans 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. Nationwide has not suffered any losses on lending in this portfolio.

Consumer Banking

Nationwide engages in consumer banking, which accounted for 2.3 per cent. of its total loan assets as at 30 September 2013.

Almost all of Nationwide's consumer loans are made on an unsecured basis although it also offers consumer loans secured on residential property.

Nationwide offers three different forms of unsecured consumer lending:

- personal unsecured loans, which had gross outstanding balances of £1.9 billion as at 30 September 2013;
- credit card lending, which had gross outstanding balances of £1.5 billion as at 30 September 2013; and
- authorised and unauthorised overdrafts on current accounts, which had gross outstanding balances of £0.2 billion as at 30 September 2013.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because Nationwide has no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than Nationwide's residential mortgage products. In addition, Nationwide uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan and imposes a maximum limit on the size of unsecured consumer loans.

Nationwide began issuing Visa-branded credit cards to its customers in 1997. Nationwide markets and processes credit card applications itself (using its credit scoring system), and an outside contractor is responsible for billing and customer service functions. Nationwide's credit card holders receive differing credit limits, depending on their credit score. Nationwide does not charge customers an annual fee for using

the credit card. Nationwide's credit card asset quality remains strong and is monitored constantly both for new and existing exposures.

Retail savings

Nationwide is one the three largest providers of household savings in the UK. As at 4 April 2013, Nationwide offers a range of savings options from instant access variable rate savings to no access longer-term fixed rate savings.

Nationwide also offers offshore savings through its Isle of Man subsidiary, Nationwide International Limited, giving it access to another funding source. Nationwide International Limited offers demand and notice accounts in sterling, U.S. dollars and euro mainly to offshore investors. As at 30 September 2013, Nationwide International Limited had savings balances of £4.7 billion. The Board has endorsed a decision to change the status of Nationwide International Limited from a subsidiary to a branch. The Society expects this change to happen during its current financial year.

Other retail services

Nationwide's other retail services principally comprise its protection and investment business and its general insurance business.

Protection and investments

Nationwide distributes a range of investment funds through products such as individual savings accounts (or "ISAs"), open-ended investment companies ("OIECs"), unit trusts and investment bonds. ISAs offer tax efficient returns but the amount that can be invested each year on this basis is restricted. OIECs and unit trusts are forms of shared investments that allow investors to pool their money with other investors and invest in the world's markets. Investment bonds allow investors to invest in a mixture of funds in a potentially tax-efficient way by holding a range of investments in one place. Nationwide offers a range of income and growth investment funds from a panel with access to a wide range of fund managers. These funds are provided in a selection of optimised portfolios designed to match the risk profile of investors. As at 30 September 2013, Nationwide had £8.1 billion of assets under advice, up from £7.6 billion at 4 April 2013.

Nationwide also offers protection products through Legal and General and Aviva, including life insurance to pay off any outstanding mortgage debt on death or critical illness, and income protection which pays benefits when the insured is unable to work as a result of accident or sickness.

The Society is currently complying with the requirements of the new regime resulting from the Retail Distribution Review, which took effect from January 2013, and so remains able to provide financial advice to the mass market through its branch network on a fee paying basis, although this is subject to an ongoing management review.

General Insurance

In conjunction with Nationwide's core business of providing residential mortgage loans and retail savings, Nationwide also develops and markets branded insurance products that are underwritten by third-party insurers, such as UK Insurance Ltd and Legal and General.

The insurance products that Nationwide markets include:

- buildings and contents insurance, offered to its residential mortgage customers and non-mortgage customers;
- travel insurance;

- motor insurance; and
- personal accident insurance.

Nationwide receives a commission and, in some cases, participates in the profits, but not the losses, from third-party underwritten insurance products that it markets. During the year ended 4 April 2013, Nationwide earned £160 million in general insurance fees. Nationwide generally markets its insurance products to new and existing customers and seeks to offer these products at competitive prices and with more comprehensive coverage than those generally offered by its main competitors.

Distribution network

Nationwide's integrated and diversified distribution network allows its customers to choose how and when to undertake their transactions with it and has enabled it to expand its business while controlling costs. The distribution network helps Nationwide to achieve volume growth principally in residential mortgage lending and supports its 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 through the internet, telephone and mail.

