



## NATIONWIDE BUILDING SOCIETY

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

**\$20,000,000,000**

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

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

See the section entitled “*Risk Factors*” commencing on page 12 for a discussion of certain risks that you should consider prior to making an investment in the notes.

By its acquisition of the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority (as defined below) that may result in (i) the cancellation, write-down or reduction of all, or a portion, of the principal amount of, or interest on, the notes (including by variation of the notes) and/or (ii) any other modification of the notes and/or (iii) the conversion of all, or a portion, of the principal amount of, or interest on, the notes into our or another person’s shares or other securities or other obligations (including by variation of the notes) to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power, and the rights of the holders of the notes will be subject to the provisions of any UK bail-in power which are expressed to implement such a reduction, write-down, cancellation, modification or conversion. Each noteholder further acknowledges and agrees that the rights of the noteholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise by the relevant UK resolution authority of such UK bail-in power.

For purposes of the notes, a “UK bail-in power” is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the UK Banking Act 2009, as the same may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 or otherwise), and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the “**RRD**”), pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power).

By purchasing the notes, each noteholder (including each beneficial owner) waives any and all claims against The Bank of New York Mellon, as trustee, for, agrees not to initiate a suit against the trustee in respect of, and agrees that the trustee will not be liable for, any action that the trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes.

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

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

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

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

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

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

BARCLAYS

BOFA MERRILL LYNCH

CITIGROUP

CREDIT SUISSE

DEUTSCHE BANK SECURITIES

HSBC

J.P. MORGAN

MORGAN STANLEY

UBS INVESTMENT BANK

The date of this Base Prospectus is December 19, 2014

## TABLE OF CONTENTS

Notice to Investors .....	2
Notice to New Hampshire Residents .....	3
Forward-Looking Statements .....	4
Private Placement of Medium-Term Notes .....	4
Enforcement of Civil Liabilities .....	4
Documents Incorporated by Reference .....	5
Presentation of Financial Information .....	7
Where You Can Find More Information .....	7
Overview .....	8
Risk Factors .....	13
Use of Proceeds .....	35
Exchange Rates .....	36
Capitalization and Indebtedness .....	37
Selected Consolidated Financial and Operating Information .....	39
Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	42
Description of Business .....	128
Selected Statistical Information .....	141
Financial Risk Management .....	154
Management .....	169
Competition .....	177
Supervision and Regulation .....	180
Exchange Controls and other Limitations Affecting Holders of Notes .....	190
Terms and Conditions of the Notes .....	191
Description of the Global Notes .....	221
Form of Final Terms .....	224
Taxation .....	228
Transfer Restrictions .....	239
Plan of Distribution .....	242
Settlement .....	244
Independent Auditors .....	244
Legal Matters .....	244
General Information .....	245
Glossary of Financial Terms .....	247

## NOTICE TO INVESTORS

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

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

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

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

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

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

Some notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of such notes and the impact this investment will have on the potential investor's overall investment portfolio.

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

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

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

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

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

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

## **FORWARD-LOOKING STATEMENTS**

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

The words “believe,” “expect,” “anticipate,” “intend” and “plan” and similar expressions identify forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which in any event speak only as of the date of this Base Prospectus. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The risk factors beginning on page 12 of this Base Prospectus and many other factors could cause actual events and results to differ materially from historical results or those anticipated. See the sections entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Description of Business*.”

## **PRIVATE PLACEMENT OF MEDIUM-TERM NOTES**

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

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

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

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

## **ENFORCEMENT OF CIVIL LIABILITIES**

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

courts predicated upon the civil liability provisions of the U.S. securities laws. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom.

## **DOCUMENTS INCORPORATED BY REFERENCE**

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

- (1) our Interim Results for the period ended September 30, 2014 (setting out our unaudited condensed consolidated financial statements for the six month periods ended September 30, 2014 and 2013 and the independent review report of our half-yearly financial report for the period ended September 30, 2014);
- (2) our audited consolidated financial statements for the financial years ended April 4, 2014, 2013 and 2012 and the auditors' reports thereon; and
- (3) the Terms and Conditions of the Notes (previously the "Description of the Notes") contained in the previous base prospectuses dated November 23, 2003, pages 88-117 (inclusive), June 25, 2009, pages 102-130 (inclusive), July 1, 2010, pages 126-154 (inclusive), July 15, 2011, pages 145-173 (inclusive), February 22, 2012, pages 175-203 (inclusive), January 18, 2013, pages 185-213 (inclusive) and August 2, 2013, pages 155-180 (inclusive).

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

We will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference. Written requests for such documents should be directed to our Treasury Division at Nationwide Building Society, One Threadneedle Street, London EC2R 8AW, England. In addition, copies of this Base Prospectus and each document incorporated by reference herein are available on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

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

The table below sets out the relevant page references for our Interim Results.

### **Unaudited consolidated financial statements for the six months ended September 30, 2014**

Independent review report.....	Pages 105-106
Income statements.....	Page 73
Statements of comprehensive income .....	Page 74
Balance sheets .....	Page 75
Statement of movements in members' interests and equity .....	Page 76
Cash flow statements .....	Page 77
Notes to the Accounts .....	Page 78-103

The table below sets out the relevant page references for our audited consolidated financial statements for the financial years ended April 4, 2014, 2013 and 2012 and the auditors' reports thereon.

**Audited consolidated annual financial statements for the financial year ended April 4, 2014**

Independent Auditors' Report.....	Page 172
Income statements.....	Page 177
Statements of comprehensive income .....	Page 178
Balance sheets .....	Page 179
Group statement of movements in members' interests and equity.....	Page 180
Society statement of movements in members' interests and equity.....	Page 181
Cash flow statements .....	Page 182
Notes to the Accounts .....	Page 183-253

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

Independent Auditors' Report.....	Page 130
Income statements.....	Page 131
Statements of comprehensive income .....	Page 132
Balance sheets .....	Page 133
Group statement of movements in members' interests .....	Page 134
Society statement of movement in members' interests .....	Page 135
Cash flow statements .....	Page 136
Notes to the Accounts .....	Page 137-193

**Audited consolidated annual financial statements for the financial year ended April 4, 2012**

Independent Auditors' Report.....	Page 80
Income statements.....	Page 81
Statements of comprehensive income .....	Page 82
Balance sheets .....	Page 83
Group statement of movements in members' interests .....	Page 84
Society statement of movements in members' interests .....	Page 85
Cash flow statements .....	Page 86
Notes to the Accounts .....	Page 87-163

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

## PRESENTATION OF FINANCIAL INFORMATION

The financial information incorporated by reference in this Base Prospectus as of and for the financial years ended April 4, 2014, 2013 and 2012 has been extracted from our audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union (“**EU**”). The financial information incorporated by reference in this Base Prospectus as of and for the six month periods ended September 30, 2014 and 2013 has been extracted from our unaudited condensed consolidated financial statements prepared in accordance with IFRS.

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

The revised IFRS standard IAS 19 (Revised) Employee Benefits, which updates the recognition, presentation and disclosures of retirement benefit plans, was adopted with effect from April 5, 2013 for purposes of our audited consolidated financial statements as of and for the year ended April 4, 2014. In addition, certain line items were restated and amounts were reclassified in respect of the year ended April 4, 2013. A summary of such restatements is provided in note 1 to the audited consolidated financial statements for the year ended April 4, 2014. There has been no impact on our consolidated total assets, net assets or reserves at April 4, 2014 or 2013 as a result of the restatement as a consequence of the foregoing.

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

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

## WHERE YOU CAN FIND MORE INFORMATION

Our audited consolidated financial statements are incorporated by reference in this Base Prospectus. We will not distribute these financial statements to holders of notes, but we will make them available to these holders upon request. You should direct requests for copies of these financial statements to the Treasury Division, Nationwide Building Society, One Threadneedle Street, London EC2R 8AW, England.

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



## OVERVIEW

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

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

Issuer .....	<p>Nationwide Building Society. We are a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended) of the United Kingdom (the “<b>UK Building Societies Act</b>”). Our core business is providing personal financial services, including residential mortgage loans, retail savings, general banking services, personal investment products, personal secured and unsecured lending, secured commercial lending, insurance and offshore deposit-taking. We operate through an integrated and diversified distribution network, including branches, ATMs, call centers, mail and the Internet.</p> <p>As a building society, we are a mutual organization managed for the benefit of our “<b>members</b>,” who are retail savings customers and residential mortgage customers.</p>
Placement Agents .....	<p>Barclays Capital Inc.  Citigroup Global Markets Inc.  Credit Suisse Securities (USA) LLC  Deutsche Bank Securities Inc.  HSBC Securities (USA) Inc.  J.P. Morgan Securities LLC  Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated  Morgan Stanley &amp; Co. LLC  UBS Securities LLC</p>
Trustee .....	<p>The Bank of New York Mellon (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One Trust Company, N.A.)). We have entered into an indenture with the trustee relating to the notes.</p>
Program Size .....	<p>We may issue up to \$20,000,000,000, or the equivalent of that amount in one or more other currencies or composite currencies, outstanding at any time. We may increase the program size from time to time without the consent of the holders of the notes.</p>
Currencies .....	<p>Subject to any applicable legal or regulatory restrictions, we may issue notes in any currency as we may agree with the relevant Placement Agent.</p>

Issuance in Series.....	We will issue senior notes and subordinated notes in series under an indenture. Within each series, we will issue tranches of notes subject to terms identical to those of other tranches in that series, except that the issue date, the issue price and the amount of the first payment of interest may vary.
Ranking of Senior Notes.....	The senior notes will constitute our direct, unconditional, unsubordinated and, subject to the provisions set forth in the section entitled “ <i>Terms and Conditions of the Notes—Negative Pledge</i> ,” unsecured obligations without any preference among themselves and will rank equally with non-member deposits and all of our other unsecured and unsubordinated obligations, subject, in the event of insolvency, to laws of general applicability relating to or affecting creditors’ rights. They will rank senior to our UK retail member deposits. If we demutualize or transfer our business to the subsidiary of another mutual organization, our UK retail member deposits will rank equally with our obligations under our senior debt, including the senior notes. The above is subject to any changes or secondary legislation introduced following the enactment of the Financial Services (Banking Reform) Act 2013 (the “ <b>Banking Reform Act</b> ”) on December 18, 2013 regarding the conferring of preference on deposits covered by the Financial Services Compensation Scheme (the “ <b>FSCS</b> ”). The above is also subject to the implementation of the BRRD, as defined below.
Ranking of Subordinated Notes.....	The subordinated notes will constitute our direct, unsecured and subordinated obligations, conditional in the event of a winding up, and rank without any preference among themselves. They will rank equally with all of our other unsecured and subordinated indebtedness, other than our deferred shares, at present comprising permanent interest bearing shares, Core Capital Deferred Shares (“ <b>CCDS</b> ”) and Fixed Note reset perpetual contingent convertible additional tier 1 capital securities, which will rank junior to the subordinated notes. They will rank junior to our UK retail member and non-member deposits and our senior indebtedness, including the senior notes.
Issue Price.....	We may offer notes at par or at a premium or discount to par as specified in the applicable Final Terms.
Maturities.....	The notes will mature in twelve months or longer as specified in the applicable Final Terms.
Redemption at Maturity.....	Subject to any purchase or early redemption, the notes will be redeemed at par on the maturity date.
Early Redemption.....	We are permitted to redeem the notes prior to maturity for taxation reasons and as specified in the applicable Final Terms. Additionally, the applicable Final Terms may provide that the notes of a series are redeemable at our option and/or the option of the holder.
Agreement with Respect to the Exercise of UK Bail-in Power.....	By its acquisition of the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority (as

defined below) that may result in (i) the cancellation, write-down or reduction of all, or a portion, of the principal amount of, or interest on, the notes (including by variation of the notes) and/or (ii) any other modification of the notes and/or (iii) the conversion of all, or a portion, of the principal amount of, or interest on, the notes into our or another person's shares or other securities or other obligations (including by variation of the notes) to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power, and the rights of the holders of the notes will be subject to the provisions of any UK bail-in power which are expressed to implement such a reduction, write-down, cancellation, modification or conversion. Each noteholder further acknowledges and agrees that the rights of the noteholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise by the relevant UK resolution authority of such UK bail-in power.

For purposes of the notes, a "UK bail-in power" is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the UK Banking Act 2009, as the same may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 or otherwise), and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the "BRRD"), pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the "relevant UK resolution authority" is to any authority with the ability to exercise a UK bail-in power).

Repayment of principal and payment of interest  
after exercise of UK bail-in power .....

No repayment of the principal amount of the notes or payment of interest on the notes will become due and payable after the exercise of any UK bail-in power by the relevant UK resolution authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us after the exercise of such UK bail-in power.

Interest .....	Interest may accrue at a fixed rate or a floating rate. The floating rate may be determined by reference to a base rate, such as LIBOR, as we agree with the purchaser and describe in the applicable Final Terms.
Interest Payments.....	We may pay interest monthly, quarterly, semi-annually, annually or at such other intervals as we describe in the applicable Final Terms.
Denominations.....	We will issue the senior notes in minimum denominations of \$200,000 and the subordinated notes in minimum denominations of \$250,000 or, in each case, in integral multiples of \$1,000 in excess of these minimum denominations, or the equivalent of these amounts in other currencies or composite currencies, and in any other denominations in excess of the minimum denominations as we specify in the applicable Final Terms.
Taxation.....	All payments in respect of the notes will be made without deduction for or on account of United Kingdom withholding taxes, unless the withholding is required by law. In that event, we will (subject to certain exceptions as described in “ <i>Terms and Conditions of the Notes–Payment of Additional Amounts</i> ”) pay such additional amounts as will result in the holder of any notes receiving such amounts as they would have received in respect of the notes had no such withholding been required.
Rating .....	The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms.
Form, Clearance and Settlement.....	<p>Notes of a series will initially be represented by a global note or global notes in fully registered form (“<b>Global Notes</b>”). Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes (“<b>U.S. Global Notes</b>”) and notes offered outside the United States in reliance on Regulation S will be represented by one or more international global notes (“<b>International Global Notes</b>”).</p> <p>The Global Notes will be issued in fully registered form and will be held by or on behalf of DTC for the benefit of participants in DTC.</p> <p>No temporary documents of title will be issued.</p> <p>Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with the transfer restrictions set forth therein. Transfers of interests from a U.S. Global Note to an International Global Note are subject to certification requirements.</p>
Governing Law .....	The notes and all related contracts will be governed by, and construed in accordance with, the laws of the State of New York, except that the subordination provisions in each of the indenture and the subordinated notes will be governed by, and construed in accordance with, the laws of England and Wales.

Sales and Transfer Restrictions .....	We have not registered the notes under the Securities Act, and they may not be offered or sold within the United States or to or for the benefit of U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the Securities Act.
Listing .....	Application has been made to the UK Listing Authority for the notes to be admitted to listing on the Official List. Application has also been made to the London Stock Exchange for the notes to be admitted to trading on the London Stock Exchange's regulated market.
Risk Factors .....	There are certain risks related to any issue of notes under the program, which investors should ensure they fully understand. See " <i>Risk Factors</i> " on page 12 of this Base Prospectus.

## RISK FACTORS

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

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

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

### **Risks Related to Our Business**

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

We are directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies, particularly the eurozone, and the state of the global financial markets both generally and as they specifically affect financial institutions. Since mid-2008, the global economy and the global financial system have experienced a period of significant turbulence and uncertainty. The severe dislocation of the financial markets around the world that began in August 2007 and worsened significantly in mid-2008 triggered widespread problems at many commercial banks, investment banks, insurance companies, building societies and other financial and related institutions in the UK and around the world. The dislocation severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK government (the “**Government**”) and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions, including bank recapitalizations and the provision of government guarantees for certain types of funding, aimed at both supporting the sector and providing confidence to the market.

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

Although globally and in the UK, conditions have generally stabilized, in recent years there have been periods of significant volatility in financial markets around the world. The financial turbulence experienced in 2008 and its after-effects on the global economy generally have led to 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.

The UK economic recovery is expected to remain modest by historic standards in 2014-2015, with the International Monetary Fund (in its October 2014 World Economic Outlook report) predicting UK real GDP growth of 3.2 per cent. in 2014 and 2.7 per cent. in 2015. Stagnation and lower-than-expected investment in Eurozone economies in the second quarter of 2014 present 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, there is the additional risk that levels of unemployment could increase and there could be further declines in real disposable incomes. Inflation has remained below the 2 per cent. target and labour productivity growth has been low. These pressures on households may, particularly if combined with an increase in interest rates, lead to an increase in arrears in our residential and unsecured lending portfolio, and an associated increase in retail impairment. Continued poor economic conditions in the UK could also create uncertainty in relation to cash flows of our borrowers in the commercial real estate market and in relation to the value of their collateral, leading to further loan loss provisions against our commercial real estate lending. We continue to expect the UK recovery to be sluggish, with the first increase in the Bank of England base rate not expected until 2015. In the meantime, the low interest rate environment will continue to exert downward pressure on net interest income across the sector.

There have been 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 Funding for Lending scheme launched August 1, 2012 (“**Funding for Lending**”) and Help to Buy schemes, we expect buyer activity to improve further. 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 reemerge and impair the flow of credit to the wider economy.

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

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.

***Our earnings are largely driven by the mortgage and savings markets. Stagnation in these markets limits our ability to grow and to reprice our assets and liabilities in order to manage our net interest margin, thereby adversely impacting our financial performance. In addition, cost is an increasingly important element of consumers' purchasing decisions, which may adversely affect the amount of income that we are 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 narrowed and, in some cases, were negative at point of sale, with our ability to make a positive return dependent upon customers maturing onto higher or variable rates such as our Base Mortgage Rate (“**BMR**”) or Standard Mortgage Rate (“**SMR**”) to which customers transfer after their initial fixed rate or tracker rate expires.

The mortgage market was severely impacted by the global financial crisis, with gross new mortgage lending in the UK falling from approximately £357 billion as at December 31, 2007 to approximately £142 billion as at December 31, 2012, according to BoE data. This reduction in market size has made it increasingly difficult to reprice assets rapidly in order to compensate for our contractual obligation to our BMR mortgage customers and to build a portfolio of mortgages that will in time transform into SMR-linked mortgages.

There were signs of an increase in activity in the UK housing market in the second half of 2013 and the first quarter of 2014, though transaction levels remain below pre-2008 levels and, after remaining relatively static for three years, house price growth accelerated in the second half of 2013 and the first half of 2014. Continued economic recovery is supported by policy measures such as the Help to Buy scheme, which is a UK government (“**Government**”) scheme designed to enable buyers to put down a 5.0% deposit on a home with the Government guaranteeing up to 20.0% of the mortgage funded by a commercial lender. Although we expect

such Government schemes to help improve further buyer activity, there can be no assurance that house price growth will not continue to accelerate faster than earnings, reducing customer affordability and leaving households more vulnerable to market forces, such as unexpectedly early or large increases in interest rates. This could ultimately lead to higher retail loan losses. There is potential for activity and prices to decline should the labor market situation deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy. There is also a risk that policy makers adopt measures to limit growth in house prices. The macroprudential tools available to policymakers are largely untested and the potential impact of their use on the housing market, financial institutions and the wider economy are unknown.

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. If we cannot offer the best initial price on any specific product, another competitor may attract customers who may otherwise have joined or stayed with us. As a consequence, there is a risk that industry pricing will be forced lower, negatively impacting our ability to deliver our strategic income targets and our 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 new participants and 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 our ability to manage our net interest margin. However, most financial institutions have now succeeded in reducing their reliance on wholesale funding and the introduction of FLS. In addition, we believe that the Bank of England's ("BoE") Funding for Lending has eased competition for retail deposits by providing financial institutions with cheap funding.

At the onset of the financial turbulence noted earlier, we experienced a decline in our net interest margin. The initial decline was driven by the increased cost of retail funding (reflecting the competitive savings market), the progressive re-pricing of long-term wholesale funding and by our BMR commitment to existing borrowers, whereby we guaranteed existing customers that our 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 our decision not to implement the mortgage tracker floor when our BMR reached 2%, which was 0.75% below their contractual floor limit of 2.75%.

The UK commercial property market was negatively impacted by the recession, with a peak (June 2007) to trough (July 2009) fall in capital values averaging 44%, and conditions remain challenging. Prime commercial property values have continued to improve in the first half of 2014 and this trend is expected to continue into the medium term.

As at September 30, 2014, the proportion of our commercial loans three months or more in arrears was 5.68% (April 4, 2014: 4.71%), with arrears balances of £39 million (April 4, 2014: £63 million). We had a total commercial impairment charge of £73 million for the six months ended September 30, 2014, which is £152 million lower than in the six months ended September 30, 2013. We had a total commercial impairment charge of £309 million for the year ended April 4, 2014, which is £184 million lower than in the year ended April 4, 2013.

Despite the improvement in the performance of the UK economy, the downside risks to the commercial property market remain. Commercial property values are still below their 2007 peak and any weakening in tenant performance and investor appetite could result in increased commercial loan losses which would adversely impact our financial and operational performance. The volume of impaired property finance loans, and our 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 ("CRE") market continues to affect the commercial loan book. Any further loan loss provisions recorded against our CRE lending could adversely affect our profitability in the next few years.

The continued effect of margin compression and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions means that we may continue to



experience the lower levels of profitability that we had experienced since 2008 and there remains the possibility of further downward pressure on profitability and growth depending on a number of external influences, such as the consequences of a more austere economic environment and the impact of global economic forces on the UK economy.

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

The dislocations in the financial markets have resulted in our recording impairment charges and negative fair value adjustments in our results over the last three financial years with respect to securities and other investments held. Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of our investment assets and these may also translate into increased impairments, particularly with respect to our exposure through our liquidity and investment portfolios to financial institutions in GIIPS and residential mortgage backed securities (“RMBS”) and covered bonds collateralized on assets originated in GIIPS. In addition, the value that we ultimately realize for our securities and other investments may be lower than the current fair value. Any of these factors could require us to record further negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

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

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

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

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

The maintenance and growth of the level of our lending activities depends in large part on the availability of retail deposit funding on appropriate terms. Increases in the cost of such funding in the wake of the financial crisis together with the low base rate environment have had a negative impact on our margins and profit. Such pressures could re-emerge and, in extreme circumstances, a loss of consumer confidence could result in high levels of withdrawals from our retail deposit base, upon which we rely for lending and which could have a material adverse effect on our business, financial position and results of operations.