Nationwide distributes its products primarily through:

- branches;
- internet (e-commerce);
- call centres; and
- intermediaries.

Branches

Nationwide's goal is to utilise its branch network efficiently. The branch network continues to be a major source of its mortgage lending and retail funding. As at 30 September 2013, Nationwide had more than 775 branches in the United Kingdom, the Isle of Man and the Irish Republic. Nationwide believes that its branch network is an integral part of its distribution network and it expects to maintain a significant branch presence. Nationwide recognises that there is scope for optimisation of the network, including:

- through filling geographical gaps; and
- in the context of its programme to migrate acquired brands to the Nationwide brand, through limited reduction of overlapping branches.

E-commerce

Nationwide launched an internet banking service in 1997 and substantially upgraded the service towards the end of 2011 as part of its transformation programme. The new internet bank which, like its predecessor, allows customers to transact on their accounts and apply for a broad range of products online, has an easier navigation, modern look and a number of new features compared to the previous version. Approximately 4.4 million customers were successfully migrated to the new platform in five stages by December 2011. Between July 2012 and July 2013, the number of log-ins each month increased by 43 per cent. from 13.2 million in July 2012 to 18.8 million in July 2013. Sales of products (including current accounts, credit cards, loans, mortgages, general insurance, protection and investments) through the internet bank increased by 45 per cent. from 23,233 in July 2012 to 35,244 in July 2013.

Call centres

Nationwide's telephone call centres are open 24 hours a day and seven days a week to service customers and receive calls from potential customers that are interested in its products. In addition, Nationwide uses telemarketing to supplement its mortgage, insurance and personal loan marketing.

Intermediaries

A substantial amount of Nationwide's mortgage sales are introduced to it by third-party intermediaries. Distribution through third-party intermediaries accounted for approximately 70 per cent. and 70 per cent., respectively, of Nationwide's new residential mortgage completions in the six months ended 30 September 2013 and during the year ended 4 April 2013. Intermediaries range from large UK insurance companies to small independent mortgage advisers. Nationwide remunerates intermediaries for introducing mortgage business.

Treasury operations

The Treasury division centrally manages Nationwide's liquid asset portfolios as well as most of its financial risk exposures and is responsible for its wholesale funding activities.

Group Structure and Principal Subsidiaries

The Society is the principal holding entity of the Group and the main business of the Group is conducted by the Society. The Society's interests in its principal subsidiary undertakings, all of which are consolidated, as at 30 September 2013, are set out below:

Wholly-owned subsidiary undertakings	Nature of business
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc	Centralised mortgage lender
Derbyshire Home Loans Limited ⁽¹⁾	Centralised mortgage lender
E-Mex Home Funding Limited ⁽¹⁾	Centralised mortgage lender
UCB Home Loans Corporation Limited ⁽¹⁾	Centralised mortgage lender
Nationwide International Limited ⁽¹⁾⁽²⁾	Offshore deposit taker

Notes:

(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.

(2) The Board has endorsed a decision to change the status of Nationwide International Limited from a subsidiary to a branch. The Society expects this change to happen during its current financial year.

All the above subsidiary undertakings are limited liability companies that 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 Syndications Limited is a wholly owned mortgage lender specialising in syndicated commercial loans to registered housing associations. As at 30 September 2013, it held mortgage assets of £0.7 billion.

TMW is a wholly owned centralised mortgage lending subsidiary, specialising mainly in residential buy to let lending to individuals. As at 30 September 2013, it had mortgage assets of £20.0 billion. In the year to 4 April 2013, TMW's gross lending was £3.3 billion, representing 15.3 per cent. of Nationwide's total gross residential mortgage lending in that year.

Each of Derbyshire Home Loans Limited, E-Mex Home Funding Limited and UCB Home Loans Corporation Limited is a wholly owned subsidiary which has ceased to offer new lending.

Nationwide International Limited is an offshore deposit taker based in the Isle of Man. It attracts savings balances from depositors seeking to benefit from the Isle of Man's offshore status, and has customers based in approximately 160 countries. As at 30 September 2013, it held savings balances of £4.7 billion.

Nationwide has a number of funding programmes which utilise controlled borrowing vehicles to which mortgages are transferred for the purposes of securitisation or the issuance of covered bonds. Each of these entities is also fully consolidated in Nationwide's accounts.