In past years the Government has provided significant support to UK financial institutions, including most recently the BoE's Funding for Lending Scheme which commenced on August 1, 2012 and was closed to mortgage lending on January 31, 2014 with ongoing support limited to small and medium sized business ("SME") lending.

The aim of the BoE's Funding for Lending scheme was to boost the incentive for banks and building societies to lend to UK households and non-financial companies. Funding for Lending was designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to Funding for Lending was directly linked to how much each institution lends to the real economy. Those that increase lending were able to borrow more in Funding for Lending and at a lower cost than those that scale back their loans. We participated in Funding for Lending and, as at September 30, 2014 had drawn £8.5 billion of UK treasury bills under the scheme. The original Funding for Lending scheme was replaced with a revised scheme on February 1, 2014, which excludes mortgage lending and targets SME lending. This will benefit eligible institutions which are providing loans to SMEs although this does not include the Nationwide Group as it does not currently lend to SMEs. The withdrawal of Funding for Lending will increase funding costs for us and other institutions which previously utilized that support.

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. By participating in Funding for Lending, we reduced our need to fund ourselves in the wholesale markets. There is a risk that if we failed to remain sufficiently active in those wholesale markets during our participation in Funding for Lending, our access to them could be prejudiced in the future now that Funding for Lending excludes mortgage lending. In addition, other financial institutions that have relied significantly on Government support to meet their funding needs will also need to find alternative sources of funding when that Government support is reduced or withdrawn. In such a scenario, we expect to face increased competition for funding, particularly retail funding on which we are reliant in the future. This competition could further increase our funding costs and so adversely impact our results of operations and financial position.

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

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

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

The personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. As a result of, among other factors, increases and decreases in the BoE base rate, interest rates payable on a significant portion of our outstanding mortgage loan products fluctuate over time. Rising interest rates would put pressure on borrowers whose loans are linked to the BoE base rate because such borrowers may experience financial stress in repaying at increased rates in the future. A significant portion of our outstanding mortgage loan products are potentially subject to changes in interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers taking out new loans and those repaying existing variable rate loans, regardless of special or introductory rates, and these rates are expected to increase as general interest rates return to historically more normal levels. Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further

increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

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. Increased unemployment could lead to borrowers who are made redundant being unable to service the loan payments in a timely fashion which would result in higher levels of arrears, both in our secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in our impairment charges in respect of these portfolios. Declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses. For further discussion see “*Management's Discussion and Analysis of Financial Condition and Results of Operation—Results of Operations for the Year Ended April 4, 2014 Compared with the Year Ended April 4, 2013—Operating expenses and similar charges—Impairment losses on loans and advances to customers.*”

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

If sentiment towards banks, building societies and/or other financial institutions operating in the United Kingdom, including us, were to further deteriorate, or if our ratings and/or the ratings of the sector were to be further adversely affected, this may have a materially adverse impact on us. In addition, such change in sentiment or further reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including us. Any such events could affect the market value of the notes.

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

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

In February and April 2013, respectively, 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 December 18, 2013, Fitch affirmed its AA+/F1+ long- and short-term unsolicited sovereign credit ratings for the UK. On December 20, 2013, S&P affirmed its AAA/A-1+ long- and short-term unsolicited sovereign credit ratings for the UK, with a negative outlook. On May 22, 2014, S&P revised the outlook to stable. Although these actions have not impacted the respective agencies' ratings of us, any further downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilize the markets, impact our rating, our borrowing costs and our ability to fund ourselves and have a material adverse effect on our operating results and financial condition.

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

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

We operate in an increasingly competitive UK personal financial services market. We compete mainly with other providers of personal finance services, including banks, building societies and insurance companies, and recent technological advances have heightened the potential for different kinds of competitors to emerge within the traditional financial services arena. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of Economic Conditions in the United Kingdom Generally and Outlook.*”

The UK market for financial services and the mortgage market in particular was reshaped by the financial crisis. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers, judged by credit score and loan to value criteria, and there is strong competition for these customers. The supply of credit is now more limited for those potential customers without a large deposit or good credit history. Competition may intensify in response to consumer demand, technological changes, the impact of consolidation by our competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, our business, financial condition and results of operations could be materially adversely affected. 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, which we consider to be a competitive advantage for us. This may, in time, alter the business models of ring-fenced banks and may therefore alter adversely the competitive position of us and other mutual institutions.

The rise of digital banking is changing customer expectations of the availability of banking services. As digital changes make transactions easier and more convenient, we expect customers to transact more, and in many different ways. We may not be able to manage service provision ahead of rising customer expectations or may have competitors who are more successful in meeting demand for digital banking services.

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

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

Our success as a financial institution depends on our ability to manage and control our financial risk, which includes liquidity, market, and credit risk. We are exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments. We have market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. Credit risk is the risk that a borrower or counterparty fails to pay interest or to repay the principal on a loan or other financial instrument (e.g. bond) on time. If we fail to manage and control these risks, we could become unable to meet our own obligations, including those under the notes, resulting in material adverse

effects to our business, financial condition and reputation. For additional information about our policies for managing and controlling liquidity, market and credit risk, see the section entitled “*Financial Risk Management*.”

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

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

Market risk is the risk that the value of, or net income arising from, the Group’s assets and liabilities changes as a result of changes to market forces, specifically interest rates, exchange rates or equity prices. Principally, the market risks we face are interest rate risk, basis risk, swap spread risk, foreign exchange and product option risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency.

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

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

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

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

There is currently significant regulatory scrutiny of the sales practices and reward structures that financial institutions have used when selling financial products. No assurance can be given that financial institutions, including us, 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 our results of operations and financial position. No assurance can be given that we 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 our results of operations and financial position or our reputation. Primarily:

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

In addition, we face both financial and reputational risk where legal or regulatory proceedings, or complaints before the FOS, or other complaints are brought against us or members of our industry generally in the UK High Court or elsewhere. For example, a UK High Court judgment in 2011 on the misselling of payment protection insurance (“PPI”) resulted in very significant provisions for customer redress made by several UK financial services providers. We made a charge for customer redress of £4 million in the six months ended September 30, 2014, with no additional provision made for PPI claims, as compared to a charge for customer redress of £71 million in the six months ended September 30, 2013, with no additional provision made for PPI claims. We made a charge for customer redress of £69 million in the year ended April 4, 2014, with no additional provision made for PPI claims, as compared to a charge for customer redress of £73 million in the year ended April 4, 2013, which included an increase in PPI provision of £53 million. Although our PPI product sales ceased in 2007, we continue to see a significant number of PPI claims and there can be no assurance that our estimates for potential liability are correct, and our reserves taken to date might prove inadequate.

In addition, a number of financial institutions, including us, 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, a number of third party financial institutions, including us, introduced customers to CPP’s products. Several institutions, including us, agreed to a scheme with the FCA that CPP redress would be paid through a scheme of arrangement that commenced in February 2014, under which customers could submit claims until August. Consequently, the extent of claims we will take under the scheme remains uncertain.

In light of a review of compliance-oriented legislation being undertaken across the industry, we are undertaking a comprehensive revision of our own documentation and processes relating to consumer protection and sales practices. A number of areas which require further enquiry have been identified and while our investigations are still at a relatively early stage, we have recognized the aforementioned charge in the six months ended September 30, 2014 of £4 million (£69 million in the year ended April 4, 2014) in respect of potential costs in relation to matters which may require remediation. No assurance can be given that we 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 our results of operations and financial position or our reputation.

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

We conduct our business subject to ongoing regulation by the PRA and the FCA, which oversee the sale of residential mortgages, commercial lending, and general insurance products. The regulatory regime requires us to be in compliance across many aspects of activity, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to 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 our control and could materially adversely affect our business or operations.

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

- On June 19, 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 July 8, 2013, accepting the overall conclusions of the PCBS 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 December 18, 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. The Banking Reform Act and future related secondary legislation will have a substantial impact on banks and building societies in the UK generally, including us. Certain provisions regarding a new regime for conduct of individuals performing a senior management function came into force on July 25, 2014 and the PRA and FCA are consulting on the implementation of this regime (with the consultation ending October 31, 2014). The PRA and FCA expect to publish final rules in early 2015.
- The Banking Reform Act also provides for the PRA to have a secondary objective in respect of competition, 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 March 1, 2014. Separately, the Banking Reform Act cap on the cost of pay day loans will be introduced by the FCA from January 2015.
- Certain measures relating to the ring-fencing of domestic retail banking services of UK banks, contained in the Banking Reform Act, will enter into force on January 1, 2015 although the full regime is not expected to apply until 2019 and the Government has carved building societies out of the ring-fencing legislation and, instead intends to amend the UK Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements.
- At an EU 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. We do not anticipate that the report’s proposals will have any impact on the UK building societies due to the Banking Reform Act and existing restrictions, provided the UK obtains a derogation under the EU proposals, but there can be no assurance that the proposals will not have an adverse effect on our operations, business, results, financial condition or prospects.
- Other measures contained in the Banking Reform Act, but which are not yet in force (the UK Government had published draft legislation which is expected to enter into force on January 1, 2015), include: (i) introduction of a power for the UK authorities to bail in debt issued by UK banks and building societies; and (ii) elevating the ranking of FSCS insured depositors on a

winding-up to rank ahead of all other unsecured creditors. Building societies, including us, will be subject to the bail-in powers (see “*Risks relating to the UK Banking Act 2009 and the BRRD*” 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 to become preferential debts and therefore in the event of our insolvency will rank ahead of other unsecured creditors; a capital inadequacy trigger could force us to convert debt into equity shares. On November 20, 2014 powers in building societies legislation which would enable the government to make an order with the effect that building society shareholding members (other than holders of deferred shares) would rank equal to ordinary unsecured creditors on a winding-up or dissolution, came into force.

- The BRRD, which provides an EU-wide framework for the recovery and resolution of credit institutions, came into force on July 2, 2014. The BRRD is required to be implemented in member states by January 1, 2015, except for certain bail-in provisions which are to be implemented by January 1, 2016. However, following the UK Government’s publication of draft legislation, the majority of these measures are expected to be enacted in the UK on January 1, 2015. See further “*Risks relating to the UK Banking Act 2009 and the BRRD*” below.
- Consumer credit regulation transferred to the FCA on April 1, 2014 in accordance with provisions under the Financial Services Act 2012 (the “**FS Act**”). 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 a 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 formalized co-operation to exist between the FCA and the FOS (which determines complaints by eligible complainants in relation to authorized 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.
- The European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers in March 2011. The Council of the European Union adopted the Mortgage Directive on January 28, 2014. Member states will be required to implement the Mortgage Directive into national law within two years after it enters into force. The Mortgage Directive requires (among other things): standard information in advertising; standard pre contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The Mortgage Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders. Until the Mortgage Directive is implemented into UK law, it is too early to tell what effect the implementation of the Mortgage Directive into UK law would have on our mortgage business and operations. 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 Office of Fair Trading (“**OFT**”) to the FCA in April 2014, could lead to a lack of coordination and the emergence of inconsistencies between the different regulatory bodies. Additionally, we are currently reviewing the impact of changes proposed in respect of the fees that can be charged when customers use ‘chip and pin’ services. These proposals have the potential to put the margins that we can charge in respect of its unsecured products under pressure and we must closely monitor these proposals as they develop. Any such adverse development could adversely impact our ability to manage our business efficiently and subject us 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 our 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 our operations, structure, costs and/or capital requirements. Accordingly, we 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 our operations, business, results, financial condition or prospects.

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

***Risks relating to the UK Banking Act 2009 and the BRRD.***

Under the UK Banking Act 2009 (the “**Banking Act 2009**”) substantial powers have been granted to HM Treasury, the PRA, the FCA and the BoE (the “**Authorities**”) 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 stabilization 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 and wholly-owned by the BoE; and (iii) temporary public ownership (nationalization) 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 addition, in accordance with the Banking Reform Act, the Banking Act is to be amended (by secondary legislation, where applicable) to introduce a further stabilization option, in the form of a bail-in tool, as part of the SRR. If a bail-in power is exercised in respect of the notes, losses may be imposed on noteholders as described under “—*Risks related to the Notes—The relevant UK resolution authority could exercise the bail-in power in the Banking Act, once in force, which could impose losses on an investment in the notes.*”

Related amendments are also being 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.

Secondary legislation which makes provision for stabilization tools to be used in respect of any “banking group company” has been published and came into force August 1, 2014. The definition of “banking group company” will encompass certain of our subsidiaries and affiliates. The amendments to the Banking Act allow all of the current stabilization options under the SRR and the bail-in stabilization power (once in force) to be applied to any of our group companies that meet the definition of a “banking group company.”

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

On July 23, 2014, HM Treasury released a consultation on transposition of the BRRD into English law, primarily by way of amendment to the Banking Act 2009. The consultation closed on September 28, 2014 and the UK Government had published draft legislation. The UK is required to implement the BRRD provisions on or before January 1, 2015, except in respect of bail-in, which must be implemented by January 1, 2016. However, following the UK Government’s publication of its draft legislation, the majority of these measures are expected to be enacted in the UK on January 1, 2015.

There is considerable uncertainty about the scope of the powers afforded to the Government under the Banking Act and related legislation and how the Government may choose to exercise them. Various regulatory technical standards are required under the BRRD, which may affect the manner in which the powers provided for in the BRRD may be used. The European Banking Authority has begun consultations on many of the regulatory technical standards and the majority of the required final rules have not been published. Other powers contained in the Banking Act and contemplated by the BRRD, either in their current form or as may be amended, may affect the value of an investment in the notes. The special resolution regime in the Banking Act provides relevant resolution authorities with a variety of other powers, in addition to the UK bail-in power, for dealing with UK banks. The exercise of these powers may impact how we are managed as well as, in certain circumstances, the rights of creditors. There can be no assurance that actions taken under the Banking Act will not adversely affect noteholders.

***We are subject to regulatory capital requirements which may change.***

We are subject to capital requirements that could have an impact on our operations. Changes to the capital requirements under which we operate could hinder growth by prescribing more stringent requirements than those with which we currently comply. UK regulators and international policymakers are reviewing a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include the leverage ratio, capital requirements for residential mortgages, use of the standardized approach for credit risk, and minimum requirements for firms' loss-absorbing capacity.

The Basel III package of reforms to the regulatory capital framework (including new capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, a new leverage ratio and liquidity requirements) was implemented in the European Economic Area (the "EEA") through a regulation (the Capital Requirements Regulation (the "CRR")) and an associated directive (Capital Requirements Directive (the "CRD")) (together, "CRD IV"). The regulation establishes a single set of harmonized prudential rules which apply directly to all credit institutions in the EEA, with the directive containing less prescriptive provisions 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 January 1, 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

Our capital is reported as a ratio of risk-adjusted assets expressed as a percentage in different measures: Common Equity Tier 1 capital, Tier 1 capital and total capital. If we fail, or are perceived to be likely to fail, to meet our minimum regulatory capital requirements, this may result in administrative actions or regulatory sanctions.

Effective management of our capital is critical to our ability to operate and grow our business and to pursue our strategy. Any change that limits our ability to effectively manage our 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 our business, financial condition, results of operations, liquidity and/or prospects.

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 us, which implement certain permitted national discretions in CRD IV. While 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 applying in full from 2014. The PRA has also opted to change their treatment of Pillar 2A from January 1, 2015. From this date, the PRA will expect firms to meet Pillar 2A with at least 56% in Common Equity Tier 1 capital, no more than 44% in Additional Tier 1 capital and at most 25% in Tier 2 capital.

There are still some areas of the PRA's intended approach which are not yet finalized. In particular, as noted in the PRA's annual report 2014 (published June 17, 2014), the PRA intends to issue consultations on its approach to Pillar 2 between December 2014 and February 2015. 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 we 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 our competitiveness relative to any banks and financial institutions subject to less stringent requirements.

CRD IV also introduces a new leverage ratio requirement. The leverage ratio is a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The leverage calculation determines a ratio based on the relationship between tier 1 capital and total exposure (total exposure is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet items).

On 31 October 2014, the UK Financial Policy Committee (FPC) published its review on the appropriate calibration and analysis of the leverage ratio within the capital framework. This review recommends that the FPC is given powers of direction over the leverage ratio and outlines proposals under which Nationwide would be subject to a minimum leverage ratio of 3%, a supplementary leverage ratio buffer from 2019 and a countercyclical leverage ratio buffer immediately but with a proposed 24 month phase-in period. Currently, and over Nationwide’s business planning horizon, Nationwide expects to remain above its regulatory minimum leverage ratio requirement. However, the minimum leverage ratio, the supplementary leverage ratio buffer and the countercyclical leverage ratio buffer are subject to further consultation by the HM Treasury and these leverage ratio requirements may be increased over time and/or the amount of Nationwide’s total tier 1 capital which count towards its leverage ratio may be reduced. In such case, should any of these events occur they may have an adverse impact on Nationwide’s leverage ratio and Nationwide may need to raise more capital or reduce its total exposure. Such measures may have an adverse effect on Nationwide’s business activities, including its lending business.

***We are required to pay levies under the FSCS and are exposed to future increases of such levies, which might impact our profits.***

The Financial Services and Markets Act 2000 established the FSCS, which pays compensation to eligible customers of authorized financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information, please refer to the section entitled “*Description of Business—FSCS*.” Based on our share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants, which levies may be in significant amounts that may have a material impact on our profits. 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 recovers through additional levies on the financial services industry. Following recoveries since March 2012, the FSCS currently has outstanding loans of approximately £16.3 billion.

In common with other financial institutions which are subject to the FSCS, we also have 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 crystallized by the administration of Dunfermline Building Society. The total quantification and timing of such losses have yet to be determined; however, FSCS have made an initial levy of £100 million during September 2014. Our share could be significant, reflecting the fact that the share is calculated by reference to the level of each institution's protected deposits at December. Confirmed by FSCS, our share of such deposits was 11.8%.

In particular, following agreement between the FSCS and HM Treasury on the terms of a refinancing in March 2012, there is an expected shortfall of £299 million for the scheme in 2015, which will be passed on

across all firms holding protected deposits, including us. In addition, there can be no assurance that there will be no further actions taken under the UK Banking Act that may lead to further claims against the FSCS and concomitant increased FSCS levies payable by us. Any such increases in our costs and liabilities related to the levy may have a material adverse effect on our results of operations. Further costs and risks to us may also arise from discussions at national and EU levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes. The amount provided for in our accounts to meet our obligations to the FSCS was £46 million as at September 30, 2014 (£37 million as at September 30, 2013). The amount provided for in our accounts to meet our obligations to the FSCS was £142 million as at April 4, 2014 (£133 million as at April 4, 2013). The amount provided for at September 30, 2014 reflects the Group's expected liability in respect of the 2014/15 Scheme year interest charge, expected to be levied during September 2015. The Group estimates a further provision of between £90 million and £120 million in respect of the 2015/16 Scheme year during the second half of this financial year, including £35 million relating to the expected shortfall described above.

In April 2014, the new EU directive on deposit guarantee schemes ("DGSD") was adopted and member states have until July 3, 2015 to implement it into national law. The revised DGSD requires EU Member States to ensure that by July 3, 2024 the available financial means of the deposit guarantee schemes reach a minimum target level of 0.8% of the covered deposits of credit institutions; the schemes are to be funded through regular contributions before the event (ex-ante) to the deposit guarantee schemes. (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 after the event (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 PRA is currently consulting on the UK implementation of the DGSD. This consultation proposes, amongst other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the UK FSCS which would introduce temporary high balance deposit protection, up to £1 million (an increase to the current £85,000 deposit protection limit), for up to six months for certain limited types of deposits. The consultation closes on January 6, 2015. It is possible, as a result of the new directive, that future FSCS levies on us may differ from those at present, and such reforms could result in us incurring additional costs and liabilities, which may adversely affect our business, financial conditions and/or results of operations.

*Demutualization, mutual society transfers and consequences of the UK Building Societies Act, including introduction of depositor preference, may have an adverse impact on the holders of notes. In addition, changes to the current relative ranking between share accounts and other depositors and unsubordinated creditors, including introduction of depositor preference, could have a significant adverse impact on the holders of notes.*

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

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

subsidiary of another mutual society, all of our liabilities which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of our successor.

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

With respect to depositor preference, section 90B of the UK Building Societies Act (which was enacted by the Funding and Mutual Societies Transfers Act) was brought into force with effect from November 20, 2014. Under this section, HM Treasury may, by order, make provision adjusting the relative ranking between share accounts, depositors and other unsubordinated creditors. The power to make an order under section 90B of the UK Building Societies Act will, from November 20, 2014, 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.

HM Treasury has nonetheless consulted on its intention to make an order under section 2(2) of the European Communities Act 1972 and under section 90B to align creditor hierarchy in UK building societies with the depositor preference requirements being introduced through BRRD and, potentially, to further ensure that any building society member's deposits that do not benefit from the depositor preference requirements will nevertheless rank *pari passu* with all other (non-preferred) senior unsecured creditors.

In particular, the Government has announced that it intends to transpose the relevant provisions in the BRRD which will have the effect of granting:

- (i) a first-ranking preference to those deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which are actually protected by the FSCS (i.e. are eligible for protection and do not exceed the FSCS coverage limit of £85,000), which will rank equally with all other preferential debts; and
- (ii) a second-ranking preference to deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which would be eligible for FSCS protection but for the fact that they either (a) exceed the £85,000 coverage limit of the FSCS or (b) were made through a branch outside the EU. Such deposits and share accounts (or the relevant part thereof) will rank after the preferential debts referred to in paragraph (i) above but in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency.

If and when such provisions are transposed into English law, the claims of the holders of senior notes (as well as claims in respect of subordinated notes) would rank junior to the claims in respect of liabilities afforded preferred status under (i) or (ii) above and, accordingly, in the event of insolvency or resolution of the Society, both the subordinated notes and the senior notes would be available to absorb losses ahead of liabilities which benefit from such first-ranking or second-ranking preference.

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

## **Risks Related to the Notes**

***Under the terms of the notes, investors will agree to be bound by and consent to the exercise of any UK bail-in power by the relevant UK resolution authority which gives such authority the ability to cancel, write-down the principal and/or interest or make other modifications to notes.***

By acquiring the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK resolution authority. In

addition, by its acquisition of the notes, each holder of the notes (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK resolution authority in relation to the guarantees of the notes. For more information, see “*Terms and Conditions of the Notes—Agreement with Respect to the Exercise of UK Bail-in Power.*”

For purposes of the notes, a “UK bail-in power” is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the UK Banking Act 2009, as the same may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 or otherwise), and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement the BRRD, pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power).

***The relevant UK resolution authority could exercise the bail-in power in the Banking Act, once in force, which could impose losses on an investment in the notes.***

On October 1, 2013, the UK Government published amendments to the Financial Services (Banking Reform) Bill. The amendments introduce, among other things, a UK “bail-in” power, which would form part of the existing special resolution regime under the Banking Act. On December 18, 2013, the Banking Reform Bill received Royal Assent in the House of Lords as the Banking Reform Act 2013. The UK bail-in power under the Banking Act is subject to the consultation on transposition of the BRRD, which was released on July 23, 2014, and consequential amendment, following which it will come into force on such date as shall be stipulated by the UK Treasury (which must be no later than January 1, 2016 in order to comply with the BRRD). However, following the UK Government’s publication of its draft legislation, the bail-in power is expected to be enacted in the UK on January 1, 2015. The bail-in power is introduced as an additional power available to the UK resolution authority, to enable it to recapitalize a failed institution by allocating losses to unsecured creditors subject to the rights of such creditors to be compensated under a bail-in compensation order, which is based on the principle that such creditors should receive no less favorable treatment than they would have received, had the bank entered into insolvency immediately before the coming into effect of the bail-in power. The bail-in power includes the power to cancel or write-down (in whole or in part) certain liabilities (including the notes) or modify the terms of certain contracts (including the notes) for the purposes of reducing or deferring the liabilities of a UK bank under resolution and the power to convert certain liabilities (including the notes) from one form to another. The conditions for use of the UK bail-in power are generally that (i) the regulator determines the relevant UK bank is failing or likely to fail, (ii) it is not reasonably likely that any other action can be taken to avoid such a UK bank’s failure and (iii) the relevant UK resolution authority determines that it is in the public interest to exercise the bail-in power, although these conditions are subject to change following the UK’s implementation of the BRRD.

According to the Banking Act, as well as similar principles proposed in the BRRD (as described below), the relevant UK resolution authority should have regard to the insolvency treatment principles when exercising the UK bail-in power in respect of the notes. The insolvency treatment principles are that (i) the exercise of the UK bail-in power should be consistent with treating all liabilities of the bank in accordance with the priority that they would enjoy on a liquidation and (ii) (subject to certain exceptions) any creditors who would have equal priority on a liquidation should bear losses on an equal footing with each other. The UK Treasury may, by order, specify further matters or principles to which the relevant UK resolution authority must have regard when exercising the UK bail-in power. These principles may be specified in addition to, or instead of, the insolvency treatment principles. If the relevant UK resolution authority departs from the insolvency treatment principles when exercising the UK bail-in power, it must report to the Chancellor of the Exchequer stating the reasons for its departure.

It is understood that the UK bail-in power as contemplated in the Banking Act will be subject to further conditions and limitations to be set out in secondary legislation, on which the UK Treasury has consulted but has not yet stated its final policy intention. Accordingly, the final form of the UK bail-in power under the Banking Act remains subject to some uncertainty.

Once it has come into force, the UK bail-in power under the Banking Act could be used to impose losses on holders of the notes. In addition, we are subject to the Banking Act and accordingly the guarantees of the notes may be subject to the UK bail-in power. If the UK bail-in power is applied to the guarantees, holders of the notes may lose the benefit of the guarantees of the notes.

Moreover, to the extent the UK bail-in power is exercised pursuant to the Banking Act or otherwise, we do not expect any securities issued upon conversion of the notes to meet the listing requirements of any securities exchange. Any securities received by holders of the notes upon conversion of the notes (whether debt or equity) may not be listed for at least an extended period of time, if at all, or may be on the verge of being delisted by the relevant exchange. Additionally, there may be limited, if any, disclosure with respect to the business, operations or financial statements of the issuer of any securities issued upon conversion of the notes, or the disclosure with respect to any existing issuer may not be current to reflect changes in the business, operations or financial statements as a result of the exercise of the UK bail-in power. As a result, there may not be an active market for any securities held after the exercise of the UK bail-in power.

Noteholders may lose all of their investment in the notes, including the principal amount plus any accrued interest, if the UK bail-in power is acted upon and any remaining outstanding notes or securities into which the notes are converted may be of little value at the time of conversion and thereafter.

***The circumstances under which the relevant UK resolution authority would exercise its UK bail-in power are uncertain, which may affect the value of the notes.***

There is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimizing taxpayers' exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the relevant UK resolution authority would consider in deciding whether to exercise the UK bail-in power with respect to the relevant financial institution and/or securities, such as the notes, issued by that institution. While the Banking Act provides some guidance as to how and when the bail-in option may be utilized by the relevant UK resolution authority, the Banking Act and the BRRD (which, as discussed above, will be transposed by amendments to the Banking Act) allow for discretion and there is no certainty as to how the relevant UK resolution authority will exercise any bail-in power with respect to a financial institution and/or securities, such as the notes, issued by that institution. The UK Treasury may by order specify matters or principles to which the relevant UK resolution authority must have regard in exercising its bail-in powers including insolvency treatment principles or alternative principles and as noted above, it is expected that secondary legislation to this effect will be published in the coming months. Notwithstanding any such secondary legislation, the relevant UK resolution authority is likely to have considerable discretion as to how it exercises the UK bail-in power. As there may be many factors, including factors outside of our control or not directly related to us, which could result in such a determination, holders of the notes may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such UK bail-in power.

Accordingly, the threat of bail-in may affect trading behavior, including prices and volatility, and, as a result, the notes are not necessarily expected to follow the trading behavior associated with other types of securities.

***Holders' rights may be limited in respect of the exercise of the UK bail-in power by the relevant UK resolution authority.***

Under the Banking Act, it is expected that holders of securities will have a right to be compensated under a bail-in compensation order which is based on the principle that such investors should receive no less favorable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the UK bail-in power. The holders of the notes otherwise have limited rights to challenge any decision of the relevant UK resolution authority to exercise the UK bail-in power.

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

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

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

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

Under EC Council Directive 2003/48/EC (the “**Savings Directive**”) on the taxation of savings income, each member state is required to provide to the tax authorities of other member states details of certain payments of interest or similar income paid or secured by a person established in a member state to, or for the benefit of, an individual resident in that other member state or to certain limited types of entities established in that other member state.

On March 24, 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member states are required to apply these new requirements from January 1, 2017. The changes will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. The amending Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a member state must be reported, which may apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those member states which still operate a withholding system when they are implemented. In accordance with the laws of November 25, 2014, Luxembourg elect out of the withholding system in favor of automatic information exchange under the Savings Directive with effect as of from January 1, 2015.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

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

Section 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (or “**FATCA**”) impose a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States and payments of gross proceeds from the disposition of assets that can produce U.S. source interest and dividends, (ii) “foreign passthru payments” made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. While the notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its



broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) 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 Issuer's obligations under the notes are discharged once it has paid DTC or its nominee (as holder of the notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation—Foreign Account Tax Compliance Act.*"

***Further issuances may affect the market value of the original notes if they are treated as a separate series for U.S. federal income tax purposes.***

We may, without the consent of the holders of outstanding notes, issue additional notes with identical terms. These additional notes, even if they are treated for non-tax purposes as part of the same series as the original notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional notes may be considered to have been issued with original issue discount ("**OID**") even if the original notes had no OID, or the additional notes may have a greater amount of OID than the original notes. These differences may affect the market value of the original notes if the additional notes are not otherwise distinguishable from the original notes.

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

We will pay principal and interest on the notes in the Specified Currency (as defined below). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the notes, (2) the Investor's Currency equivalent value of the principal payable on the notes and (3) the Investor's Currency equivalent market value of the notes.

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

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

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

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

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

Potential investors should note that, in view of prevailing and widely reported global credit market conditions (which continue at the date hereof), the secondary market for the notes and for instruments of this

kind may be illiquid. We cannot predict when and how these circumstances will change. Liquidity in the notes may also be disrupted by the recent market disruptions referred to above.

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

If we are declared insolvent and a winding up is initiated we will be required to pay the holders of our senior debt and meet our obligations to all of our other creditors (including unsecured creditors but excluding any obligations that we may have with respect to our subordinated debt and deferred shares, including CCDS) and our UK retail member deposits in full before we can make any payments on the subordinated notes. If this occurs, we may not have enough assets remaining after these payments to pay amounts due under the subordinated notes.

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

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

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

These notes will be represented by one or more Global Notes. These notes will be deposited with a custodian on behalf of DTC or its nominee. Except in limited circumstances, holders will not be entitled to receive certificated notes. DTC will maintain records of the beneficial interests in the Global Notes. Holders will be able to trade their beneficial interests only through DTC or a participant of DTC such as Euroclear or Clearstream. The laws of some jurisdictions, including some states in the United States, may require that certain purchasers of securities take physical delivery of such securities in certificated form. The foregoing limitations may impair a holder’s ability to own, transfer or pledge its beneficial interests. A holder of beneficial interests in the Global Notes in one of these jurisdictions will not be considered the owner or “holder” of the notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **USE OF PROCEEDS**

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

## EXCHANGE RATES

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

For the financial year ended	U.S. Dollars Per Pound Sterling			Year End
	High	Low	Average <sup>(1)</sup>	
	(U.S. dollars per pound sterling)			
April 4, 2014.....	1.67	1.49	1.59	1.66
April 4, 2013.....	1.63	1.49	1.58	1.52
April 4, 2012.....	1.67	1.53	1.60	1.59
April 4, 2011 <sup>(2)</sup> .....	1.64	1.43	1.56	1.61
April 4, 2010 <sup>(3)</sup> .....	1.70	1.45	1.60	1.52

For the month of	U.S. Dollars Per Pound Sterling			Month End
	High	Low	Average <sup>(4)</sup>	
	(U.S. dollars per pound sterling)			
January 2014.....	1.66	1.64	1.65	1.64
February 2014.....	1.67	1.63	1.66	1.67
March 2014.....	1.67	1.65	1.66	1.67
April 2014.....	1.69	1.66	1.67	1.69
May 2014.....	1.70	1.67	1.68	1.68
June 2014.....	1.71	1.67	1.69	1.71
July 2014.....	1.72	1.69	1.71	1.69
August 2014.....	1.69	1.65	1.67	1.66
September 2014.....	1.66	1.61	1.63	1.62
October 2014.....	1.62	1.59	1.60	1.59
November 2014.....	1.60	1.56	1.58	1.56

Notes:

- (1) The average of the noon-buying rates on the last business day of each month during the relevant period.
- (2) The last business day preceding the financial year end was April 1, 2011.
- (3) The last business day preceding the financial year end was April 2, 2010.
- (4) The average of the daily noon-buying rates during the relevant period.

Solely for the convenience of the reader, this Base Prospectus presents the translation of income statement and balance sheet data from pounds sterling into U.S. dollars at the rate of £1.00 to \$1.6225, the Market Exchange Rate on September 30, 2014. These translations should not be construed as representations that pound sterling amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as of any of the dates mentioned in this Base Prospectus, or at all.

## CAPITALIZATION AND INDEBTEDNESS

The following is a summary of our consolidated capitalization and indebtedness extracted from our unaudited consolidated financial statements as at September 30, 2014:

	As at September 30, 2014 (£ millions)
<b>Consolidated Indebtedness<sup>(1)</sup></b>	
Deposits from banks .....	2,320
Amounts due to customers and other deposits.....	14,362
Debt securities in issue .....	29,506
<b>Total Senior Debt</b> .....	<b>46,188</b>
<b>Subordinated Debt<sup>(1)(2)</sup></b>	
Comprising one issue maturing in 2014, one issue maturing in 2015, one issue maturing in 2018, one issue maturing in 2019, two issues maturing in 2020, one issue maturing in 2022 and one issue maturing in 2023. ....	2,240
<b>Total Subordinated Debt</b> .....	<b>2,240</b>
<b>Permanent Interest Bearing Shares<sup>(1)(3)</sup></b>	
Comprising nine issues of permanent interest bearing shares callable (subject to relevant supervisory consent) in 2015, 2016, 2019, 2021, 2024, 2026 and 2030, respectively. The floating rate shares are only repayable in the event of the winding up of the Society. ....	606
<b>Members' Funds</b>	
CCDS.....	531
Other equity instruments .....	992
General reserve .....	7,756
Revaluation reserve .....	72
Other reserves .....	17
UK retail member deposits <sup>(1)(4)</sup> .....	133,978
<b>Total members' funds</b> .....	<b>143,346</b>
<b>Total capitalization<sup>(5)</sup></b> .....	<b>192,380</b>

Notes:

- (1) If we were to go into liquidation the claims of non-member depositors and other unsubordinated creditors would rank before those of holders of UK retail member deposits, and the claims of holders of UK retail member deposits would rank before those of subordinated debt holders. The claims of holders of permanent interest bearing shares ("PIBS") rank behind those of all other creditors, including subordinated debt holders. Other equity instruments rank the same as PIBS securities holders. CCDS holders rank behind the claims of other equity instruments and PIBS securities holders.
- (2) For consistency with other indebtedness, accrued interest of £40 million is included.
- (3) For consistency with other indebtedness, accrued interest of £6 million is included.
- (4) Our rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. Our Board of Directors (the "**Board**") has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.
- (5) The nominal value of mortgages pledged as security on debt issuances as at September 30, 2014 totalled £47,962 million, while additional mortgages of £12,766 million have been pledged as a pool as part of Funding for Lending.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalization, indebtedness, guarantees or contingent liabilities since September 30, 2014.

The following is a summary of our consolidated capitalization and indebtedness extracted from our audited consolidated financial statements as at April 4, 2014:

	<b>As at April 4, 2014 (£ millions)</b>
<b>Consolidated Indebtedness<sup>(1)</sup></b>	
Deposits from banks .....	1,984
Amounts due to customers and other deposits.....	13,343
Debt securities in issue .....	28,557
<b>Total Senior Debt</b> .....	<b>43,884</b>
<b>Subordinated Debt<sup>(1)(2)</sup></b>	
Comprising one issue maturing in 2014, one issue maturing in 2015, one issue maturing in 2018, one issue maturing in 2019, two issues maturing in 2020, one issue maturing in 2022 and one issue maturing in 2023. ....	2,306
<b>Total Subordinated Debt</b> .....	<b>2,306</b>
<b>Permanent Interest Bearing Shares<sup>(1)(3)</sup></b>	
Comprising nine issues of permanent interest bearing shares callable (subject to relevant supervisory consent) in 2015, 2016, 2019, 2021, 2024, 2026 and 2030, respectively.	
The floating rate shares are only repayable in the event of the winding up of the Society.....	608
<b>Members' Funds</b>	
CCDS.....	531
Other equity instruments .....	992
General reserve .....	7,363
Revaluation reserve .....	71
Other reserves .....	(51)
UK retail member deposits <sup>(1)(4)</sup> .....	130,468
<b>Total members' funds</b> .....	<b>139,374</b>
<b>Total capitalization<sup>(5)</sup></b> .....	<b>186,172</b>

Notes:

- (1) If we were to go into liquidation the claims of non-member depositors and other unsubordinated creditors would rank before those of holders of UK retail member deposits, and the claims of holders of UK retail member deposits would rank before those of subordinated debt holders. The claims of holders of PIBS rank behind those of all other creditors, including subordinated debt holders. Other equity instruments rank the same as PIBS securities holders. CCDS holders rank behind the claims of other equity instruments and PIBS securities holders.
- (2) For consistency with other indebtedness, accrued interest of £37 million is included.
- (3) For consistency with other indebtedness, accrued interest of £7 million is included.
- (4) Our rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. Our Board of Directors (the "**Board**") has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.
- (5) The nominal value of mortgages pledged as security on debt issuances as at April 4, 2014 totalled £44,514 million, while additional mortgages of £13,762 million have been pledged as a pool as part of Funding for Lending.

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been extracted from our unaudited consolidated financial statements as at and for the six months ended September 30, 2014 and 2013 and audited consolidated financial statements as at and for the years ended April 4, 2014, 2013 and 2012.

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

	For the six month period ended September 30,			For the financial year ended April 4,		
	2014 <sup>(1)</sup>	2014	2013	2014	2013	2012
	(\$ millions)	(£ millions)	(£ millions)	(£ millions)	(£ millions)	(£ millions)
		(unaudited)			(audited)	
<b>Income Statement Data:</b>						
Interest receivable and similar income .....	4,355	2,684	2,581	5,295	5,395	5,353
Interest expense and similar charges .....	(2,051)	(1,264)	(1,497)	(2,892)	(3,414)	(3,730)
<b>Net interest income</b> .....	<b>2,304</b>	<b>1,420</b>	<b>1,084</b>	<b>2,403</b>	<b>1,981</b>	<b>1,623</b>
Fee and commission income .....	357	220	236	489	558	515
Fee and commission expense .....	(131)	(81)	(61)	(135)	(113)	(96)
Income from investments .....	3	2	2	4	13	10
Other operating income .....	3	2	126	134	46	91
Gains/(losses) on derivatives and hedge accounting .....	52	32	(16)	(51)	(165)	35
<b>Total income</b> .....	<b>2,588</b>	<b>1,595</b>	<b>1,371</b>	<b>2,844</b>	<b>2,320</b>	<b>2,178</b>
Administrative expenses .....	(1,097)	(676)	(634)	(1,329)	(1,204)	(1,205)
Depreciation and amortization expenses .....	(234)	(144)	(133)	(282)	(216)	(180)
Impairment losses on loans and advances to customers .....	(253)	(156)	(253)	(380)	(589)	(390)
Provisions for liabilities and charges .....	(13)	(8)	1	(173)	(141)	(162)
Impairment losses on investment securities .....	(21)	(13)	(71)	(3)	(2)	(38)
<b>Profit before tax</b> .....	<b>970</b>	<b>598</b>	<b>281</b>	<b>677</b>	<b>168</b>	<b>203</b>
Analyzed as:						
Underlying profit before tax and the following items: .....	983	606	332	924	433	304
Financial Sector Compensation Scheme .....	(6)	(4)	-	(104)	(68)	(59)
Restructuring costs .....	(58)	(36)	(35)	(75)	(16)	(61)
Bank levy .....	-	-	-	(17)	(16)	(16)
Gains from derivatives and hedge accounting .....	52	32	(16)	(51)	(165)	35
Statutory profit before tax .....	970	598	281	677	168	203
Taxation .....	(182)	(112)	(39)	(128)	10	(24)
<b>Profit</b> .....	<b>789</b>	<b>486</b>	<b>242</b>	<b>549</b>	<b>178</b>	<b>179</b>

Notes:

- (1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements for the six months ended September 30, 2014 using the exchange rate of \$1.6225 to £1.00.



	For the six month period ended September 30,		For the financial year ended April 4,		
	2014 <sup>(1)</sup>	2014	2014	2013	2012
	(\$ millions)	(£ millions)	(£ millions)	(£ millions)	(£ millions)
	(unaudited)		(audited)		
<b>Balance Sheet Data</b>					
<b>Assets:</b>					
Cash .....	13,731	8,463	5,342	7,886	8,126
Loans and advances to banks.....	3,999	2,465	2,110	2,522	2,914
Investment securities available for sale .....	18,472	11,385	10,563	13,421	23,325
Derivative financial instruments....	5,296	3,264	3,020	4,212	4,176
Fair value adjustment for portfolio hedged risk.....	354	218	221	872	1,330
Loans and advances to customers.....	273,459	168,547	166,574	159,587	154,169
Investments in equity shares.....	47	29	29	28	29
Intangible assets.....	1,566	965	956	894	681
Property, plant and equipment .....	1,392	858	852	886	945
Investment properties .....	15	9	9	8	9
Accrued income and expenses prepaid .....	608	375	185	147	129
Deferred tax assets.....	41	25	33	154	229
Current tax assets.....	-	-	-	15	-
Other assets.....	31	19	32	86	67
<b>Total assets .....</b>	<b>319,009</b>	<b>196,622</b>	<b>189,926</b>	<b>190,718</b>	<b>196,129</b>
<b>Liabilities:</b>					
UK retail member deposits .....	217,373	133,978	130,468	125,574	125,617
Deposits from banks .....	3,764	2,320	1,984	3,230	3,370
Other deposits .....	13,212	8,143	7,135	6,747	6,899
Due to customer.....	10,090	6,219	6,208	5,960	5,833
Fair value adjustment for portfolio hedged risk.....	6	4	33	150	278
Debt securities in issue .....	47,872	29,506	28,557	33,429	38,854
Derivative financial instruments....	4,538	2,797	2,391	3,885	4,287
Other liabilities .....	852	525	269	251	349
Provisions for liabilities and charges.....	281	173	310	318	295
Accruals and deferred income .....	703	433	461	366	369
Subordinated liabilities .....	3,569	2,200	2,269	2,540	1,644
Subscribed capital.....	973	600	601	1,304	1,625
Deferred tax liabilities .....	42	26	25	30	28
Current tax liabilities .....	214	132	74	-	5
Retirement benefit obligations	321	198	235	354	517
Core capital deferred shares (CCDS) .....	862	531	531	-	-
Other equity instrument .....	1,609	992	992	-	-
General reserve .....	12,584	7,756	7,363	6,765	6,450
Revaluation reserve .....	117	72	71	67	65
Available-for-sale reserve.....	28	17	(51)	(252)	(356)
<b>Total reserves and liabilities .....</b>	<b>319,009</b>	<b>196,622</b>	<b>189,926</b>	<b>190,718</b>	<b>196,129</b>

Notes:

- (1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements for the six months ended September 30, 2014 using the exchange rate of \$1.6225 to £1.00.