Details of Nationwide's principal controlled funding entities as at 30 September 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

The Society's property interests consist of its branches and non-specialised buildings which may be owned or leased, as well as its head office/administration centres (which it owns) and a small number of residential properties held for rental. For further information see note 21 to the Society's audited consolidated financial statements for the year ended 4 April 2013 incorporated by reference herein.

Investments

Nationwide's principal investment in recent years has been its recently completed five-year transformation programme which began in its financial year ended on 4 April 2008. The transformation programme has resulted in new products and services being delivered to Nationwide's members, improved efficiency and significantly enhanced technical infrastructure. The transformation programme included:

- A new banking system, which became operational in late 2012 and which allows Nationwide to offer a suite of new personal banking products. The first two accounts, FlexDirect and FlexPlus, were launched in November 2012 and March 2013, respectively. Further accounts designed to form a full suite that will provide existing and potential customers with a range of account options to meet their banking needs are also expected to be introduced.
- A new internet bank which became operational in Autumn 2011. The new internet bank is based on a more stable and agile technology platform, is more intuitive, has improved functionality, provides an improved customer experience and facilitates a more effective use of marketing prompts to drive retail sales. In addition, the new internet bank is being used to reduce costs, largely through customers choosing to replace paper current account statements with online statements only. It is also a key enabler for Nationwide's customer focused strategy, providing an improved platform through which targeted product offerings can be made available based on a customer's identified life stage and associated product needs.
- A new mortgage sales and origination system ("MSO") which was implemented in stages between June 2010 and June 2013 and enables and modernises mortgage sales and origination, underpinning Nationwide's mortgage strategy of remaining a leader in mortgage innovation, service and product quality. MSO provides enhanced tracking of individual mortgage applications, automatically updating customers on the key stages of their application and a new point of sales platform providing advised and non-advised sales transactions with an improved user interface resulting in a shortened mortgage interview time.

- The introduction in 2011 of a faster payments service which provided the opportunity to build a payments infrastructure giving capacity to expand payments transmission services and the ability to respond swiftly to payments regulation and strategic initiatives.
- A new data centre which opened in mid-2011 and has enhanced Nationwide's disaster recovery capacity.

The transformation programme was implemented over a five-year period at a total cost of £1.6 billion.

Capital

The following table compares, as at 31 December 2013, 30 September 2013 and 4 April 2013 respectively, the Society's CET1 Ratio, leverage ratio, total Common Equity Tier 1 capital, total risk weighted assets ("RWAs") under CRD IV and leverage ratio exposure, in each case calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or a consolidated basis:

	As at 31 December 2013		As at 30 September 2013		As at 4 April 2013	
	Individual consolidated basis	Consolidated basis	Individual consolidated basis	Consolidated basis	Individual consolidated basis	Consolidated basis
CET1 Ratio	12.8%	13.1%	10.8%	11.0%	8.7%	9.1%
Leverage ratio	2.6%	2.6%	2.3%	2.3%	2.1%	2.2%
Total Common Equity Tier 1 capital (£ million)	5,373	5,502	4,793	4,881	4,359	4,588
Total RWAs under CRD IV (£ million)	42,033	41,956	44,293	44,231	50,342	50,285
Leverage ratio exposure (£ million)	210,538	209,999	212,687	211,449	208,731	207,668

Financial Services Compensation Scheme

The Group pays levies to the FSCS based on its share of protected deposits. The FSCS has initially met claims from a number of defaulted institutions by way of approximately £18 billion of loans received from HM Treasury. The FSCS recovers the interest cost on these loans, together with ongoing management expenses, by way of annual levies on member firms over this period.

Whilst the majority of the borrowings are expected to be recovered from the defaulted deposit takers, the Group also has to provide for its share of an expected shortfall advised by the FSCS, which has been communicated as being an industry total of 3 equal amounts of £363 million. The first instalment in relation to this capital shortfall was levied during September 2013 with two further years remaining.

The Group also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The total quantification and timing of such losses have yet to be determined, however the FSCS have confirmed that an initial levy of £100 million will be raised in August 2014 in addition to the 2013/14 interest levy and the second instalment of the capital shortfall described above.