	For the six month period ended September 30,		For the financial year ended April 4,		
	2014	2013	2014	2013	2012
			(unaudited)		
<b>Other Financial Data</b>					
Return on average total assets <sup>(1)</sup> .....	0.25%	0.12%	0.29%	0.11%	0.09%
Net interest margin <sup>(2)</sup> .....	1.48%	1.13%	1.25%	1.02%	0.83%
Wholesale funding ratio.....	20.7%	21.6%	19.6%	22.5%	25.3%
Loan to deposit ratio .....	113.6%	113.8%	115.8%	115.4%	111.4%
Loan to deposit ratio (including long term wholesale funding) .....	102.6%	98.9%	104.5%	99.1%	93.8%
<b>Ratio of earnings to fixed charges<sup>(3)</sup></b>					
Including interest on retail deposits ....	1.47%	1.18%	1.19%	1.06%	1.05%
Excluding interest on retail deposits ...	3.06%	1.97%	1.97%	1.30%	1.25%
<b>Capital ratios</b>					
Tier 1 capital (transitional 2014: CRD IV 2013 & 2012: BASEL II) .....	20.2%	16.1%	18.0%	15.5%	16.0%
Total capital (transitional 2014: CRD IV 2013 & 2012: BASEL II) .....	25.4%	20.0%	23.4%	19.1%	18.9%
Ratio of administrative expenses to mean total assets <sup>(4)</sup> .....	0.42%	0.40%	0.84%	0.73%	0.72%

Notes:

- (1) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets. Average balances are based on the balance as at the end of each month during the financial year.
- (2) Net interest margin represents net interest income as a percentage of weighted average total assets. Comparatives have been restated in accordance with IAS 19 (Revised) Employee Benefits.
- (3) For this purpose, earnings consist of profit on ordinary activities before tax and fixed charges. Fixed charges consist of interest expense including or excluding interest on retail deposits, as appropriate.
- (4) This ratio represents administrative expenses plus depreciation as a percentage of the average of total assets at the start and end of each period.

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

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

### Overview

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

### Financial Performance

The first six months of this financial year reflect the business growth and capital strength of the Society and our ability to compete favourably against our banking peers. Consistent with our mutual heritage, we offer a range of products designed to provide transparency, fairness and value. Alongside this, we have delivered a strong financial performance and improved our capital position. As a result, our Common Equity Tier 1 ratio has risen to 17.6% as of September 30, 2014

Our financial performance builds on our success in developing new products, investing in technologies which provide our members and customers greater choice in the way they manage their financial affairs and rewarding loyal members with exclusive market product offers. Strong business volumes, combined with a strengthening in our net interest margin, have contributed to a 13% increase in income to £1,563 million for the six months ended September 30, 2014 from £1,387 million for the six months ended September 30, 2013.

Our underlying profit increased by 83% in the six months ended September 30, 2014, growing to £606 million from £332 million in the six months ended September 30, 2013. Statutory profit before tax increased by 113% in the six months ended September 30, 2014, growing to £598 million from £281 million in the six months ended September 30, 2013.

Total underlying administrative expenses have increased from by 7% to £784 million as of September 30, 2014 from £732 million as of September 30, 2013, mainly driven by ongoing investment in the business and general inflation. At a statutory level, administrative expenses have increased by 7% to £820 million.

Impairment losses for the six months ended September 30, 2014 of £169 million are 33% lower than for the first half of last year, primarily as a result of continued improvements in the commercial sector and previous deleveraging of the commercial loan portfolio. The residential lending charge of £13 million in the period relates solely to our specialist portfolio with no net requirement for additional provisions on prime lending. We believe that the performance of all mortgage portfolios continues to be underpinned by strong fundamentals, with positive albeit moderating price growth, falling unemployment and low interest rates. These positive underlying conditions are reflected in a decrease in arrears levels in the first half of the financial year.

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

We have seen an increase in competitive activity in the first half of this year across most products and services, especially in the mortgage, savings and current account markets. This reflects an element of repositioning within the banking community, with more emphasis being placed on retail banking activities. As at 30 September 2014, our market share of mortgages and savings stock was 11.9% and 10.6% respectively. Our

strategy is to meet this competition ‘head on’ and to defend and grow our market share positioning as a top three savings and mortgage provider in the UK particularly in respect of personal current accounts.

A major change within the savings market this year has been the welcome introduction of the new ISA regime, with an increase in individual limits to £15,000 from July 1, 2014 and the ability to transfer from equity ISAs into a cash ISA. With prevailing market interest rates continuing to drift downwards, savers have sought to take advantage of the new tax-free limits, with a significant flow of existing balances from non-ISA to ISA accounts.

We expect the ‘pensioner bonds’ to be provided by National Savings and Investment, as announced by the Chancellor in this year’s budget statement, introduce an alternative that competes with inflows into our customer savings accounts beginning in January 2015 but we recognise their importance for this demographic.

The UK Competition and Market Authority has recently confirmed that it will conduct an investigation into the personal current account and SME banking markets. We will engage constructively with the CMA as part of its investigation, and we welcome any initiative which improves competition and customer choice. This is particularly important given our strategic desire to grow our market share of personal current accounts and position ourselves as an alternative to established banks.

As we look ahead to the remainder of the year, we do so against a background which has seen unemployment falling sharply and an annualized economic growth rate of approximately 3%. However, with few signs that inflationary pressures are building, and renewed concerns about a slowdown in the Eurozone, we do not expect the Bank of England base rate to rise before the start of our next financial year, with future rises being gradual in nature and settling below pre-crisis levels. For a discussion of certain effects of prevailing interest rate level B on our business. See “—*Interest Rate Management*” below.

The UK housing market staged a strong recovery in the latter half of 2013 and into 2014 and, at a national level, house prices are above their pre-recession peak. It appears likely that the pace of annual price increases peaked in the summer, with recent housing market indicators suggesting decreased growth. Indeed, the latest Nationwide House Price Index showed that in October the annual rate of growth slowed from 9.4% to 9%. However, the market continues to be supported by a strong labour market, low mortgage rates and a demand for housing, which should maintain mortgage quality and prevent any dramatic slowdown in the housing market.

Our mutual heritage, scale of operation and quality of service position Nationwide to be a meaningful alternative to the established banks. We remain confident that we can sustain our strong business performance and maintain our capital strength in line with our commitment to safeguard the interests of our members.

Over the past two years the improvement in our financial performance reflects a combination of lower impairment costs and the realignment of net interest margins; the latter is due to a downward shift in funding costs as competition for retail savings balances has subsided, and the ongoing process of asset repricing to reflect new market norms. This market realignment is largely complete and we do not expect to see further material changes in our interest margins over the remainder of the financial year.

## Net Interest Income

Net interest income was £1,420 million in the six months ended September 30, 2014, an increase of £336 million from £1,084 million in the six months ended September 30, 2013, driven largely by retail asset growth and reduced costs of retail funding.

	<b>For the six months ended September 30,</b>		<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<i>(£ millions, except percentages)</i>		<i>(£ millions, except percentages)</i>	
Net interest income .....	1,420	1,084	2,403	1,981
Weighted average total assets .....	194,066	192,771	191,604	193,832
<b>Net interest margin .....</b>	<b>1.48%</b>	<b>1.13%</b>	<b>1.25%</b>	<b>1.02%</b>

Weighted average total assets grew by 0.67% to £194, 1 billion for the six months ended September 30, 2014 as compared to the same period of 2013, as the growth in retail lending outstripped reductions in non-core treasury and commercial lending balances. Net interest margin grew by 35 basis points over the same period to 1.48% in line with the trend seen over the last two financial years, as explained further below. Our point in time net interest margin at September 30, 2014 was approximately 1.49%, up 9 basis points from the year end.

The ongoing improvement in margin was primarily attributable to reduced retail funding costs in line with falling savings rates across the industry. We estimate that our average margin cost on savings balances, measured against relevant market indices (swaps or LIBOR), was 80 basis points over the period compared with 130 basis points as at September 30, 2013. Notwithstanding this reduction, we believe our rates continue to be competitively positioned relative to the market, reflecting our commitment to our savings members in a low interest rate environment. The Group's margin has also benefitted modestly from reduced spreads in wholesale markets.

The growth in our margin over the last two years has been significant, driven by a downward shift in funding costs as competition for retail balances has subsided, and by an ongoing process of asset re-pricing to reflect new market norms. During the period to September 30, 2014 the margin on retail mortgages remained broadly stable as lower mortgage pricing on new business offset the impact of attrition in our Base Mortgage Rate ("BMR") book. BMR mortgage balances at September 30, 2014 amounted to £48 billion (April 4, 2014: £52 billion).

Net interest income for year includes £8 million of loss (September 30, 2013: £36 million loss) primarily arising from the sale of non-core treasury assets and a gain of £20 million (September 30, 2013: £37 million gain) from updated effective interest rate assumptions relating to the recognition of mortgage and savings interest.

### Interest Rate Management

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

The following table sets forth the daily average three-month sterling LIBOR rates (11:00 a.m. British Bankers' Association fixing) and average BoE base rates for the six months ended September 30, 2014 and 2013, and for the years ended April 4, 2014, 2013 and 2012:

	For the six months ended September 30,		For the year ended April 4,		
	2014	2013	2014	2013	2012
Daily average three-month sterling LIBOR .....	0.56%	0.52%	0.52%	0.68%	0.94%
Average BoE base rate .....	0.5%	0.5%	0.5%	0.5%	0.5%

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

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

A significant proportion of our mortgages are at our BMR, which we have guaranteed will never be more than 2% above the BoE base rate. This rate is significantly lower than the equivalent standard variable rate charged by peers, or the SMR onto which our more recent mortgage advances mature. This has the effect of compressing our mortgage margins and reducing the flexibility with which these margins can be managed.

However, the BMR portfolio is well seasoned, has low loan to value (“**LTV**”), low arrears rates and low possession rates. The low risk nature of the portfolio partly compensates for the low margin it yields.

Concerns over the eurozone debt crisis, including exposure to European financial institutions’ and governments’ creditworthiness, has resulted in the restricting of inter-bank lending, the widening of the net margin between base rate and LIBOR and the widening of foreign exchange basis spreads.

## **Results of Operations for the Six Months Ended September 30, 2014 Compared with the Six Months Ended September 30, 2013**

### ***Introduction***

We believe that our results indicate a strong performance for the six months ended September 30, 2014 with an underlying profit before tax (as explained below) of £606 million, and a statutory profit before tax of £598 million.

Underlying profit before tax (as explained below) for the six months ended September 30, 2014 is up 83% at £606 million from £332 million for the six months ended September 30, 2013. Total underlying income increased by 13% to £1,563 million in the six months ended September 30, 2014, as compared to the six months ended September 30, 2013.

Increased profitability has been driven mainly by the continued improvement in net interest income and reduced impairment losses and provisions for liabilities and charges, offset in part by increased administrative expenses. In addition, other income in the prior period included a gain of £124 million relating to redemption of PIBS in September 2013.

Total underlying administrative expenses have increased by 7% to £784 million, mainly driven by ongoing investment in the business and general inflation. At a statutory level administrative expenses have increased by 7% to £820 million.

Between the six months ended September 30, 2013 and 2014, the increase in our cost base reflects the impact of annual pay awards averaging 3.0% and 2.5%, respectively, combined with a 3.0% increase in total numbers of employees in the six months ended September 30, 2014 as compared to the six months ended September 30, 2013 as we strengthen Risk and Control functions in light of the evolving regulatory agenda.

Administrative expenses have increased by £21 million due to on-going strategic investments in information technology (“**IT**”) resilience, responding to regulatory requirements and the development of digital capability, including Nationwide Now, tablet banking and mobile payment applications.

Transformation costs amounted to £36 million in the period due to changes in IT infrastructure and the integration of all administration and retail activity of our Dunfermline and Cheshire brands. The IT investment is intended to enable IT changes to be delivered in a more efficient, flexible and resilient manner. This is a two year project which will be largely completed in the second half of this financial year. The Derbyshire integration will be completed in the second half of this year.

Underlying income growth continues to run ahead of cost growth, resulting in an improvement in both the statutory and underlying cost income ratios, to 51.4% (September 30, 2013: 55.9%) and 50.2% (September 30, 2013: 52.8%) respectively.

Performance of the mortgage portfolios continues to improve with the number of residential mortgages more than three months in arrears reducing in both the prime and specialist mortgage books. 0.55% of the Group’s mortgages are more than three months in arrears, which compares favourably to the Council of Mortgage Lenders (the “**CML**”) industry average of 1.42%.

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

For the six months ended September 30, 2014					
	Statutory profit	FSCS and bank levy	Transformation Costs	Gains from derivatives and hedge accounting	Underlying profit
	(£ millions)				
Net interest income .....	1,420	-	-	-	1,420
Other income .....	143	-	-	-	143
Movements on derivatives and hedge accounting .....	32	-	-	(32)	-
<b>Total income</b> .....	<b>1,595</b>	<b>-</b>	<b>-</b>	<b>(32)</b>	<b>1,563</b>
Administrative expenses .....	(820)	-	36	-	(784)
<b>Pre-provision underlying profit</b> .....	<b>775</b>	<b>-</b>	<b>36</b>	<b>(32)</b>	<b>779</b>
Impairment losses .....	(169)	-	-	-	(169)
Provisions for liabilities and charges .....	(8)	4	-	-	(4)
<b>Profit before tax</b> .....	<b>598</b>	<b>4</b>	<b>36</b>	<b>(32)</b>	<b>606</b>

  

For the six months ended September 30, 2013 <sup>(1)</sup>					
	Statutory profit	FSCS and bank levy	Transformation Costs	Losses from derivatives and hedge accounting	Underlying profit
	(£ millions)				
Net interest income .....	1,084	-	-	-	1,084
Other income .....	303	-	-	-	303
Movements on derivatives and hedge accounting .....	(16)	-	-	16	-
<b>Total income</b> .....	<b>1,371</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>1,387</b>
Administrative expenses .....	(767)	-	35	-	(732)
<b>Pre-provision underlying profit</b> .....	<b>604</b>	<b>-</b>	<b>35</b>	<b>16</b>	<b>655</b>
Impairment losses .....	(252)	-	-	-	(252)
Provisions for liabilities and charges .....	(71)	-	-	-	(71)
<b>Profit before tax</b> .....	<b>281</b>	<b>-</b>	<b>35</b>	<b>16</b>	<b>332</b>

Note:

- (1) Comparatives have been restated for the adoption of IFRIC 21. Refer to note 2 to the Interim Financial Statements for further details.

The following discussion considers our results for the six months ended September 30, 2014 compared to our results for the six months ended September 30, 2013:

### **Total income**

Our total income increased to £1,595 million in the six months ended September 30, 2014 compared to £1,371 million in the six months ended September 30, 2013. The following table sets forth the components of income for the six months ended September 30, 2014 and 2013, respectively:

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Net interest income .....	1,420	1,084
Net fees and commissions .....	139	175
Income from investments .....	2	2
Other operating income .....	2	126
Gains/(losses) from derivatives and hedge accounting .....	32	(16)
<b>Total</b> .....	<b>1,595</b>	<b>1,371</b>

### **Net interest income**

Net interest income increased by 31% to £1,420 million for the six months ended September 30, 2014 compared with £1,084 million for the six months ended September 30, 2013.

The following table sets forth the components of net interest income for the six months ended September 30, 2014 and 2013, respectively:

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
<b>Interest and similar income:</b>		
On residential mortgages .....	2,451	2,377
On other loans .....	470	519
On investment securities .....	175	200
On other liquid assets .....	17	22
Net expense on financial instruments hedging assets .....	(429)	(537)
<b>Total interest and similar income</b> .....	<b>2,684</b>	<b>2,581</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	947	1,181
On subscribed capital .....	21	36
On deposits and other borrowings:		
Subordinated liabilities .....	57	65
Other .....	65	84
Debt securities in issue .....	370	417
Foreign exchange differences .....	26	17
Net income on financial instruments hedging liabilities .....	(226)	(311)
Pension interest cost .....	4	8
<b>Total interest expense and similar charges</b> .....	<b>1,264</b>	<b>1,497</b>
<b>Net interest income</b> .....	<b>1,420</b>	<b>1,084</b>

Interest and similar income increased by 4% to £2,684 million in the six months ended September 30, 2014 from £2,581 million in the six months ended September 30, 2013.



#### *On residential mortgages*

Interest on residential mortgages increased by 3% to £2,451 million in the six months ended September 30, 2014 from £2,377 million in the six months ended September 30, 2013. This includes adjustments to reflect the changes in our effective interest rate assumptions, including a credit of £1 million (September 30, 2013: charge of £17 million) in respect of an update of early redemption charges and a credit of £7 million (September 30, 2013: £21 million), which resulted from an update to the effective interest rate assumptions applicable to the recognition of mortgage fee income.

#### *On other loans*

Interest on other loans includes interest income that we earn from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans decreased by 9% to £470 million in the six months ended September 30, 2014 from £519 million in the six months ended September 30, 2013.

#### *On investment securities*

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

Interest and other income from investment securities decreased by 13% to £175 million for the six months ended September 30, 2014, compared with £200 million for the six months ended September 30, 2013. The lower amounts recorded in the financial year for interest receivable on investment securities and net expense on financial instruments hedging assets are driven primarily by a significant number of disposals of investment securities during the six months ended September 30, 2014 as part of an exercise to deleverage legacy treasury assets. These disposals generated a net loss of £8 million in the six months ended September 30, 2014 as compared to a net loss of £36 million in the six months ended September 30, 2013.

#### *Net expense on financial instruments hedging assets*

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets.” In the six months ended September 30, 2014, we incurred a net expense of £429 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £537 million in the six months ended September 30, 2013.

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

Interest expense and similar charges decreased by 16% in the six months ended September 30, 2014 to £1,264 million from £1,497 million in the six months ended September 30, 2013.

#### *On UK retail member deposits*

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits decreased to £947 million in the six months ended September 30, 2014 from £1,181 million in the six months ended September 30, 2013.

The average interest rate that we paid to depositors decreased slightly to 0.72% for the six months ended September 30, 2014 compared with 0.91% for the six months ended September 30, 2013, which accounted for the majority of the decrease in interest paid. There was also an increase of 2% in the average balance of UK retail member deposits held to £132,398 million in the six months ended September 30, 2014 from £129,395 million in the six months ended September 30, 2013.

Over the previous twelve months we have increased our market share of the personal current account market to 6.6% as at September 30, 2014 (September 30, 2013: 6.0%). We have been a supporter and beneficiary of the drive to make account switching quicker and easier, averaging a 9.0% share of all account switching in the period, compared with 8.7% in the six months to March 2014.

### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the six months ended September 30, 2014, interest on subordinated liabilities decreased to £57 million from £65 million in the six months ended September 30, 2013. This decrease is a result of changes in the mix of subordinated debt and average balances between the two periods. Average balances decreased to £2,230 million in the six months ended September 30, 2014 from £2,509 million in the six months ended September 30, 2013.

Other interest expense on deposits and other borrowings includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the six months ended September 30, 2014, other interest expense on deposits and other borrowings decreased by 23% to £65 million from £84 million in the six months ended September 30, 2013. This reduction is due to decreases in market rates in the six months ended September 30, 2014, compared with the six months ended September 30, 2013.

### *Debt securities in issue*

Debt securities in issue includes interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the six months ended September 30, 2014, interest expense on debt securities in issue decreased by 11% to £370 million from £417 million in the six months ended September 30, 2013. This decrease reflects an 8% decrease in the average monthly balance of debt securities in issue to £29,194 million in the six months ended September 30, 2014, compared with £31,811 million in the six months ended September 30, 2013.

### *Net income/expense on financial instruments hedging liabilities*

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as “net income/expense on financial instruments hedging liabilities.” In the six months ended September 30, 2014, net income on financial instruments used to hedge our fixed rate liabilities was £226 million, compared with a net income of £311 million in the six months ended September 30, 2013.

### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the six months ended September 30, 2014 and 2013 respectively:

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
<b>Total fee and commission income</b> .....	220	236
<b>Total fee and commission expense</b> .....	(81)	(61)
<b>Net fee and commission income</b> .....	139	175

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

In the six months ended September 30, 2014, net fees and commissions decreased by 21% to £139 million compared with £175 million in the six months ended September 30, 2013.

### *Other operating income*

In the six months ended September 30, 2014, other operating income decreased to £2 million, compared with £126 million in the six months ended September 30, 2013. This includes a net gain of £nil million in six months ended September 30, 2014 from the redemption of subscribed capital and redemption related fees (September 30, 2013: £124 million).

### *Gains/losses on derivatives and hedge accounting*

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

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

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

Gains from derivatives and hedge accounting were £32 million in the six months ended September 30, 2014 compared to losses of £16 million in the six months ended September 30, 2013. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

Included within the gain in the six months ended September 30, 2014 was the impact of the following:

- A £25 million gain (September 30, 2013: £26 million) on cross currency swaps which economically hedge the currency risk from non-sterling wholesale funding, but where hedge accounting is not currently achievable; and
- Gains of £7 million (September 30, 2013: £47 million loss) due to hedge ineffectiveness on micro hedge accounting relationships

### *Underlying Other Income Analyzed by Product Type*

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(£ millions)</b>	
Current account .....	50	58
Protection and investments .....	37	40
General insurance .....	39	50
Mortgage.....	6	12
Credit card .....	15	14
Commercial .....	8	9
Gain on redemption of subscribed capital .....	-	124
Other .....	(12)	(4)
<b>Total</b> .....	<b>143</b>	<b>303</b>

Underlying other income of £143 million is 53% down overall year on year and includes gains from the redemption of subscribed capital of £nil million (September 30, 2013: £124 million).