As at 30 September 2013, the Group held a provision of £37 million in respect of the annual levy for the 2013/14 scheme year (30 September 2012: £58 million in respect of the 2012/13 scheme year). The Group estimates that a further provision of between £100 million and £120 million will be required during the second half of this financial year in respect of the FSCS annual levy for the 2014/15 scheme year, including £42 million in respect of the shortfall described above and its share of the first capital repayment in relation to the Dunfermline levy of £12 million.

Bank Levy

On 19 July 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 society groups 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:

Period	Rates	
	Short-term liabilities	Long-term liabilities
1 January 2011 to 28 February 2011	0.05%	0.025%
1 March 2011 to 30 April 2011	0.1%	0.05%
1 May 2011 to 31 December 2011	0.075%	0.0375%
1 January 2012 to 31 December 2012	0.088%	0.044%
1 January 2013 to 31 December 2013	0.130%	0.065%
From 1 January 2014.....	0.156%	0.078%

The Society's financial statements for the year ended 4 April 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 4 April 2012, which was split between a £3 million charge for the period starting on 1 January 2011 and ending on 4 April 2011, and a £13 million charge for the year ended 4 April 2012. Both amounts appear in the 2012 accounts because the legislation had not been enacted by 4 April 2011, and as a result it was not possible to recognise the 2011 liability in the accounts to the year ended 4 April 2011. This was disclosed on page 18 of the accounts for the financial year ended 4 April 2011.

The £11 million bank levy charge in the half year ended 30 September 2013 (H1 2012/13: £8 million), included within administrative expenses, is half of the cost which the Group estimates will arise in respect of chargeable equity and liabilities as at 4 April 2014. 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.

Directors and Employees

The Society is under the control of its Board of Directors. Each Director is elected by the members. The Executive Directors are the Chief Executive, the Group Finance Director, the Group Retail Director and the Chief Operating Officer. 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 the Society's rules, the Board must consist of not less than eight Directors. A quorum at a Board meeting is five Directors provided that those holding executive office do not form a majority of those present.

No potential conflicts of interest exist between any duties to the Society, as issuer, of the 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 ⁽¹⁾	64	Chairman	Gateway Electronic Components Limited Close Brothers Group plc Jardine Lloyd Thompson Group plc, Chairman
Roger Perkin	65	Senior Independent Director	The Cavendish School Charitable Trust Limited Electra Private Equity plc Electra Private Equity Investments plc Crime Reduction Initiatives Bower Bequest Trustee Company Limited Tullett Prebon plc Resolution Limited Friends Life Group plc Friends Life Group Holdings Limited Sova
Graham Beale	55	Chief Executive	
Mark Rennison	53	Group Finance Director	Arkose Funding Limited 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

Name	Age	Position	Other Directorships
Chris Rhodes	50	Group Retail Director	Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited Staffordshire Leasing Limited NBS Fleet Services Limited
Tony Prestedge	44	Chief Operating Officer	Derbyshire Home Loans Limited E-Mex Home Funding Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited at.home nationwide Limited Jubilee Mortgages Limited The Nationwide Foundation National Numeracy Visa Europe Limited Visa Europe Services Inc.
			Nationwide Anglia Property Services Limited Opportunity Now Dunfermline BS Nominees Limited Monument (Sutton) Limited The Derbyshire (Premises) Limited

Michael Jary	50	Non-executive Director	Duchy Originals Limited
			OC&C Peleus Advisors LLP
			OC&C Strategy Consultants International (Netherlands)
			OC&C Strategy Consultants LLP
			PCF Social Enterprises Ltd
			The Michael Jary Charitable Trust
			Fair Trade Foundation
Rita Clifton CBE	56	Non-executive Director	The British United Provident Association
			Populus Limited
			Henley Festival Limited
			BTCV
			Rita Clifton Ltd
			The Conservation Volunteers
			TCV Trading 1 Limited
			TCV Trading 2 Limited
			Brandcap Limited
			WWF-UK
Alan Dickinson	63	Non-executive Director	Kennington Oval Limited
			Frogmore Property Company Limited
			Motability (Governor)
			Carpetright plc
			Willis Limited
			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	60	Non-executive Director	Hawkins Residents Limited
			Scottish Water
			Scottish Water Business Stream Holdings Limited
			Scottish Water Horizons Holdings Limited
			Standard Life plc
			Standard Life Charitable Trust

Note:

(1) Geoffrey Howe has announced his intention to retire after the Society's annual general meeting in summer 2015.

Employees

The following table sets out the average number of persons employed by each of Nationwide and the Society during each of the six month periods ended 30 September 2013 and 30 September 2012:

	Nationwide		Society	
	2013 ⁽¹⁾	2012 ⁽¹⁾	2013 ⁽¹⁾	2012 ⁽¹⁾
Full time	12,959	12,803	12,921	12,766
Part time	4,155	4,333	4,147	4,328
	17,114	17,141	17,068	17,094
Central administration	8,731	8,736	8,731	8,736
Branches	8,337	8,358	8,337	8,358
Subsidiaries	46	47	—	—
	17,114	17,141	17,068	17,094

Note:

(1) Six months ended 30 September.

The following table sets out the average number of persons employed by each of Nationwide and the Society during each of the financial years ended 4 April 2013, 4 April 2012 and 4 April 2011:

	Nationwide			Society		
	2013	2012	2011	2013	2012 ⁽¹⁾	2011
Full time	12,720	13,156	12,879	12,679	13,111	12,324
Part time	4,299	4,550	4,813	4,294	4,547	4,741
	17,019	17,706	17,692	16,973	17,658	17,065
Central administration.....	8,676	9,019	8,257	8,676	9,019	8,257
Branches	8,297	8,639	8,808	8,297	8,639	8,808
Subsidiaries	46	48	627	—	—	—
	17,019	17,706	17,692	16,973	17,658	17,065

Note:

(1) The 2012 analysis of employee numbers has been revised to reflect the legal employment position of staff supporting subsidiaries, but employed by the Society's central administration function.

TAXATION

UNITED KINGDOM TAXATION

The following is a summary of the Society's understanding of current United Kingdom law as applied in England and Wales and published HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) relating to certain aspects of the United Kingdom taxation of the Securities. The summary only relates to the deduction of United Kingdom tax from interest on the Securities and to the taxation treatment of United Kingdom taxpayers who are the absolute beneficial owners of the Securities and the interest on them and some aspects do not apply to certain classes of taxpayer (such as dealers and persons connected with the Society). The statements below assume that there will be no substitution of the Society and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the Conditions). The United Kingdom tax treatment of prospective Securityholders depends on their individual circumstances and may be subject to change in the future. Prospective Securityholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are in any doubt as to their tax position should seek their own professional advice.

1. INTEREST ON THE SECURITIES

The statements below are made on the assumption that the Securities will be Additional Tier 1 instruments under Article 52 of the Capital Requirements Regulation which form, or will have formed, a component of Additional Tier 1 Capital for the purposes of the Capital Requirements Regulation, and will therefore be "regulatory capital securities" for the purposes of the Taxation of Regulatory Capital Securities Regulations 2013 (the **"Regulations"**). Prospective Securityholders should note that, if the Securities are not such Additional Tier 1 instruments, or if there are arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the Regulations, then interest could be subject to deduction of or withholding on account of United Kingdom income tax.

Payments of interest on the Securities may be made without deduction of or withholding on account of United Kingdom income tax under Section 889 of the Income Tax Act 2007 ("ITA 2007").

Payments of interest on the Securities may be made without deduction of or withholding on account of United Kingdom income tax under Section 851 of the ITA 2007 provided that the Securities continue to be listed, or capable of being listed, on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (**"Section 1005"**). SIX Swiss Exchange is a "recognised stock exchange" for this purpose. However, HM Revenue & Customs state in published guidance that securities will only be treated as listed on the SIX Swiss Exchange for this purpose if the securities are listed and maintained on the SIX Swiss Exchange in accordance with the main standard or domestic standard, and not if the securities are listed in accordance with any other listing rules. The Securities are expected to be admitted to trading on the main standard of the SIX Swiss Exchange, but listed in accordance with the Standard for Bonds of the SIX Swiss Exchange, and may therefore not be treated as being listed on a recognised stock exchange under Section 1005, in which case payments of interest on the Securities could only be made without deduction of or withholding on account of United Kingdom income tax under Section 851 of the ITA 2007 if the Securities continue to be capable of being listed on a "recognised stock exchange" within the meaning of Section 1005.