### *Operating expenses and similar charges*

Operating expenses and similar charges were stable in the six months ended September 30, 2014 at £997 million compared to £1,090 million in the six months ended September 30, 2013. The following table sets forth the components of operating expenses and similar charges for the six months ended September 30, 2014 and 2013, respectively:

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Administrative expenses.....	676	634
Depreciation and amortization.....	144	133
Impairment losses on loans and advances to customers .....	156	253
Provisions for liabilities and charges .....	8	71
Impairment/(gains) losses on investment securities.....	13	(1)
<b>Total</b> .....	<b>997</b>	<b>1,090</b>

### *Administrative expenses*

Administrative expenses increased by 7% in the six months ended September 30, 2014 to £676 million from £634 million in the six months ended September 30, 2013 largely driven by ongoing investment in the business, general inflation and increased levels of business activity.

The following table sets forth the components of administrative expenses for the six months ended September 30, 2014 and 2013, respectively:

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Employee costs:		
Salaries and social security costs .....	288	268
Pension costs .....	42	40
Other administrative expenses .....	346	326
<b>Total</b> .....	<b>676</b>	<b>634</b>

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

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

In the six months ended September 30, 2014, salaries and social security costs increased by 7% to £288 million from £268 million in the six months ended September 30, 2013. The year on year increase in employee costs reflects the impact of annual pay awards averaging 3.0% and 2.5% respectively in each of the last two years, combined with a 3.0% increase in employee numbers year on year.

Within employee costs, the pension charge increased by 5% to £42 million for the six months ended September 30, 2014 from £40 million in the six months ended September 30, 2013.

Other administrative costs increased by 6% to £346 million for the six months ended September 30, 2014 from £326 million for the six months ended September 30, 2013. The increase in other administrative expenses is largely driven by changes in IT infrastructure and the integration of all administration and retail activity of our Dunfermline and Cheshire brands, including transformation costs of £36 million. The IT investment is intended to enable IT changes to be delivered in a more efficient, flexible and resilient manner, and enhance the development of digital capability, including Nationwide Now, tablet banking and mobile payment applications. This is a two year project which will be largely completed in the second half of this financial year. The Derbyshire integration will be completed in the second half of this year.

Total underlying income grew 12.7% in the six months ended September 30, 2014 as compared to the six months ended September 30, 2013, exceeding cost growth and reducing our statutory cost income ratio to 51.4% in the six months ended September 30, 2014 (September 30, 2013: 55.9%) and our underlying cost ratio to 50.2% in the six months ended September 30, 2014 (September 30, 2013: 52.8%). Cost growth is expected to moderate throughout 2014/15.

#### *Depreciation and amortization*

For the six months ended September 30, 2014 depreciation and amortization expenses increased by £12 million to £144 million compared to £133 million for the six months ended September 30, 2013. This is primarily driven by the continued investment in key restructuring projects.

#### *Impairment losses on loans and advances to customers*

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

Impairment losses on loans and advances to customers for the six months ended September 30, 2014 decreased by 38% to £156 million from £253 million for the six months ended September 30, 2013, primarily as a result of a significant improvement in the level of impairment suffered on our commercial lending portfolio.

The following table analyzes the impairment losses on loans and advances to customers for the six months ended September 30, 2014 and 2013, respectively:

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Residential mortgages.....	13	8
Commercial lending .....	73	225
Consumer banking .....	49	16
Other lending .....	21	4
<b>Total</b> .....	<b>156</b>	<b>253</b>

The residential lending charge of £13 million relates solely to our specialist portfolio with no net requirement for additional provisions on prime lending. The performance of all mortgage portfolios continues to be underpinned by strong fundamentals, with positive albeit moderate price growth, falling unemployment and low interest rates. These positive underlying conditions are reflected in arrears levels which have continued to fall in the first half of the financial year.

Commercial lending impairments relate exclusively to CRE lending, with no arrears in our social housing and Project Finance portfolios. The decrease in the impairment charge to £73 million relates primarily to additional provisions reflecting accelerated deleveraging in light of favourable market conditions. Aside from this, the underlying impairment charge reflects a significantly reduced requirement for new or increased provisions as a result of generally favourable conditions across the sector characterised by improved valuations and strong liquidity.

Consumer banking impairments of £49 million are £33 million higher than for the six months ended September 30, 2013. The comparative results included a credit of £27 million relating to an update to model assumptions for late stage recoveries on defaulted balances to reflect recent recoveries experience.

The ‘other lending’ impairment charge mainly relates to a provision in respect of our €100 million loan to a Luxembourg special purpose vehicle (“SPV”). Impairment losses on investment securities of £13 million (September 30, 2013: £1 million gain) includes a charge of £8 million in relation to a single out of policy asset held within the available for sale portfolio, which was subsequently sold in October 2014.

*Impairment losses/gains on investment securities*

Impairment losses on investment securities of £13 million were recognized for the six months ended September 30, 2014 (six months ended September 30, 2013: £1 million gains).

*Provisions for liabilities and charges*

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
FSCS.....	4	-
Customer redress provision .....	4	71
<b>Total</b> .....	<b>8</b>	<b>71</b>

We pay levies to the FSCS based upon our share of protected deposits. The charge of £4 million for FSCS levies represents an increase in interest for the 2014/15 scheme year, initially provided at 4 April 2014. The charge for 2015/16 will be recognised in the second half of the year. Further information is provided in Note 26 to the audited consolidated financial statements for the year ended April 4, 2014.

The charge for customer redress provisions of £4 million in the six months ended September 30, 2014 (September 30, 2013: £71 million) relates to estimated costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory matters.

*Taxes*

The statutory reported tax charge for the year of £112 million in the six months ended September 30, 2014 (September 30, 2013: £39 million) represents an effective tax rate of 18.7%, which is lower than the statutory rate in the UK of 21%. The lower rate is due principally to adjustments with respect to prior periods and the effect of the change in the UK corporation tax rate.

This resulted in an overall statutory tax charge for the six months ended September 30, 2014 of £112 million (six months ended September 30, 2013: £39 million) as set out in the table below:

	<b>For the six months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Charge on profits for the year .....	133	67
Adjustment in respect of prior years .....	(14)	(14)
Effect of corporation tax rate change.....	(7)	(14)
<b>Statutory tax charge</b> .....	<b>112</b>	<b>39</b>

*Balance Sheet Review*

Weighted average total assets grew by just under 1% as the growth in retail lending outstripped reductions in non-core treasury and commercial lending balances.

### Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 88.5% of our total loans and advances to customers at September 30, 2014. This is an increase from 87.3% as at April 4, 2014, reflecting the Group's strategy of exiting non-core commercial lending:

	As at September 30, 2014		As at April 4, 2014	
	(£ billions, except percentages)			
Prime residential mortgages .....	122.1	72.4%	119.3	71.5%
Specialist residential mortgages .....	27.2	16.1%	26.3	15.8%
<b>Total residential mortgages .....</b>	<b>149.3</b>	<b>88.5%</b>	<b>145.7</b>	<b>87.3%</b>
Commercial lending .....	15.4	9.1%	17.3	10.3%
Other lending .....	0.1	0.1%	0.2	0.1%
Consumer banking .....	3.8	2.3%	3.9	2.3%
<b>Gross balances .....</b>	<b>168.6</b>	<b>100.0%</b>	<b>167.0</b>	<b>100.0%</b>
Impairment provisions .....	(1.1)		(1.3)	
Fair value adjustments for micro hedged risk .....	1.0		0.9	
<b>Total .....</b>	<b>168.5</b>		<b>166.6</b>	

### Residential mortgage portfolio

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

Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy-to-let lending. Gross mortgage lending in the period was £13.1 billion (September 30, 2013: £14.0 billion), representing a market share of 12.2% (September 30, 2013: 15.4%). Total lending in the period reflected a recent flattening of the housing market, actions taken to moderate new mortgage applications during the implementation of the Mortgage Market Review to ensure customer service experience was maintained, and a more aggressive competitive environment. At 12.2% our market share of new business is broadly in line with our market share of stock of 11.9% (4 April 2014: 11.7%). Mortgage balances grew by £3.6 billion in the six months ended September 30, 2014 of which £2.8 billion was prime lending and £0.8 billion related to specialist mortgages.

In addition to our support for first time buyers, we have continued with our policy of rewarding our members by providing a loyalty discount to our mortgage rates to existing mortgage customers wishing to move homes, switch products or take a further advance. We have also maintained our BMR at 2% above the BoE base rate.

As patterns of housing tenure continue to evolve, with greater numbers of people choosing to rent rather than buy, our subsidiary, The Mortgage Works (UK) plc ("TMW"), has continued to be a leading provider of high quality loans to the specialist mortgages sector. Our total specialist mortgage book now stands at £27.2 billion at September 30, 2014 (April 4, 2014: £26.3 billion), representing 18% of our total residential lending portfolio at September 30, 2014 (April 4, 2014: 18.1%).

As at September 30, 2014, buy-to-let mortgages made up 85% of total specialist lending, 10% related to self-certification mortgages, 4% related to near prime and 1%, amounting to £0.4 billion, related to subprime.

The average LTV of residential mortgages completed has improved to 67% as at September 30, 2014 (April 4, 2014: 69%). This strategy is supported by a robust affordability assessment and credit scoring process that ensures asset quality remains within our risk appetite. TMW has strategically adjusted its product range in order to attract larger loans. We believe our industry leading controls to reduce the potential misuse of buy-to-let mortgages for residential lending have also proven to be effective. The average indexed LTV of residential mortgages as at September 30, 2014 was 46%, a 2% decrease as compared to April 4, 2014.

	As at September 30, 2014	As at April 4, 2014
	<i>(percentages)</i>	
<b>LTV portfolio of residential mortgages:</b>		
0% - 60% .....	25	19
60% - 75% .....	43	38
75% - 80% .....	9	10
80% - 85% .....	9	15
85% - 90% .....	13	16
90% - 95% .....	1	2
>95% .....	-	-
<b>Total</b> .....	<b>100</b>	<b>100</b>
Average loan to value of stock (indexed) .....	46	48
Average loan to value of new business .....	67	69
<b>New business profile:</b>		
First-time buyers .....	27	31
Home movers .....	33	32
Remortgagers .....	22	22
Buy-to-let .....	17	14
Other .....	1	1
<b>Total</b> .....	<b>100</b>	<b>100</b>

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

Total residential balance sheet provisions at September 30, 2014 are £88 million, compared with £102 million at April 4, 2014.

	As at September 30, 2014	As at April 4, 2014
	<i>(percentages)</i>	
<b>Cases three months or more in arrears as % of total book of residential mortgages</b>		
<b>Group residential mortgages:</b>		
Prime .....	0.40	0.46
Specialist .....	1.29	1.53
<b>Total Group residential mortgages</b> .....	<b>0.55</b>	<b>0.63</b>
<b>CML industry average</b> .....	<b>1.42</b>	<b>1.59</b>

Reflecting our low risk profile, performance of the mortgage books has remained strong with the number of residential mortgages more than three months in arrears reducing in both the specialist and prime mortgage books. Our overall arrears percentage of 0.55% compares favourably with the CML industry average of 1.42% (April 4, 2014: 1.59% as restated by CML).



The table below shows possessions as a percentage of our total residential mortgages as at September 30, 2014 and April 4, 2014:

	<b>As at September 30, 2014</b>	<b>As at April 4, 2014</b>
<b>Possessions as % of total residential mortgages (number of properties)</b>	<b>(percentages)</b>	
<b>Group residential mortgages:</b>		
Prime .....	0.01	0.01
Specialist.....	0.13	0.14
<b>Total Group residential mortgages .....</b>	<b>0.04</b>	<b>0.03</b>

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended September 30, 2014, the properties taken into possession remains stable at 526, representing only 0.04% of the Group's book compared to the industry average of 0.07%.

The table below provides further information on the residential mortgage portfolio by payment due status as at September 30, 2014 and April 4, 2014:

	<b>As at September 30, 2014</b>					<b>As at April 4, 2014</b>				
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>		<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>	
	<i>(£ billions, except percentages)</i>									
<b>Not impaired:</b>										
Neither past due nor impaired....	119.8	25.7	3.5	149.0	97%	117.0	24.7	3.7	145.4	97%
Past due up to 3 months but not impaired....	1.9	1.0	0.1	2.9	2%	1.8	1.0	0.1	2.9	2%
Impaired.....	0.4	0.6	0.2	1.2	1%	0.5	0.6	0.1	1.2	1%
<b>Total .....</b>	<b>122.1</b>	<b>27.2</b>	<b>3.8</b>	<b>153.1</b>	<b>100%</b>	<b>119.3</b>	<b>26.3</b>	<b>3.9</b>	<b>149.5</b>	<b>100%</b>

The status "past due up to 3 months but not impaired" includes any asset where a payment due is received late or missed. The amount included is the entire financial asset balance rather than just the payment overdue. Loans on interest only or payment holiday concessions are initially categorized according to their payment status as at the date of concession, with subsequent revisions to this category assessed against the terms of the concession.

Loans which are not in possession have collective impairment provisions set aside to cover credit losses.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. Loans acquired from the Derbyshire, Cheshire and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for anticipated losses over the remaining life of the loans. Impaired retail loans are broken down further in the following table:

As at September 30, 2014						As at April 4, 2014				
Prime lending	Specialist lending	Consumer banking	Total			Prime lending	Specialist lending	Consumer banking	Total	
<i>(£ millions, except percentages)</i>										
<b>Impaired status:</b>										
Past due 3 to 6 months.....	201	237	34	472	43%	225	269	42	536	44%
Past due 6 to 12 months.....	145	150	26	321	30%	164	183	30	377	31%
Past due over 12 months .....	83	118	16	217	20%	100	138	-	238	19%
Possessions.....	18	62	-	80	7%	15	61	-	76	6%
<b>Total .....</b>	<b>447</b>	<b>567</b>	<b>76</b>	<b>1,090</b>	<b>100%</b>	<b>504</b>	<b>651</b>	<b>72</b>	<b>1,227</b>	<b>100%</b>

Possession balances represent loans against which we have taken ownership of properties pending their sale. Our approach to dealing with customers in financial difficulty, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties that are taken into possession compared to industry benchmarks. The number of properties in possession has remained stable at 526 during the six months ended September 30, 2014 (April 4, 2014: 522) possession stock represents 0.04% of our total number of properties as at September 30, 2014 compared to the industry average of 0.07% (source: CML).

We offer a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the six months ended September 30, 2014 to ensure alignment to good practice as defined by the regulator. The options offered may be classified into three categories:

- change in terms;
- forbearance; and
- repair

#### *Change in terms*

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows, these are not offered as a means of forbearance. The options available include:

- Payment holidays;
- Term extensions;
- Payment concessions; and
- Interest-only conversions (withdrawn March 2012).

#### *Payment holidays*

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at September 30, 2014, £4,104 million (April 4, 2014: £4,360 million) of loans have been subject to payment holidays at any point since January 2008 and are still on the books at September 30, 2014. Only £102 million of loans remain on a payment holiday as at September 30, 2014 (April 4, 2014: £98 million).

#### *Term extensions*

We allow performing customers to apply to extend the term of their mortgage. £7,200 million of loans have been subject to term extensions at any point since January 2008 and are still on the books at 30 September

2014 (April 4, 2014: £7,376 million). During the six months ended September 30, 2014, £402 million of loans (September 30, 2013: £1,077 million) had terms extended. Performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### *Payment concessions*

Customers in arrears may be offered a temporary payment concession allowing them to make reduced or nil payments for an agreed period of time. During this period the arrears amounts are accrued and therefore no additional provision is required. As at September 30, 2014, £889 million (April 4, 2014: £890 million) of loans have been subject to payment concessions at any point since January 2008 and are still on the books at September 30, 2014. As at September 30, 2014, only £18 million of loans (April 4, 2014: £21 million) remain subject to payment concessions.

#### *Interest-only conversions*

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

#### *Forbearance*

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

As at September 30, 2014, £138 million of balances (April 4, 2014: £171 million) representing 0.09% (April 4, 2014: 0.12%) of total mortgage balances were on this concession. Our provisioning methodology reflects the latest performance on these accounts.

#### *Repair*

The Group offers two forms of repair, capitalization and term extension (at term expiry), as set out below.

#### *Capitalization*

When a customer emerges from financial difficulty, we offer the ability to capitalize arrears, resulting in the account being repaired. Customers are only permitted to capitalize arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. As at September 30, 2014, £428 million (April 4, 2014: £420 million) of loans had an arrears capitalization at any point since January 2008 and are still on the books at September 30, 2014. £30 million of loans (April 4, 2014: £7 million) were capitalized during the six months ended September 30, 2014. Once capitalized the loans are categorized as not impaired as long as contractual repayments are maintained.

#### *Term extension (at term expiry)*

Customers on interest only mortgages who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible, while ensuring the monthly payments remain manageable to the customer. As at September 30, 2014, £607 million (April 4, 2014: £602 million) of loans had an extension at term expiry at any point since January 2008 and are still on the books at September 30, 2014; of these £79 million of loans had an extension at term expiry during the six months ended September 30, 2014 (September 30, 2014: £95 million). No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. The table below shows the stock of loans still on the books at September 30, 2014 that have been subject to forbearance at some point:

	As at September 30, 2014 (Unaudited)		As at April 4, 2014 <sup>(2)</sup> (Unaudited)	
	£ million	% of total prime loans and advances	£ million	% of total prime loans and advances
Change in terms <sup>(1)</sup> .....	12,684	8	13,188	9
Forbearance <sup>(1)</sup> .....	1,629	1	1,667	1
Repair <sup>(1)</sup> .....	1,032	1	1,555	1

Notes:

(1) The three categories above are not mutually exclusive. The information above has been extracted from our management information systems.

(2) Restated to reflect 2014 PRA guidance.

The following table presents negative equity on residential mortgages:

	As at September 30, 2014		As at April 4, 2014	
	Prime lending	Specialist lending	Prime lending	Specialist lending
	<i>(£ million)</i>			
Past due but not impaired .....	2	6	4	6
Impaired .....	2	11	3	16
Possessions .....	-	7	-	7
<b>Total</b> .....	<b>4</b>	<b>24</b>	<b>7</b>	<b>29</b>

### Commercial loan portfolio

Our commercial lending portfolio of £15.4 billion as at September 30, 2014 (April 4, 2014: £17.3 billion) comprises £5.9 billion secured on commercial property (“**Property Finance**”) (April 4, 2014: £7.8 billion), £8.1 billion advanced to Registered Social Landlords (April 4, 2014: £8.1 billion) and £1.4 billion advanced under Project Finance, principally via the Private Finance Initiative (“**PFI**”) (April 4, 2014: £1.5 billion). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with our forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired Property Finance loans amounted to £2,187 million as at September 30, 2014 (April 4, 2014: £3,065 million) and provisions held against the portfolio amounted to £782 million (April 4, 2014: £1,001 million) representing a coverage ratio of 36% (April 4, 2014: 33%).

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

	<b>As at September 30, 2014</b>	<b>As at April 4, 2014</b>
	<i>(£ million, except percentages)</i>	
<b>Gross balances</b>	5,872	7,764
Impaired balances .....	2,187	3,065
Impaired balances as a % of gross balances .....	37%	39%
<b>Commercial provisions:</b>		
Individual.....	747	921
Collective.....	35	80
Total provisions .....	782	1,001
<b>Provision coverage ratios:</b>		
Individual provisions as a % of impaired balances.....	34%	30%
Total provisions as a % of impaired balances.....	36%	33%
Total provisions as a % of total gross balances .....	13%	13%

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amounted to £1,462 million (67% of impaired balances) as at September 30, 2014 and £2,216 million (72% of impaired balances) as at April 4, 2014. There are no cases classified as impaired or with payment arrears in our Registered Social Landlord or PFI portfolios.

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

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

Other lending operations as at September 30, 2014 includes £114 million (April 4, 2014: £176 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior asset backed security (“ABS”) reference portfolio.

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

	As at September 30, 2014				As at April 4, 2014			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired.....	3.5	60%	0.1	-	4.6	60%	0.1	40%
Past due up to 3 months but not impaired.....	0.2	3%	-	100%	0.1	1%	-	-
Impaired.....	2.2	37%	-	-	3.1	39%	0.1	60%
<b>Total.....</b>	<b>5.9</b>	<b>100%</b>	<b>0.1</b>	<b>100%</b>	<b>7.8</b>	<b>100%</b>	<b>0.2</b>	<b>100%</b>

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

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses.

Impaired balances in other operations total £94 million as at September 30, 2014 (April 4, 2014: £107 million). This consists of £11 million (April 4, 2014: £25 million) relating to the European commercial loan portfolio and £78 million (April 4, 2014: £82 million) relating to a first loss exposure on the portfolio of asset backed securities securing the revolving loan facility.

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

	As at September 30, 2014				As at April 4, 2014			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ million, except percentages)</i>							
<b>Impaired status:</b>								
Past due 0 to 3 months .....	1,521	69%	82	87%	2,125	69%	82	77%
Past due 3 to 6 months .....	190	9%	-	-	152	5%	-	-
Past due 6 to 12 months .....	146	7%	-	-	334	11%	8	7%
Past due over 12 months .....	320	15%	12	13%	442	15%	17	16%
Possessions .....	10	-%	-	-	12	-	-	-
<b>Total</b> .....	2,187	100%	94	100%	3,065	100%	107	100%

Impaired loans include those balances which are more than three months in arrears, or have a provision against them.

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

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

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

The table below quantifies the estimated value of indexed collateral held against non-performing or impaired assets:

	<b>As at September 30, 2014</b>		<b>As at April 4, 2014</b>	
	<i>(£ million, except percentages)</i>			
Past due but not impaired .....	158	100%	65	100%
Impaired.....	1,462	67%	2,216	72%
<b>Total</b> .....	<b>1,620</b>	<b>69%</b>	<b>2,281</b>	<b>73%</b>

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

During the year a revised valuation policy has been implemented which stipulates the maximum period between formal valuations, relative to the risk profile of the lending. Particular attention is paid to the status of the facilities, for instance whether it is, or is likely to require an impairment review where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis.