Where interest is paid subject to deduction of or withholding on account of United Kingdom income tax, and an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Securityholder, HM Revenue & Customs ("HMRC") may, following a valid application, issue a notice to the Society to pay interest to the Securityholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Interest on the Securities constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a

United Kingdom source received without deduction or withholding on account of United Kingdom tax will not generally be chargeable to United Kingdom tax in the hands of a Securityholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Securityholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch, agency or permanent establishment in connection with which the interest is received or to which the Securities are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment. In addition, there are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Securityholders.

HMRC has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest; 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. In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

2. STAMP DUTY

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the Securities, on their purchase by the Society, or on the write-down of the Securities on a Conversion. Following recent case law, no stamp duty or stamp duty reserve tax should be payable in the UK on the issue of CCDS into Euroclear or Clearstream, Luxembourg (the "**Clearing Systems**") on a Conversion.

3. CONSEQUENCES OF HOLDING CCDS

Distributions

The Society will not be required to withhold UK tax at source from distributions paid on the CCDS.

Stamp duty and stamp duty reserve tax

Provided no election is or has been made under section 97A of the Finance Act 1986 (a "**97A election**") by a Clearing System that applies to the CCDS, no stamp duty or stamp duty reserve tax should be payable in the UK on the transfer of CCDS in that Clearing System, without an instrument of transfer. However, if a 97A election were to apply to the CCDS in the future, transfers of the CCDS within the Clearing Systems could, unless an exemption applies, be subject to stamp duty reserve tax at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the CCDS. If definitive CCDS certificates are issued, stamp duty reserve tax may be payable on an agreement to transfer the CCDS, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the CCDS. This charge to stamp duty reserve tax would be discharged if stamp duty is duly paid on the instrument transferring CCDS in definitive form, within six years of the date of the agreement.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Under the Savings Directive, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person established within its jurisdiction to (or for the benefit of) an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise and subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) 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). In April 2013, the Luxembourg Government announced its intention to elect out of the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Savings Directive. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

The European Commission has published a proposal for a Directive for a common 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 the Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Securities 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 the Securities 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 Securities are advised to seek their own professional advice in relation to the FTT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") impose a new reporting regime and potentially a 30 per cent. 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 U.S. Internal Revenue Service ("**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 Society (a "**Recalcitrant Holder**"). The Society is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017.

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 not generally 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. 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 Society expects to be treated as a Reporting FI pursuant to the US-UK IGA and does not expect to be subject to FATCA Withholding on payments it receives. There can be no assurance, however, that the Society will be treated as a Reporting FI and that such withholding will not be imposed against the Society. Any such withholding imposed on the Society may reduce the amounts available to the Society to make payments on the Securities.

Further, the Society does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Society 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 Society and financial institutions through which payments on the Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Securities 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.

While the Securities are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Securities by the Society, the Registrar (or any other appointed paying agent) and the Nominee, given that each of the entities in the payment chain beginning with the Society and ending with the participant in 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 Securities. The documentation expressly contemplates the possibility that the Securities may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, in accordance with the terms of the Securities, Securities would be represented in definitive form outside the clearing systems only in the very remote circumstances that the clearing systems cease business and no alternative clearing system satisfactory to the Registrar is available.

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. Prospective investors should consult their tax advisers on how these rules may apply to the Society and to payments they may receive in connection with the Securities.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, The Royal Bank of Scotland plc and UBS Limited (together, the "**Joint Bookrunners**") have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 6 March 2014, jointly and severally agreed with the Society, subject to the satisfaction of certain conditions, jointly and severally to subscribe for, or procure subscribers for, the Securities at the issue price of 100.014 per cent. of their nominal amount. The Society has agreed to pay the Joint Bookrunners a commission if the conditions to which the issue of the Securities is subject are satisfied or waived by the Joint Bookrunners. The Society has agreed to pay certain of the Joint Bookrunners' expenses.

The Joint Bookrunners are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Joint Bookrunners against certain liabilities in connection with the issue of the Securities.

The Joint Bookrunners and their affiliates may have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform services to members of the Group and their respective affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Society or its affiliates. Joint Bookrunners or their affiliates that have a lending relationship with the Society routinely hedge their credit exposure to the Society consistent with their customary risk management policies. Typically, such persons would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Securities. Any such short positions could adversely affect future trading prices of the Securities. The Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Bookrunner has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities 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.

The Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Bookrunner has represented and agreed that:

- (a) it has only communicated or caused to be communicated and 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 FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

General

No action has been or will be taken by the Society or the Joint Bookrunners that would permit a public offer of the Securities in any country or jurisdiction where action for that purpose is required. The Securities may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not, directly or indirectly, be offered or sold, and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor any of the Joint Bookrunners represents that the Securities may at any time lawfully be sold in or from any jurisdiction (other than in or from the United Kingdom) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

1. Authorisation

The issue of the Securities was duly authorised by a resolution of the Board of Directors of the Society dated 16 March 2005, a minute of delegation of the Group Finance Director of the Society dated 28 October 2008, as amended on 26 July 2013 and a minute of approval of duly authorised officers of the Society dated 4 March 2014.

2. Approval, listing and admission to trading

The Securities are expected to be provisionally admitted to trading on the main standard of the SIX Swiss Exchange from 11 March 2014. Application will be made to the SIX Swiss Exchange for listing of the Securities in accordance with the Standard for Bonds of the SIX Swiss Exchange. In accordance with Article 43 of the Listing Rules of the SIX Swiss Exchange, Niederer Kraft & Frey AG will lodge the listing application with the Regulatory Board of the SIX Swiss Exchange. The Securities will cease to be admitted to trading on the SIX Swiss Exchange after the third dealing day prior to the date on which the Securities are fully redeemed or after the Suspension Date (as defined on page 36), as applicable, in accordance with the terms of the Securities.

3. Clearing Systems

The Global Certificate has been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Securities is XS1043181269 and the Common Code is 104318126. The Swiss Security Number for the Securities is 23.875.099.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

4. No significant change

Since 30 September 2013, there has been no significant change in the financial or trading position of the Society or the Group and, since 4 April 2013, there has been no material adverse change in the financial position or prospects of the Society or the Group.

5. Litigation

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Society is aware during the 12 months preceding the date of this Offering Circular which may have, or have had in the recent past, significant effects on the financial position or profitability of the Group.

6. Auditors

The accounts of the Group for the two years ended 4 April 2013 have been audited by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, without qualification and in accordance with International Financial Reporting Standards and auditing standards issued by the Auditing Practices Board. The unaudited consolidated interim financial statements for the six-month period to 30 September 2013 have been prepared in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union, and a review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom was conducted by PricewaterhouseCoopers LLP, Chartered

Accountants and Registered Auditors. The auditors of the Group have no material interest in the Group.

The audit report on the Society in respect of the year ended 4 April 2013 states that the "report, including the opinion, has been prepared for and only for the Society's Members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose" and that PricewaterhouseCoopers LLP "do not, in giving the opinion, accept or assume responsibility for any other purpose or to any other person to whom the report is shown or into whose hands it may come save where expressly agreed by" PricewaterhouseCoopers LLP's "prior consent in writing".

7. **Registrar**

The Society, pursuant to the Agency Agreement, will appoint Citibank, N.A., London Branch at its specified office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom to maintain the Securities Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of making payments in respect of the Securities as they fall due, maintaining the Securities Register, accepting instructions for, and effecting, transfers of Securities, issuing Certificates and receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed Certificates. The Registrar shall hold copies of the Agency Agreement available for inspection at its specified office.

8. **Documents available for inspection**

Copies of the following documents may be inspected at the principal office of the Society during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) during the period from the date of this Offering Circular up to and including the date on which no Security remains outstanding:

- (i) the Memorandum and Rules of the Society;
- (ii) the published audited consolidated and non-consolidated annual financial statements of the Society for the years ended 4 April 2012 and 2013;
- (iii) the published unaudited consolidated interim financial statements of the Society for the six-month period to 30 September 2013;
- (iv) all future audited consolidated and non-consolidated annual financial statements and unaudited interim consolidated financial statements of the Society; and
- (v) the draft, subject to completion, and the final Agency Agreement.

In addition, this Offering Circular and each document incorporated by reference herein will also be available at UBS Investment Bank, a business division of UBS AG, Prospectus Library, P.O. Box, 8098 Zurich, Switzerland, or can be ordered by telephone (+41-44-239 47 03), fax (+41-44-239 69 14) or by e-mail at swiss-prospectus@ubs.com.

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