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

	As at September 30, 2014		As at April 4, 2014	
(unaudited)	(£ million, except percentages)			
Performing loans				
Fully collateralized				
LTV ratio:				
less than 25% .....	225		257	
25% to 50% .....	1,356		1,122	
51% to 75% .....	1,482		2,014	
76 to 90% .....	354		657	
91% to 100% .....	50		141	
Total.....	3,467	59%	4,191	54%
Partially collateralized				
More than 100% (A) .....	60	1%	443	6%
Collateral value of (A).....	50		373	
Total performing loans.....	3,527	60%	4,634	60%
Non-performing loans				
Fully collateralized				
LTV ratio:				
less than 25% .....	66		42	
25% to 50% .....	34		25	
51% to 75% .....	180		210	
76 to 90% .....	134		144	
91% to 100% .....	278		169	
Total.....	692	12%	590	8%
Partially collateralized				
More than 100% (A) .....	1,653	28%	2,540	32%
Collateral value of (A).....	928		1,690	
Total non-performing loans .....	2,345	40%	3,130	40%
Total CRE loans.....	5,872	100%	7,764	100%

As a result of performing loans being reclassified as impaired, the overall proportion of partially collateralized non-performing loans has reduced to 28% in the six months ended September 30, 2014 (April 4, 2014: 32%) and the shortfall on collateral for non-performing CRE loans has reduced by £125 million during the six months ended September 30, 2014 to £725 million (April 4, 2014: £850 million).



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

	<u>As at September 30, 2014</u>	<u>As at April 4, 2014</u>
	<i>(£ million)</i>	
Past due but not impaired .....	-	1
Impaired.....	719	840
Possessions .....	6	9
<b>Total</b> .....	<u><b>725</b></u>	<u><b>850</b></u>

### Consumer banking

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

	<u>As at September 30, 2014</u>	
	<u>Delinquent balances</u>	<u>Balances before provisions</u>
	<i>(£ million)</i>	
FlexAccount (overdraft balances) .....	24	230
Personal loans .....	115	1,824
Credit cards.....	49	1,793
<b>Total</b> .....	<u><b>188</b></u>	<u><b>3,847</b></u>

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

	<u>As at September 30, 2014</u>	<u>As at April 4, 2014</u>
	<i>(percentages)</i>	
FlexAccount (overdraft balances).....	10.43	7.67
Personal loans .....	6.30	3.20
Credit cards.....	2.73	2.66

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

## Country exposure

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

As at September 30, 2014						
	Greece	Ireland	Italy	Portugal	Spain	Total
	<i>(£ million)</i>					
Mortgage backed securities .....	-	-	56	49	278	383
Covered bonds .....	-	36	-	21	269	326
Other corporate .....	-	-	3	-	-	3
<b>Total .....</b>	<b>-</b>	<b>36</b>	<b>59</b>	<b>70</b>	<b>547</b>	<b>712</b>

  

As at April 4, 2014						
	Greece	Ireland	Italy	Portugal	Spain	Total
	<i>(£ million)</i>					
Mortgage backed securities .....	-	14	75	49	299	437
Covered bonds .....	-	39	-	22	281	342
Other corporate .....	-	-	3	-	-	3
<b>Total .....</b>	<b>-</b>	<b>53</b>	<b>78</b>	<b>71</b>	<b>580</b>	<b>782</b>

Movements in our exposure to peripheral eurozone countries between the six months ended September 30, 2013 and 2014 relate to disposals, maturities and fair value movements and there has been no new investment in the current financial year.

As at September 30, 2014 we had further indirect exposure to peripheral eurozone countries as a result of a €100 million loan to a Luxembourg SPV (April 4, 2014: €100 million) included in loans and advances to customers – other lending, which has first loss exposure to a €1.3 billion portfolio as at September 30, 2014 (April 4, 2014: €1.5 billion) of senior ranking European ABS assets of which 27% relates to peripheral European assets (4 April 2014: 27%).

None of our exposures to the peripheral eurozone countries are in default, and we did not incur any impairment on these assets in the six months ended September 30, 2014. We continue to monitor closely the exposures to these countries. In addition, our exposure in respect of other eurozone countries and the rest of the world is shown below at their balance sheet carrying value as at September 30, 2014:

As at September 30, 2014 (£ million)									
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world	Total
	<i>(£ million)</i>								
Government bonds .	216	-	428	709	-	1,353	397	-	1,750
Mortgage backed securities .....	-	11	3	356	-	370	74	36	480
Covered bonds .....	-	78	39	28	-	145	25	135	305
Senior debt .....	-	-	-	-	-	-	-	39	39
Loans to banks .....	-	139	117	-	-	256	359	554	1,169
Other assets .....	-	95	121	-	-	216	704	669	1,589
Other corporate .....	2	12	11	4	-	29	-	-	29
<b>Total .....</b>	<b>218</b>	<b>335</b>	<b>719</b>	<b>1,097</b>	<b>-</b>	<b>2,369</b>	<b>1,559</b>	<b>1,433</b>	<b>5,361</b>

As at April 4, 2014									
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world	Total
	(£ million)								
Government bonds ....	170	-	438	778	-	1,386	388	-	1,774
Mortgage backed securities .....	-	12	41	334	-	387	109	57	553
Covered bonds.....	-	-	-	-	-	-	27	-	27
Senior debt .....	-	-	-	-	-	-	-	39	39
Loans to banks .....	-	103	151	-	-	254	36,479	385	1,003
Other assets .....	-	99	42	-	-	141	793	666	1,600
Other corporate.....	10	24	567	36	-	637	-	3	640
<b>Total .....</b>	<b>180</b>	<b>238</b>	<b>1,239</b>	<b>1,148</b>	<b>-</b>	<b>2,805</b>	<b>1,681</b>	<b>1,150</b>	<b>5,636</b>

The movement in the balances in respect of Finland and the Netherlands reflects that these are still active markets for us, along with Germany and the USA. In addition, the above balances will be affected by movements such as pay downs of the assets and fair value and exchange rate adjustments.

### Results of Operations for the Year Ended April 4, 2014 Compared with the Year Ended April 4, 2013

#### Introduction

We believe that our results indicate a strong performance for the year ended April 4, 2014 with an underlying profit before tax (as explained below) of £924 million, and a statutory profit before tax of £677 million.

Underlying profit before tax (as explained below) for the year ended April 4, 2014 is up 113% at £924 million from £433 million for the year ended April 4, 2013. Total income increased by 16% to £2,895 million in the year ended April 4, 2014, as compared to the year ended April 4, 2013.

Underlying administrative expenses were £1,519 million for the year ended April 4, 2014, an increase of 9% from the year ended April 4, 2013, largely driven by ongoing investment in the business, general inflation and increased levels of business activity. At a statutory level administrative expenses have increased by 13% to £1,611 million in the year ended April 4, 2014, as compared to the year ended April 4, 2013. Investment spend during for the year ended April 4, 2014 included revenue costs of £23 million associated with the implementation of the Mortgage Market Review and the Current Account Switching Service. In addition, depreciation and amortization for the year ended April 4, 2014 included the first full year's charge of £50 million (April 4, 2013: £11 million) relating to our new banking platform which became operational in October 2012.

Between the years ended April 4, 2013 and 2014, the increase in our cost base reflects the impact of annual pay awards averaging 2.4% and 2.5%, respectively, combined with a 1.5% increase in total numbers of employees in the year ended April 4, 2014 as compared to the year ended April 4, 2013.

Costs for the year ended April 4, 2014 also include £39 million in relation to our strategic transformation, an ongoing program to integrate distribution and account administration relating to our Dunfermline, Derbyshire and Cheshire brands, as announced on May 2, 2013. Under the program the branch network will be unified under a single "Nationwide" brand to eliminate unnecessary duplication while preserving levels of physical access for members as a whole. Account administration will be migrated onto our core systems. Costs were mainly related to asset write downs, provision for ongoing onerous lease contracts and headcount reductions. The program is expected to deliver annualized cost savings in excess of £25 million and additional income of £10 million beginning April 5, 2015.

Income grew 16% in the year ended April 4, 2014, as compared to the year ended April 4, 2013 exceeded cost growth, resulting in a reduction in our statutory cost income ratio to 56.6% in the year ended

April 4, 2014 (April 4, 2013: 61.2%) and in our underlying cost ratio of 52.5% in the year ended April 4, 2014 (April 4, 2013: 55.9%). We currently expect cost growth to moderate during the year that began April 5, 2014 because, notwithstanding our focus on efficiency, we continue to see cost pressures within the business arising from sustained levels of technology investment, increased regulation and volume growth, partially as a result of growing market shares. We expect to see these trends continue, although we also expect cost growth in the financial year ending April 4, 2015 to be lower than for the financial year ended April 4, 2014.

Our prudent approach to mortgage lending is evident in our three month mortgage arrears ratio of 0.63%, which compares favorably with the industry average of 1.59%. We have made significant progress in reducing our exposure to non-core commercial real estate by reducing our balances by 24% over the past year; our total exposure now stands at £7.8 billion (2013: £10.2 billion) and since the year end we have reduced our exposure by a further £0.7 billion through the sale of non-UK commercial real estate assets. Alongside this deleveraging, we have seen a modest improvement in the outlook for the commercial real estate sector and, as a consequence, our commercial impairment charge has reduced to £309 million (2013: £493 million). Total provision charges for all impairments have fallen by 35% to £383 million (2013: £591 million).

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

For the year ended April 4, 2014					
	As reported	FSCS and bank levy	Restructuring Costs	Movements on derivatives and hedge accounting	Underlying profit before tax
	(£ millions)				
Net interest income .....	2,403	-	-	-	2,403
Other income .....	492	-	-	-	492
Movements on derivatives and hedge accounting .....	(51)	-	-	51	-
<b>Total income .....</b>	<b>2,844</b>	<b>-</b>	<b>-</b>	<b>51</b>	<b>2,895</b>
Administrative expenses .....	(1,329)	17	75	-	(1,237)
Depreciation and amortization...	(282)	-	-	-	(282)
<b>Pre-provision underlying profit .....</b>	<b>1,233</b>	<b>17</b>	<b>75</b>	<b>51</b>	<b>1,376</b>
Impairment losses .....	(383)	-	-	-	(383)
Provisions for liabilities and charges .....	(173)	104	-	-	(69)
<b>Profit before tax .....</b>	<b>677</b>	<b>121</b>	<b>75</b>	<b>51</b>	<b>924</b>

**For the year ended April 4, 2013<sup>(1)</sup>**

	<b>As reported</b>	<b>FSCS and bank levy</b>	<b>Restructuring Costs</b>	<b>Movements on derivatives and hedge accounting</b>	<b>Underlying profit before tax</b>
	<i>(£ millions)</i>				
Net interest income .....	1,981	-	-	-	1,981
Other income .....	504	-	-	-	504
Movements on derivatives and hedge accounting .....	(165)	-	-	165	-
<b>Total income</b> .....	<b>2,320</b>	<b>-</b>	<b>-</b>	<b>165</b>	<b>2,485</b>
Administrative expenses .....	(1,204)	16	16	-	(1,188)
Depreciation and amortization .....	(216)	-	-	-	(216)
<b>Pre-provision underlying profit</b> .....	<b>900</b>	<b>16</b>	<b>16</b>	<b>165</b>	<b>1,097</b>
Impairment losses .....	(591)	-	-	-	(591)
Provisions for liabilities and charges .....	(141)	68	-	-	(73)
<b>Profit before tax</b> .....	<b>168</b>	<b>84</b>	<b>16</b>	<b>165</b>	<b>433</b>

Note:

(1) Comparatives have been restated in accordance with IAS 19 (Revised) Employee Benefits.

The following discussion considers our results for the year ended April 4, 2014 compared to our results for the year ended April 4, 2013:

***Total income***

Our total income increased to £2,844 million in the year ended April 4, 2014 compared to £2,320 million in the year ended April 4, 2013. The following table sets forth the components of income for the years ended April 4, 2014 and 2013, respectively:

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Net interest income .....	2,403	1,981
Net fees and commissions .....	354	445
Income from investments .....	4	13
Other operating income .....	134	46
Gains/(losses) from derivatives and hedge accounting .....	(51)	(165)
<b>Total</b> .....	<b>2,844</b>	<b>2,320</b>

***Net interest income***

Net interest income increased by 21% to £2,403 million for the year ended April 4, 2014 compared with £1,981 million for the year ended April 4, 2013.

The following table sets forth the components of net interest income for the years ended April 4, 2014 and 2013, respectively:

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
<b>Interest and similar income:</b>		
On residential mortgages .....	4,825	4,851
On other loans .....	1,039	1,130
On investment securities .....	396	1,280
On other liquid assets .....	38	49
Net (expense) on financial instruments hedging assets .....	(1,003)	(1,915)
<b>Total interest and similar income .....</b>	<b>5,295</b>	<b>5,395</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(2,250)	(2,741)
On subscribed capital .....	(59)	(89)
On deposits and other borrowings:		
Subordinated liabilities .....	(129)	(96)
Other .....	(167)	(210)
Debt securities in issue .....	(814)	(944)
Foreign exchange differences .....	(28)	-
Net income on financial instruments hedging liabilities .....	570	689
Pension interest cost .....	(15)	(23)
<b>Total interest expense and similar charges .....</b>	<b>(2,892)</b>	<b>(3,414)</b>
<b>Net interest income .....</b>	<b>2,403</b>	<b>2,320</b>

Interest and similar income decreased by 2% to £5,295 million in the year ended April 4, 2014 from £5,395 million in the year ended April 4, 2013.

#### *On residential mortgages*

Interest on residential mortgages decreased slightly by 0.5% to £4,825 million in the year ended April 4, 2014 from £4,851 million in the year ended April 4, 2013. This includes adjustments to reflect the changes in our effective interest rate assumptions, including a charge of £20 million (April 4, 2013: £18 million) in respect of an update of early redemption charges and a credit of £12 million (April 4, 2013: £2 million), which resulted from an update to the effective interest rate assumptions applicable to the recognition of mortgage fee income.

#### *On other loans*

Interest on other loans includes interest income that we earn from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans decreased by 8% to £1,039 million in the year ended April 4, 2014 from £1,130 million in the year ended April 4, 2013.

#### *On investment securities*

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

Interest and other income from investment securities decreased by 69% to £396 million for the year ended April 4, 2014, compared with £1,280 million for the year ended April 4, 2013. The lower amounts recorded in the financial year for interest receivable on investment securities and net expense on financial instruments hedging assets are driven primarily by a significant number of disposals of investment securities during the year ended April 4, 2014 as part of an exercise to deleverage legacy treasury assets. These disposals generated a net loss of £45 million in the year ended April 4, 2014 as compared to a net gain of £139 million in the year ended April 4, 2013.

#### *Net expense on financial instruments hedging assets*

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets.” In the year ended April 4, 2014, we incurred a net expense of £1,003 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £1,915 million in the year ended April 4, 2013.

#### *Interest expense and similar charges*

Interest expense and similar charges decreased by 15% in the year ended April 4, 2014 to £2,892 million from £3,414 million in the year ended April 4, 2013.

#### *On UK retail member deposits*

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits decreased to £2,250 million in the year ended April 4, 2014 from £2,741 million in the year ended April 4, 2013.

The average interest rate that we paid to depositors decreased slightly to 1.7% for the year ended April 4, 2014 compared with 2.2% for the year ended April 4, 2013, which accounted for the majority of the decrease in interest paid. There was also an increase of 4% in the average balance of UK retail member deposits held to £130,196 million in the year ended April 4, 2014 from £125,264 million in the year ended April 4, 2013.

We have accelerated our drive to diversify our business through the provision of personal banking services to new and existing members in the year ended April 4, 2014. We have opened over 430,000 new current accounts in the year ended April 4, 2014, an 18% increase as compared to 365,000 in the year ended April 4, 2013, with the latest additions to our product range, FlexDirect and FlexPlus, proving popular. We now have 5.5 million current accounts as at April 4, 2014, and our market share of main standard and packaged accounts as at February 2014 had risen over the year ended April 4, 2014 to 6.2% (April 4, 2013: 5.7%).

#### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the year ended April 4, 2014, interest on subordinated liabilities increased to £129 million from £96 million in the year ended April 4, 2013. This increase is a result of changes in the mix of subordinated debt and average balances between the two periods. Average balances increased to £2,433 million in the year ended April 4, 2014 from £1,691 million in the year ended April 4, 2013.

Other interest expense on deposits and other borrowings includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended April 4, 2014, other interest expense on deposits and other borrowings decreased by 20% to £167 million from £210 million in the year ended April 4, 2013. This reduction is due to decreases in market rates in the year ended April 4, 2014, compared with the year ended April 4, 2013.

#### *Debt securities in issue*

Debt securities in issue includes interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the year ended April 4, 2014, interest expense on debt securities in issue decreased by 14% to £814 million from £944 million in the year ended April 4, 2013. This decrease reflects a 14% decrease in the average monthly balance of debt securities in issue to £30,680 million in the year ended April 4, 2014, compared with £35,703 million in the year ended April 4, 2013.

#### *Net income/expense on financial instruments hedging liabilities*

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as “net income/expense on financial instruments hedging liabilities.” In the year ended April 4, 2014, net income on financial instruments used to hedge our fixed rate liabilities was £570 million, compared with a net income of £689 million in the year ended April 4, 2013.

### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the years ended April 4, 2014 and 2013 respectively:

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(£ millions)</b>	
<b>Fee and commission income:</b>		
Mortgage related fees .....	31	34
Banking and savings fees.....	254	242
General insurance fees .....	120	160
Other insurance fees .....	47	43
Other fees and commissions .....	37	79
<b>Total fee and commission income .....</b>	<b>489</b>	<b>558</b>
<b>Fee and commission expense:</b>		
Banking and savings fees.....	118	95
Other fees and commissions .....	17	18
<b>Total fee and commission expense.....</b>	<b>135</b>	<b>113</b>
<b>Net fee and commission income .....</b>	<b>354</b>	<b>445</b>

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

In the year ended April 4, 2014, net fees and commissions decreased by 20% to £354 million compared with £445 million in the year ended April 4, 2013. This decrease was driven by a £42 million decrease in other fees and commissions, which was due to a decrease of £21 million in investment fees and a decrease of £21 million in protection fees.

### *Other operating income*

In the year ended April 4, 2014, other operating income increased to £134 million, compared with £46 million in the year ended April 4, 2013. This includes a net gain of £125 million in year ended April 4, 2014 from the redemption of subscribed capital and redemption related fees (April 4, 2013: £43 million).

### *Gain/losses on derivatives and hedge accounting*

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

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

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

Losses from derivatives and hedge accounting were £51 million in the year ended April 4, 2014 compared to gains of £165 million in the year ended April 4, 2013. Income statement volatility arises due to



accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

The two main components of the loss in the year ended April 4, 2014 were:

- losses of £66 million (April 4, 2013: losses of £113 million) on hedge relationships. The 2014 charge includes losses of £65 million (April 4, 2013: £84 million gain) on micro hedges, resulting from relatively large sterling and euro interest rate increases in the first half of the year, coupled with bond maturities and disposals. The 2013 charge includes losses of £203 million principally arising from the amortization of balances relating to past ineffectiveness on fixed rate mortgages; and
- a £5 million gain (April 4, 2013: losses of £74 million) on cross currency interest rate swaps which economically hedge non-sterling wholesale funding, but where hedge accounting is not currently achievable.

*Underlying Other Income Analyzed by Product Type*

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Current account .....	111	114
Protection and investments .....	82	122
General insurance .....	101	126
Mortgage.....	30	41
Credit card .....	29	28
Commercial .....	17	18
Gain on redemption of subscribed capital .....	125	43
Other .....	(3)	12
<b>Total</b> .....	<b>492</b>	<b>504</b>

Underlying other income of £492 million is 2% down overall year on year and includes gains from the redemption of subscribed capital of £125 million (April 4, 2013: £43 million). Excluding this non-recurring item, other income has reduced by £94 million, including a £40 million reduction in net protection and investment income as a result of a change to customer pricing on protection policies and the impact of the Retail Distribution Review which came into force on January 1, 2013. The £25 million reduction in general insurance is driven by a one-off commission benefit of around £20 million relating to general insurance which was taken in the prior year. The “Other” category for 2013 includes a £7 million profit on the sale of equity investments relating to participation in an industry wide credit card service operation.

*Operating expenses and similar charges*

Operating expenses and similar charges were stable in the year ended April 4, 2014 at £2,167 million compared to £2,152 million in the year ended April 4, 2013. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2014 and 2013, respectively:

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Administrative expenses .....	1,329	1,204
Depreciation and amortization.....	282	216
Impairment losses on loans and advances to customers .....	380	589
Provisions for liabilities and charges .....	173	141
Impairment losses on investment securities.....	3	2
<b>Total</b> .....	<b>2,167</b>	<b>2,152</b>

### Administrative expenses

Administrative expenses increased by 10% in the year ended April 4, 2014 to £1,329 million from £1,204 million in the year ended April 4, 2013 largely driven by ongoing investment in the business, general inflation and increased levels of business activity. Increased levels of business activity are evident across many aspects of our operations, and in the year ended April 4, 2014 as compared to the year ended April 4, 2013, financial transactions increased 14%, mortgage lending increased 31% and current account sales increased 18%. Included within the total of administrative expenses is a £17 million charge for the bank levy (year ended April 4, 2014: £16 million).

The following table sets forth the components of administrative expenses for the years ended April 4, 2014 and 2013, respectively:

	For the year ended April 4,	
	2014	2013
	(£ millions)	
Employee costs:		
Salaries and social security costs .....	550	527
Pension costs .....	86	77
Other administrative expenses .....	693	600
<b>Total</b> .....	<b>1,329</b>	<b>1,204</b>

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

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

In the year ended April 4, 2014, salaries and social security costs increased by 4% to £550 million from £527 million in the year ended April 4, 2013. The year on year increase in employee costs reflects the impact of annual pay awards averaging 2.4% and 2.5% respectively in each of the last two years, combined with a 1.5% increase in employee numbers year on year.

Within employee costs, the pension charge increased by 12% to £86 million for the year ended April 4, 2014 from £77 million in the year ended April 4, 2013.

Other administrative costs increased by 16% to £693 million for the year ended April 4, 2014 from £600 million for the year ended April 4, 2013. The increase in other administrative expenses is largely driven by ongoing investment in the business, general inflation and increased levels of business activity. Investment spend during the year has included revenue costs of £23 million associated with the implementation of the Mortgage Market Review and the Current Account Switching Service. Transformation costs have significantly increased from £16 million in 2013 to £75 million for the year ended April 4, 2014. These include £39 million relating to our ongoing program to integrate distribution and account administration relating to our Dunfermline, Derbyshire and Cheshire brands.

Another significant investment is the execution of our strategic program to source IT application and support activities through strategic delivery partners and to transform the way these activities are performed. Costs charged in the year for this program were £30 million and relate to the commercial processes, transition activity, provision of technical infrastructure and headcount reductions. The program is expected to deliver annualized cost savings in the region of £50 million.

Income grew 16% in the year ended April 4, 2014 as compared to the year ended April 4, 2013, exceeding cost growth and reducing our statutory cost income ratio to 56.6% in the year ended April 4, 2014 (April 4, 2013: 61.2%) and our underlying cost ratio to 52.5% in the year ended April 4, 2014 (April 4, 2013: 55.9%). Cost growth is expected to moderate in 2014/15.

#### *Depreciation and amortization*

For the year ended April 4, 2014, depreciation and amortization expenses increased by £66 million to £282 million compared to £216 million for the year ended April 4, 2013. This is primarily driven by the continued investment in key restructuring projects and includes the first full year's charge of £50 million (April 4, 2013: £11 million) relating to our new banking platform which became operational in October 2012.

#### *Impairment losses on loans and advances to customers*

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

Impairment losses on loans and advances to customers for the year ended April 4, 2014 decreased by 35% to £380 million from £589 million for the year ended April 4, 2013, primarily as a result of a significant improvement in the level of impairment suffered on our commercial lending portfolio.

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2014 and 2013, respectively:

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Residential mortgages.....	-	16
Commercial lending .....	309	493
Consumer banking .....	60	79
Other lending .....	11	1
<b>Total .....</b>	<b>380</b>	<b>589</b>

Residential mortgage impairments have benefited from house price growth of 9.5% over the course of the financial year and continuing low levels of arrears reflecting relatively benign, and now improving, levels of unemployment and our prudent underwriting approach. In addition the continuation of the low interest rate environment is supporting stability of repayment obligations at unusually low levels by historic standards. These factors have contributed to a nil charge for residential impairments (April 4, 2013: £16 million).

Commercial lending impairments relate exclusively to CRE lending, with no arrears in our social housing and Project Finance portfolios. The decrease in the impairment charge to £309 million reflects a £2.4 billion reduction in CRE exposures and stabilization of CRE market conditions with a consequent improvement in investor sentiment towards the sector, allowing a wider range of exit options at improved valuations on all but the most severely distressed exposures. Recovery prospects are case specific, although the general trend of the London and prime property markets faring significantly better than regional locations and secondary properties is being maintained.

Consumer banking impairments are down 24% at £60 million in the year ended April 4, 2014 (April 4, 2013: £79 million) including a credit of £27 million (April 4, 2013: £nil) relating to an update to model assumptions for late stage recoveries on defaulted balances to reflect recent experience. Excluding this adjustment, the implied underlying increase in consumer banking impairment of around 10% in the year ended April 4, 2014 is attributable to balance growth from the year ended April 4, 2013 with no significant change in portfolio performance.

Other lending relates to loans historically originated by our Treasury Division and includes a portfolio of £176 million in the year ended April 4, 2014 (April 4, 2013: £219 million) which primarily comprises secured lending relating to a European commercial loan portfolio and a revolving loan facility secured by a portfolio of asset backed securities. The charge of £11 million in the year ended April 4, 2014 (April 4, 2013: £1 million) relates to the impairment of individual under-performing exposures.

*Impairment losses on investment securities*

Impairment losses on investment securities of £3 million were recognized for the year ended April 4, 2014 (year ended April 4, 2013: £2 million).

*Provisions for liabilities and charges*

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
FSCS.....	104	68
Customer redress provision .....	69	73
<b>Total .....</b>	<b>173</b>	<b>141</b>

We pay levies to the FSCS based upon our share of protected deposits. The charge of £104 million in the year ended April 4, 2014 in respect of the levy for the 2013/2014 scheme year included the first payment of our share of the expected shortfall. Further information is provided in Note 26 to the audited consolidated financial statements for the year ended April 4, 2014.

We are also potentially exposed to future levies resulting from the failure of the Dunfermline Building Society. We recognized £12 million in respect of the shortfall resulting from the failure of the Dunfermline Building Society. The FSCS has confirmed that this levy will be made during September 2014. Potential further shortfalls in relation to Dunfermline Building Society in future years remain uncertain in terms of both quantification and timing.

The charge for customer redress provisions of £69 million in the year ended April 4, 2014 (April 4, 2013: £73 million) relates to estimated costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory matters.

*Taxes*

The statutory reported tax charge for the year of £128 million in the year ended April 4, 2014 (April 4, 2013: £10 million credit) represents an effective tax rate of 18.9%, which is lower than the statutory rate in the UK of 23%. The lower rate is due principally to adjustments with respect to prior periods and the effect of the change in the UK corporation tax rate.

During the year ended April 4, 2014 our income statement bore taxes of £345 million (April 4, 2013: £258 million) including irrecoverable VAT, bank levy, employment and property taxes, all of which are charged to profit before tax as part of administrative expenses and depreciation. With the exception of the bank levy, all of these amounts are recognized in arriving at underlying profit.

This resulted in an overall statutory tax charge for the year ended April 4, 2014 of £128 million (year ended April 4, 2013: £10 million) as set out in the table below:

	<b>For the year ended April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ millions)</i>	
Charge on profits for the year .....	161	41
Adjustment in respect of prior years .....	(18)	(44)
Effect of corporation tax rate change .....	(15)	(7)
<b>Statutory tax charge .....</b>	<b>128</b>	<b>(10)</b>

### **Balance Sheet Review**

Weighted average total assets were 1.1% lower in the year ended April 4, 2014, as compared to the year ended April 4, 2013 as planned reductions of non-core treasury and commercial assets have more than offset growth in retail lending balances.

### *Loans and advances to customers*

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 87.3% of our total loans and advances to customers at April 4, 2014. The composition of lending has remained broadly consistent with that reported at April 4, 2013:

	As at April 4,			
	2014		2013	
	(£ billions, except percentages)			
Prime residential mortgages .....	119.3	71.5%	110.6	69.4%
Specialist residential mortgages .....	26.3	15.8%	25.0	15.6%
<b>Total residential mortgages .....</b>	<b>145.7</b>	<b>87.3%</b>	<b>135.6</b>	<b>85.0%</b>
Commercial lending .....	17.3	10.3%	19.9	12.5%
Other lending .....	0.2	0.1%	0.4	0.3%
Consumer banking .....	3.9	2.3%	3.5	2.2%
<b>Gross balances .....</b>	<b>167.0</b>	<b>100.0%</b>	<b>159.4</b>	<b>100.0%</b>
Impairment provisions .....	(1.3)		(1.2)	
Fair value adjustments for micro hedged risk.....	0.9		1.4	
<b>Total.....</b>	<b>166.6</b>		<b>159.6</b>	

### **Residential mortgage portfolio**

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

Over the year ended April 4, 2014, we played a major role in supporting the UK housing market, increasing our lending by 31% to £28.1 billion as at April 4, 2014 (April 4, 2013: £21.5 billion), and accounting for 14.9% of all mortgage lending (year ended April 4, 2013: 15.1%) (source: BoE). Mortgage balances grew by £10.1 billion in the year ended April 4, 2014 of which £8.7 billion (86%) was prime lending and £1.4 billion (14%) related to specialist mortgages. This mix of lending is consistent with prior years and maintains our stock of residential lending at 82% prime and 18% specialist in the year ended April 4, 2014 (April 4, 2013: 82% prime, 18% specialist).

In addition to our support for first time buyers, we have continued with our policy of rewarding our members by providing a loyalty discount to our mortgage rates to existing mortgage customers wishing to move homes, switch products or take a further advance. We have also maintained our BMR at 2% above the BoE base rate. We estimate that this has delivered member benefit in the region of £800 million per annum when compared with the standard variable rate charged by other major lenders, equivalent to a saving of around £1,100 for our average BMR borrower.

As patterns of housing tenure continue to evolve, with greater numbers of people choosing to rent rather than buy, our subsidiary, The Mortgage Works (UK) plc (“**TMW**”), has continued to be a leading provider of high quality loans to the specialist mortgages sector. Over the year ended April 4, 2014, TMW gross advances accounted for £3.7 billion in the year ended April 4, 2014 (April 4, 2013: £3.3 billion) of our total mortgage lending, representing a market share of 16%, (source: CML) with net lending of £1.7 billion. Our total specialist mortgage book now stands at £26.3 billion at April 4, 2014 (April 4, 2013: £24.9 billion), representing 18.1% of our total residential lending portfolio at April 4, 2014 (April 4, 2013: 18.4%).

As at April 4, 2014, buy-to-let mortgages made up 83% of total specialist lending, 11% related to self-certification mortgages, 4% related to near prime and 2%, amounting to £0.4 billion, related to subprime.

The average LTV of residential mortgages completed has increased to 69% as at April 4, 2014 (April 4, 2013: 67%). This strategy is supported by a robust affordability assessment and credit scoring process that ensures asset quality remains within our risk appetite. TMW has strategically adjusted its product range in order to attract larger loans. This has resulted in the average specialist loan size increasing by approximately £15,000 during the year ended April 4, 2014 and an increased proportion of lending in the South East where property prices are higher. We believe our industry leading controls to reduce the potential misuse of buy-to-let mortgages for residential lending have also proven to be effective. The average indexed LTV of residential mortgages as at April 4, 2014 was 48%, a 3% decrease as compared to April 4, 2013.

	<b>As at April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(percentages)</i>	
<b>LTV portfolio of residential mortgages:</b>		
0% - 60% .....	19	21
60% - 75% .....	38	38
75% - 80% .....	10	12
80% - 85% .....	15	18
85% - 90% .....	16	9
90% - 95% .....	2	2
>95% .....	-	-
<b>Total</b> .....	<b>100</b>	<b>100</b>
 Average loan to value of stock (indexed) .....	 48	 51
Average loan to value of new business .....	69	67
<b>New business profile:</b>		
First-time buyers .....	31	27
Home movers .....	32	29
Remortgagers .....	22	23
Buy-to-let .....	14	21
Other .....	1	-
<b>Total</b> .....	<b>100</b>	<b>100</b>

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

Total residential balance sheet provisions at April 4, 2014 are £102 million, compared with £165 million at April 4, 2013.

	As at April 4,	
	2014	2013
<b>Cases three months or more in arrears as % of total book of residential mortgages</b>	<i>(percentages)</i>	
<b>Group residential mortgages:</b>		
Prime .....	0.46	0.53
Specialist.....	1.53	1.75
<b>Total Group residential mortgages .....</b>	<b>0.63</b>	<b>0.72</b>
<b>CML industry average .....</b>	<b>1.59</b>	<b>1.89</b>

Reflecting our low risk profile, performance of the mortgage books has remained strong with the number of residential mortgages more than three months in arrears reducing in both the specialist and prime mortgage books. Our overall arrears percentage of 0.63% compares favorably with the CML industry average of 1.59% (April 4, 2013: 1.89% as restated by CML).

The table below shows possessions as a percentage of our total residential mortgages as at April 4, 2014 and April 4, 2013:

	As at April 4,	
	2014	2013
<b>Possessions as % of total residential mortgages (number of properties)</b>	<i>(percentages)</i>	
<b>Group residential mortgages:</b>		
Prime .....	0.01	0.02
Specialist.....	0.14	0.19
<b>Total Group residential mortgages .....</b>	<b>0.03</b>	<b>0.04</b>

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2014, the properties taken into possession has decreased to 522, representing only 0.03% of properties taken in by the industry as a whole (Source: CML).

The table below provides further information on the residential mortgage portfolio by payment due status as at April 4, 2014 and April 4, 2013:

	As at April 4, 2014					As at April 4, 2013				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
<i>(£ billions, except percentages)</i>										
<b>Not impaired:</b>										
Neither past due nor impaired....	117.0	24.7	3.7	145.4	97%	108.2	23.1	3.3	<b>134.6</b>	97%
Past due up to 3 months but not impaired....	1.8	1.0	0.1	2.9	2%	1.8	1.2	0.1	<b>3.1</b>	2%
Impaired.....	0.5	0.6	0.1	1.2	1%	0.6	0.7	0.1	<b>1.4</b>	1%
<b>Total .....</b>	<b>119.3</b>	<b>26.3</b>	<b>3.9</b>	<b>149.5</b>	<b>100%</b>	<b>110.6</b>	<b>24.9</b>	<b>3.5</b>	<b>139.1</b>	<b>100%</b>

The status “past due up to 3 months but not impaired” includes any asset where a payment due is received late or missed. The amount included is the entire financial asset balance rather than just the payment overdue. Loans on interest only or payment holiday concessions are initially categorized according to their

payment status as at the date of concession, with subsequent revisions to this category assessed against the terms of the concession.

Loans which are not in possession have collective impairment provisions set aside to cover credit losses.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. Loans acquired from the Derbyshire, Cheshire and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for anticipated losses over the remaining life of the loans. Impaired retail loans are broken down further in the following table:

	As at April 4, 2014					As at April 4, 2013				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
<i>(£ millions, except percentages)</i>										
<b>Impaired status:</b>										
Past due 3 to 6 months.....	225	269	42	536	44%	260	297	41	598	44%
Past due 6 to 12 months.....	164	183	30	377	31%	190	208	24	422	31%
Past due over 12 months .....	100	138	-	238	19%	96	134	-	230	17%
Possessions.....	15	61	-	76	6%	18	87	-	105	8%
<b>Total .....</b>	<b>504</b>	<b>651</b>	<b>72</b>	<b>1,227</b>	<b>100%</b>	<b>564</b>	<b>726</b>	<b>65</b>	<b>1,355</b>	<b>100%</b>

Possession balances represent loans against which we have taken ownership of properties pending their sale. Our approach to dealing with customers in financial difficulty, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties that are taken into possession compared to industry benchmarks. The number of properties in possession has fallen to 522 during the year ended April 4, 2014 (April 4, 2013: 600) due to strong property sales and reduced new possessions. This represents 0.03% of our total number of properties as at April 4, 2014 compared to the industry average of 0.08% (source: CML).

We offer a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended April 4, 2014 to ensure alignment to good practice as defined by the regulator. The options offered may be classified into three categories:

- change in terms;
- forbearance; and
- repair

#### ***Change in terms***

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows, these are not offered as a means of forbearance. The options available include:

- Payment holidays;
- Term extensions;
- Payment concessions; and
- Interest-only conversions.



### *Payment holidays*

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at April 4, 2014, £4,360 million (2013: £4,834 million) of loans have been subject to payment holidays at any point since January 2008 and are still on the books at April 4, 2014. Only £98 million of loans remain on a payment holiday as at April 4, 2014 (April 4, 2013: £163 million).

### *Term extensions*

We allow performing customers to apply to extend the term of their mortgage. As at April 4, 2014, £1,142 million of loans had an extension at term expiry at any point since January 2008 (April 4, 2013: £1,028 million); of these £318 million of loans (April 4, 2013: £164 million) had an extension at term expiry during the year ended April 4, 2014. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment was made to our provisioning methodology for these loans.

### *Payment concessions*

Customers in arrears may be offered a temporary payment concession allowing them to make reduced or nil payments for an agreed period of time. During this period the arrears amounts are accrued and therefore no additional provision is required. As at April 4, 2014, £890 million (April 4, 2013: £862 million) of loans have been subject to payment concessions at any point since January 2008 and are still on the books at April 4, 2014. As at April 4, 2014, only £21 million of loans (April 4, 2013: £29 million) remain subject to payment concessions.

### *Interest-only conversions*

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

### ***Forbearance***

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

As at April 4, 2014, £171 million of balances (April 4, 2013: £265 million) representing 0.1% (April 4, 2013: 0.2%) of total mortgage balances were on this concession. Our provisioning methodology reflects the latest performance on these accounts.

### ***Repair***

The Group offers two forms of repair, capitalization and term extension (at term expiry), as set out below.

#### *Capitalization*

When a customer emerges from financial difficulty, we offer the ability to capitalize arrears, resulting in the account being repaired. Customers are only permitted to capitalize arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. As at April 4, 2014, £420 million (April 4, 2013: £442 million) of loans had an arrears capitalization at any point since January 2008 and are still on the books at April 4, 2014. £7 million of loans (April 4, 2013: £22 million) were capitalized during the year ended April 4, 2014. Once capitalized the loans are categorized as not impaired as long as contractual repayments are maintained.

### Term extension (at term expiry)

Customers who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible, while ensuring the monthly payments remain manageable to the customer. As at April 4, 2014, £1,142 million (April 4, 2013: £1,028 million) of loans had an extension at term expiry at any point since January 2008 and are still on the books at April 4, 2014; of these £318 million of loans (April 4, 2013: £164 million) had an extension at term expiry during the year ended April 4, 2014. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. The table below shows the stock of loans still on the books at April 4, 2014 that have been subject to forbearance at some point:

	As at April 4, 2014 (Unaudited)		As at April 4, 2013 <sup>(2)</sup> (Unaudited)	
		% of total prime loans and advances		% of total prime loans and advances
	£ million		£ million	
Change in terms <sup>(1)</sup> .....	13,188	9	13,147	10
Forbearance <sup>(1)</sup> .....	1,667	1	1,672	1
Repair <sup>(1)</sup> .....	1,555	1	1,461	1

Notes:

- (1) The three categories above are not mutually exclusive. The information above has been extracted from our management information systems.
- (2) Restated to reflect 2014 PRA guidance.

The following table presents negative equity on residential mortgages:

	As at April 4, 2014		As at April 4, 2013	
	Prime lending	Specialist lending	Prime lending	Specialist lending
	(£ million)			
Past due but not impaired .....	4	6	5	13
Impaired .....	3	16	5	21
Possessions .....	-	7	1	15
<b>Total</b> .....	<b>7</b>	<b>29</b>	<b>11</b>	<b>49</b>

### Commercial loan portfolio

Our commercial lending portfolio of £17.3 billion as at April 4, 2014 (April 4, 2013: £19.9 billion) comprises £7.8 billion secured on commercial property (“**Property Finance**”) (April 4, 2013: £10.2 billion), £8.1 billion advanced to Registered Social Landlords (April 4, 2013: £8.2 billion) and £1.5 billion advanced under Project Finance, principally via the Private Finance Initiative (“**PFI**”) (April 4, 2013: £1.5 billion). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

Since April 4, 2014, we have sold over 90% of our non-UK CRE portfolio representing gross loans of £694 million with net sales proceeds in line with their carrying value.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with our forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired Property Finance loans amounted to £3,065 million as at April 4, 2014

(April 4, 2013: £2,715 million) and provisions held against the portfolio amounted to £1,001 million (April 4, 2013: £958 million) representing a coverage ratio of 33% (April 4, 2013: 35%).

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

	<b>As at April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ million, except percentages)</i>	
<b>Gross balances</b>	7,764	10,192
Impaired balances .....	3,065	2,715
Impaired balances as a % of gross balances .....	39%	27%
<b>Commercial provisions:</b>		
Individual .....	921	810
Collective .....	80	148
Total provisions .....	1,001	958
<b>Provision coverage ratios:</b>		
Individual provisions as a % of impaired balances .....	30%	30%
Total provisions as a % of impaired balances .....	33%	35%
Total provisions as a % of total gross balances .....	13%	9%

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amounted to £2,216 million (72% of impaired balances) as at April 4, 2014 and £1,743 million (64% of impaired balances) as at April 4, 2013. There are no cases classified as impaired or with payment arrears in our Registered Social Landlord or PFI portfolios.

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

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

Other lending operations as at April 4, 2014 includes £176 million (April 4, 2013: £219 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior asset backed security (“ABS”) reference portfolio.

Our unsecured lending in relation to a student loan portfolio (April 4, 2013: £217 million) was sold on April 24, 2013.

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

	As at April 4, 2014				As at April 4, 2013			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired.....	4.6	60%	0.1	40%	7.1	69%	0.4	91%
Past due up to 3 months but not impaired .....	0.1	1%	-	-	0.4	4%	-	1%
Impaired.....	3.1	39%	0.1	60%	2.7	27%	-	8%
<b>Total</b> .....	<b>7.8</b>	<b>100%</b>	<b>0.2</b>	<b>100%</b>	<b>10.2</b>	<b>100%</b>	<b>0.4</b>	<b>100%</b>

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

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses.

Impaired balances in other operations total £107 million as at April 4, 2014 (April 4, 2013: £33 million). This consists of £25 million (April 4, 2013: £27 million) relating to the European commercial loan portfolio and £82 million (April 4, 2013: £nil) relating to a first loss exposure on the portfolio of asset backed securities securing the revolving loan facility.

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

	As at April 4, 2014				As at April 4, 2013			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ million, except percentages)</i>							
Impaired status:								
Past due 0 to 3 months .....	2,125	69%	82	77%	1,581	58%	-	-
Past due 3 to 6 months .....	152	5%	-	-	218	8%	1	3%
Past due 6 to 12 months .....	334	11%	8	7%	295	11%	2	6%
Past due over 12 months .....	442	15%	17	16%	620	23%	30	91%
Possessions .....	12	-	-	-	1	-	-	-
Total.....	3,065	100%	107	100%	2,715	100%	33	100%

Commercial assets totaling £2,988 million as at April 4, 2014 (April 4, 2013: £2,629 million) have individual provisions against some or all of the balance.

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

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

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

The table below quantifies the estimated value of indexed collateral held against non-performing or impaired assets:

	As at April 4,			
	2014		2013	
	<i>(£ million, except percentages)</i>			
Past due but not impaired .....	65	100%	407	100%
Impaired.....	2,216	72%	1,743	64%
<b>Total</b> .....	<b>2,281</b>	<b>73%</b>	<b>2,150</b>	<b>69%</b>

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

During the year a revised valuation policy has been implemented which stipulates the maximum period between formal valuations, relative to the risk profile of the lending. Particular attention is paid to the status of the facilities, for instance whether it is, or is likely to require an impairment review where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis.

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

	As at April 4,			
	2014		2013	
(audited)	(£ million, except percentages)			
<b>Performing loans</b>				
Fully collateralized				
LTV ratio:				
less than 25% .....	257		359	
25% to 50% .....	1,122		1,201	
51% to 75% .....	2,014		2,441	
76 to 90% .....	657		729	
91% to 100% .....	141		723	
<b>Total</b> .....	<b>4,191</b>	<b>54%</b>	<b>5,453</b>	<b>54.5%</b>
Partially collateralized				
More than 100% (A) .....	443	6%	1,617	16.9%
Collateral value of (A) .....	373		1,282	
<b>Total performing loans</b> .....	<b>4,634</b>	<b>60%</b>	<b>7,070</b>	<b>70%</b>
<b>Non-performing loans</b>				
Fully collateralized				
LTV ratio:				
less than 25% .....	42		14	
25% to 50% .....	25		27	
51% to 75% .....	210		147	
76 to 90% .....	144		127	
91% to 100% .....	169		234	
<b>Total</b> .....	<b>590</b>	<b>8%</b>	<b>549</b>	<b>5%</b>
Partially collateralized				
More than 100% (A) .....	2,540	32%	2,573	25%
Collateral value of (A) .....	1,690		1,580	
<b>Total non-performing loans</b> .....	<b>3,130</b>	<b>40%</b>	<b>3,122</b>	<b>30%</b>
<b>Total CRE loans<sup>(1)</sup></b> .....	<b>7,764</b>	<b>100%</b>	<b>10,192</b>	<b>100%</b>

Notes:

- (1) Since April 4, 2014, we have sold commercial real estate loans which represented £694 million and included over 90% of our remaining exposure to the German real estate market.

As a result of performing loans being reclassified as impaired, the overall proportion of partially collateralized non-performing loans has increased to 32% in the year ended April 4, 2014 (April 4, 2013: 25%). However, the shortfall on collateral for non-performing CRE loans has reduced by £143 million during the year ended April 4, 2014 to £850 million (April 4, 2013: £993 million).

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

	<b>As at April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(£ million)</i>	
Past due but not impaired .....	1	21
Impaired.....	840	972
Possessions .....	9	1
<b>Total .....</b>	<b>850</b>	<b>994</b>

### Consumer banking

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

	<b>As at April 4, 2014</b>	
	<b>Delinquent balances</b>	<b>Balances before provisions</b>
	<i>(£ million)</i>	
FlexAccount (overdraft balances) .....	23	300
Personal loans .....	61	1,907
Credit cards.....	44	1,655
<b>Total.....</b>	<b>128</b>	<b>3,862</b>

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

	<b>As at April 4,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(percentages)</i>	
FlexAccount (overdraft balances).....	7.67	9.81
Personal loans .....	3.20	2.94
Credit cards.....	2.66	3.24

The basis for the calculation of personal loans more than 30 days in arrears for the year ended April 4, 2013 has been amended to present the information on a consistent basis with the year ended April 4, 2014.

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

## Country exposure

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

As at April 4, 2014						
	Greece	Ireland	Italy	Portugal	Spain	Total
	<i>(£ million)</i>					
Mortgage backed securities .....	-	14	75	49	299	437
Covered bonds .....	-	39	-	22	281	342
Other corporate .....	-	-	3	-	-	3
<b>Total.....</b>	<b>-</b>	<b>53</b>	<b>78</b>	<b>71</b>	<b>580</b>	<b>782</b>

  

As at April 4, 2013						
	Greece	Ireland	Italy	Portugal	Spain	Total
	<i>(£ million)</i>					
Mortgage backed securities .....	-	144	90	50	335	619
Covered bonds .....	-	71	-	22	326	419
Senior debt.....	-	-	25	-	17	42
Other assets.....	-	-	3	-	2	5
Other corporate .....	-	11	3	-	-	14
<b>Total.....</b>	<b>-</b>	<b>226</b>	<b>121</b>	<b>72</b>	<b>680</b>	<b>1,099</b>

Movements in our exposure to peripheral eurozone countries between the years ended April 4, 2013 and 2014 relate to disposals, maturities and fair value movements and there has been no new investment in the current financial year.

During the year ended April 4, 2014, we disposed of £130 million of Irish assets and £25 million of Spanish assets as part of an ongoing exercise to deleverage the balance sheet. There has been no new investment in the year.

As at April 4, 2014 we had further indirect exposure to peripheral eurozone countries as a result of a €100 million loan to a Luxembourg SPV (April 4, 2013: €100 million) included in loans and advances to customers – other lending, which has first loss exposure to a €1.5 billion portfolio as at April 4, 2014 (April 4, 2013: €2 billion) of senior ranking European ABS assets. The sterling equivalent of the loan is £82 million as at April 4, 2014 (April 4, 2013: £85 million). The geographical breakdown of this portfolio as at April 4, 2014 is as follows: UK 56%, Spain 14%, Germany 10%, Italy 7%, Netherlands 7%, Greece 4% and Portugal 2% (April 4, 2013: UK 53%, Spain 13%, Germany 16%, Italy 7%, Netherlands 6%, Greece 3% and Portugal 2%). During the year we incurred a £3 million impairment charge on the loan in relation to the UK element of the portfolio.

None of our exposures to the peripheral eurozone countries are in default, and we did not incur any impairment on these assets in the year ended April 4, 2014. We continue to monitor closely the exposures to these countries.



In addition, our exposure in respect of other eurozone countries and the rest of the world is shown below at their balance sheet carrying value as at April 4, 2014:

	As at April 4, 2014								
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world	Total
	(£ million)								
Government bonds .	170	-	438	778	-	1,386	388	-	1,774
Mortgage backed securities .....	-	12	41	334	-	387	109	57	553
Covered bonds.....	-	-	-	-	-	-	27	-	27
Senior debt .....	-	-	-	-	-	-	-	39	39
Loans to banks .....	-	103	151	-	-	254	364	385	1,003
Other assets .....	-	99	42	-	-	141	793	666	1,600
Other corporate.....	10	24	567	36	-	637	-	3	640
<b>Total .....</b>	<b>180</b>	<b>238</b>	<b>1,239</b>	<b>1,148</b>	<b>-</b>	<b>2,805</b>	<b>1,681</b>	<b>1,150</b>	<b>5,636</b>

	As at April 4, 2013								
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world	Total
	(£ million)								
Government bonds ....	133	-	505	1,039	-	1,677	672	-	2,349
Mortgage backed securities .....	-	28	273	273	-	417	147	86	650
Covered bonds.....	21	-	18	18	-	128	29	21	178
Senior debt .....	21	33	50	50	9	113	57	42	212
Loans to banks .....	-	164	-	-	-	294	460	620	1,374
Other assets .....	-	109	-	-	-	109	1,085	1,001	2,195
Other corporate.....	10	33	840	16	-	910	-	-	910
<b>Total .....</b>	<b>185</b>	<b>378</b>	<b>1,680</b>	<b>1,396</b>	<b>9</b>	<b>3,648</b>	<b>2,450</b>	<b>1,770</b>	<b>7,868</b>

The movement in the balances in respect of Finland and the Netherlands reflects that these are still active markets for us, along with Germany and the USA. In addition, the above balances will be affected by movements such as pay downs of the assets and fair value and exchange rate adjustments.

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

### Introduction

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

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

Underlying expenses increased by 6% for the year ended April 4, 2013, driven primarily by continued investment in our operational infrastructure. A significant element of this investment is necessary to meet new regulatory requirements, but it also includes discretionary investment focused on projects designed to broaden our product range and improve customer service such as our new banking platform, mortgage origination

systems and internet bank. The strategic investment has resulted primarily in increases in technology depreciation and related run costs. This trend is expected to continue as many of these projects will incur a full annual charge in the 2013/2014 financial year for the first time.

Our cost base also reflects inflationary pay awards of 2.5% and 4.4% with effect from July 1, 2013 and 2014, respectively.

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

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

We have continued to invest in new cost reduction initiatives such as the ongoing changes to our sourcing arrangements and the integration of our regional brands as announced on May 2, 2013. This strategic integration program will migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single-branded Nationwide organization. The program is expected to allow for the smooth transition of approximately one million account holders and the disposal of redundant infrastructure assets that we expect to deliver ongoing cost savings of £35 million per annum beginning April 5, 2015.

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

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

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

	For the year ended April 4, 2013				
	As reported	FSCS and bank levy	Restructuring Costs	Movements on derivatives and hedge accounting	Underlying profit before tax
			(£ millions)		
Net interest income .....	2,018	-	-	-	2,018
Other income .....	504	-	-	-	504
Movements on derivatives and hedge accounting .....	(165)	-	-	165	-
<b>Total income .....</b>	<b>2,357</b>	<b>-</b>	<b>-</b>	<b>165</b>	<b>2,522</b>
Administrative expenses .....	(1,199)	16	16	-	(1,167)
Depreciation and amortization .....	(216)	-	-	-	(216)
<b>Pre-provision underlying profit .....</b>	<b>942</b>	<b>16</b>	<b>16</b>	<b>165</b>	<b>1,139</b>
Impairment losses .....	(591)	-	-	-	(591)
Provisions for liabilities and charges .....	(141)	68	-	-	(73)
<b>Profit before tax .....</b>	<b>210</b>	<b>84</b>	<b>16</b>	<b>165</b>	<b>475</b>

	For the year ended April 4, 2012				
	As reported	FSCS and bank levy	Restructuring Costs	Movements on derivatives and hedge accounting	Underlying profit before tax
	(£ millions)				
Net interest income .....	1,623	-	-	-	1,623
Other income .....	520	-	-	-	520
Movements on derivatives and hedge accounting .....	35	-	-	(35)	-
<b>Total income .....</b>	<b>2,178</b>	<b>-</b>	<b>-</b>	<b>(35)</b>	<b>2,143</b>
Administrative expenses .....	(1,205)	16	61	-	(1,128)
Depreciation and amortization....	(180)	-	-	-	(180)
<b>Pre-provision underlying profit .....</b>	<b>793</b>	<b>16</b>	<b>61</b>	<b>(35)</b>	<b>835</b>
Impairment losses .....	(428)	-	-	-	(428)
Provisions for liabilities and charges .....	(162)	59	-	-	(103)
<b>Profit before tax .....</b>	<b>203</b>	<b>75</b>	<b>61</b>	<b>-</b>	<b>304</b>

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

### **Total income**

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

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

### *Net interest income*

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

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

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(£ millions)</i>	
<b>Interest and similar income:</b>		
On residential mortgages .....	4,851	4,924
On other loans .....	1,130	1,158
On investment securities .....	1,280	1,071
On other liquid assets .....	49	56
Net (expense) on financial instruments hedging assets .....	(1,915)	(2,051)
Expected return on pension assets .....	186	195
<b>Total interest and similar income</b> .....	<b>5,581</b>	<b>5,353</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(2,741)	(2,826)
On subscribed capital .....	(89)	(96)
On deposits and other borrowings:		
Subordinated liabilities .....	(96)	(108)
Other .....	(210)	(252)
Debt securities in issue .....	(944)	(1,093)
Foreign exchange differences .....	-	(12)
Net income on financial instruments hedging liabilities .....	(689)	823
Pension interest cost .....	(172)	(166)
<b>Total interest expense and similar charges</b> .....	<b>(3,563)</b>	<b>(3,730)</b>
<b>Net interest income</b> .....	<b>2,018</b>	<b>1,623</b>

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

### *On residential mortgages*

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

### *On other loans*

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

### *On investment securities*

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

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

### *Net income/expense on financial instruments hedging assets*

We use derivative instruments to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets.” In the year ended April 4, 2013, we incurred a net expense of £1,915 million on financial instruments used to hedge our fixed rate assets compared with a net expense of £2,051 million in the year ended April 4, 2012.

### *Expected return on pension assets*

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

### *Underlying Other Income*

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(£ millions)</i>	
Current account .....	125	123
Protection and investments .....	122	106
General insurance .....	126	103
Mortgage.....	41	143
Credit card .....	28	33
Commercial .....	18	19
Other ....	44	(7)
<b>Total.....</b>	<b>504</b>	<b>520</b>

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

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

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

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

#### ***On UK retail member deposits***

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits decreased to £2,741 million in the year ended April 4, 2013 from £2,826 million in the year ended April 4, 2012.

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

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

#### ***On deposits and other borrowings***

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the year ended April 4, 2013, interest on subordinated liabilities decreased to £96 million from £108 million in the year ended April 4, 2012. This decrease is a result of changes in the mix of subordinated debt and average balances between the two periods. Average balances decreased to £1,691 million in the year ended April 4, 2013 from £1,858 million in the year ended April 4, 2012. The balance of subordinated debt increased in the final month of the year with the issuance of €1,250 million at 4.125%. This had little impact on the average balance during the year and the interest expense. The interest rates on our subordinated liabilities are fixed and therefore not affected by changes in market interest rates.

Other interest expense on deposits and other borrowings includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended April 4, 2013, other interest expense on deposits and other borrowings decreased by 16.6% to £210 million from £252 million in the year ended April 4, 2012. This reduction is due to decreases in market rates in the year ended April 4, 2013, compared with the year ended April 4, 2012.

#### ***Debt securities in issue***

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

interest rate paid before adjusting for income/expense on financial instruments hedging liabilities decreased to 2.64% for the year ended April 4, 2013, compared with 2.88% for the year ended April 4, 2012.

*Net income/expense on financial instruments hedging liabilities*

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as “net income/expense on financial instruments hedging liabilities.” In the year ended April 4, 2013, net income on financial instruments used to hedge our fixed rate liabilities was £689 million, compared with a net income of £823 million in the year ended April 4, 2012.

*Net fees and commissions*

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

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

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

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

*Other operating income*

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

*Gain/losses on derivatives and hedge accounting*

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

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

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

Losses from derivatives and hedge accounting were £165 million in the year ended April 4, 2013 compared to gains of £35 million in the year ended April 4, 2012. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

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

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

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

### *Operating expenses and similar charges*

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

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

### *Administrative expenses*

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

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



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

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

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

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

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

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

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

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

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

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

We have continued to invest in new cost-reduction initiatives such as the ongoing changes to our sourcing arrangements and the integration of our regional brands as announced on May 2, 2013. This strategic integration program will migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single-branded Nationwide organization. The program will ensure the smooth transition of approximately one million account holders and the disposal of redundant infrastructure assets that we expect to deliver ongoing cost savings of £35 million per annum beginning April 5, 2015. We expect our regional brands integration program to result in total restructuring costs of £77 million, including a transformation charge of approximately £28 million incurred in the first half of the 2013/2014 financial year and anticipated costs of £3 million in the 2014/2015 financial year relating to the write-down of assets, onerous leases and a 500-person reduction in headcount. Costs of implementing the program were approximately £21 million in the 2013/2014 financial year and are expected to be approximately £25 million in the 2014/2015 financial year.

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

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

#### *Depreciation and amortization*

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

#### *Impairment losses on loans and advances to customers*

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

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

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

	<b>For the year ended April 4,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(£ millions)</i>	
Residential mortgages.....	16	70
Commercial lending .....	493	247
Consumer banking .....	79	69
Other lending .....	1	4
<b>Total</b> .....	<b>589</b>	<b>390</b>

Retail impairments for the year ended April 4, 2013 have fallen by 32% to £95 million compared to £139 million for the year ended April 4, 2012. We have maintained a consistent philosophy to retail lending over many years with a focus on prudent underwriting criteria. We place a heavy emphasis on managing the

LTV profile of new secured lending, including restricting the volume of higher LTV lending and ensuring such loans are only advanced to customers with a high credit score and strong affordability assessments. As a result of our approach over a sustained period our mortgage arrears have outperformed industry averages by a significant margin and this continues to be the case. The low retail impairment charge during the year reflects the consistently high quality lending which is a feature of our business model, the stable house price environment, the low interest rate environment and relatively stable unemployment trends which are offsetting the pressure on household budgets.

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

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

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

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

#### *Impairment losses on investment securities*

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

#### *Provisions for liabilities and charges*

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

The charge of £73 million for the year ended April 4, 2013 in relation to customer redress included an increase in PPI provision of £53 million. In line with the wider industry, we continued to experience a high volume of PPI complaints throughout the financial year ended April 4, 2013, a significant proportion of which related to cases where there had been either no sale of a policy or no evidence of misselling. In light of this experience we reassessed the ultimate level of complaints expected and the appropriateness of the PPI provision and, despite significant uncertainty over future volumes of claims, made a further provision of £53 million in the year ended April 4, 2013.

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

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

#### *Taxes*

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

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

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

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

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

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

#### *Balance Sheet Review*

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

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

	As at April 4,			
	2013		2012	
	(£ billions, except percentages)			
Prime residential mortgages .....	110.6	69.4%	105.6	68.7%
Specialist residential mortgages .....	25.0	15.6%	23.2	15.1%
<b>Total residential mortgages .....</b>	<b>135.6</b>	<b>85.0%</b>	<b>128.8</b>	<b>83.8%</b>
Commercial lending .....	19.9	12.5%	21.5	14.0%
Other lending .....	0.4	0.3%	0.5	0.3%
Consumer banking .....	3.5	2.2%	3.0	1.9%
<b>Gross balances .....</b>	<b>159.4</b>	<b>100.0%</b>	<b>153.8</b>	<b>100.0%</b>
Impairment provisions .....	(1.2)		(0.8)	
Fair value adjustments for micro hedged risk.....	1.4		1.2	
<b>Total.....</b>	<b>159.6</b>		<b>154.2</b>	

## Residential mortgage portfolio

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

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

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

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

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

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

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

	As at April 4,	
	2013	2012
	(percentages)	
<b>LTV portfolio of residential mortgages:</b>		
<50% .....	47	50
50% - 60% .....	10	10
60% - 70% .....	12	11
70% - 80% .....	15	13
80% - 90% .....	11	10
90% - 100% .....	4	4
> 100% .....	1	2
	<b>100</b>	<b>100</b>
Average loan to value of stock (indexed) .....	51	50
Average loan to value of new business.....	67	63
<b>New business profile:</b>		
First-time buyers.....	27	17
Home movers.....	29	25
Remortgagers.....	23	27
Buy-to-let.....	21	31
	<b>100</b>	<b>100</b>

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

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

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

	As at April 4,	
	2013	2012
Cases three months or more in arrears as % of total book of residential mortgages	(percentages)	
Group residential mortgages:		
Prime .....	0.53	0.54
Specialist.....	1.75	1.87
Total Group residential mortgages .....	0.72	0.73
CML industry average .....	1.89	1.95 <sup>(1)</sup>

Note:

(1) Restated by CML

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

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

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

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

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

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2013, the number of properties taken into possession has decreased to 1,479, representing only 4.6% of properties taken in by the industry as a whole (source: CML).

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

	As at April 4, 2013					As at April 4, 2012				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
<i>(£ billions, except percentages)</i>										
<b>Not impaired:</b>										
Neither past due nor impaired .....	108.2	23.1	3.3	<b>134.6</b>	97%	103.1	21.3	2.9	<b>127.3</b>	97%
Past due up to 3 months but not impaired .....	1.8	1.2	0.1	<b>3.1</b>	2%	1.9	1.2	0.0	<b>3.1</b>	2%
Impaired .....	0.6	0.7	0.1	<b>1.4</b>	1%	0.6	0.7	0.1	<b>1.4</b>	1%
<b>Total .....</b>	<b>110.6</b>	<b>24.9</b>	<b>3.5</b>	<b>139.1</b>	<b>100</b>	<b>105.6</b>	<b>23.2</b>	<b>3.0</b>	<b>131.8</b>	<b>100%</b>

The status "past due up to 3 months but not impaired" includes any asset where a payment due is received late or missed. The amount included is the entire financial asset balance rather than just the payment overdue. Loans on interest only or payment holiday concessions are initially categorized according to their

payment status as at the date of concession, with subsequent revisions to this category assessed against the terms of the concession.

Loans which are not in possession have collective impairment provisions set aside to cover credit losses.

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. Loans acquired from the Derbyshire, Cheshire and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for anticipated losses over the remaining life of the loans. Impaired retail loans are broken down further in the following table:

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

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

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

- Change in terms
- Forbearance
- Repair

#### ***Change in terms***

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

- Payment holidays
- Interest-only conversions
- Term extensions

#### ***Payment holidays***

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to



apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at April 4, 2013, 1,306 accounts (April 4, 2012: 1,848 accounts) were subject to a payment holiday. The performance of customers who have taken a payment holiday is reflected within the Group's provisioning methodology.

#### *Interest-only conversions*

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

#### *Term extensions*

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

#### *Forbearance*

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

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

#### *Repair*

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

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

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

	As at April 4, 2013 (Unaudited)		As at April 4, 2012 (Unaudited)	
	£ million	% of total prime loans and advances	£ million	% of total prime loans and advances
Change in terms <sup>(1)</sup> .....	19,830	18	20,048	19
Forbearance <sup>(1)</sup> .....	1,536	1	1,441	1
Repair <sup>(1)</sup> .....	519	-	504	-

Note:

(1) The three categories above are not mutually exclusive. The information above has been extracted from our management information systems.

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

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

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

The following table presents negative equity on residential mortgages:

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

### Commercial loan portfolio

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

Following completion and letting of properties in relation to two large residual development finance loans, we now have modest exposure to development finance, while the direct non-UK element of our

commercial property portfolio amounted to £1.0 billion as at April 4, 2013 (April 4, 2012: £1.0 billion), this exposure is principally in Germany, with only a single exposure to Ireland.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with the Group's forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired Property Finance loans amounted to £2,715 million as at April 4, 2013 (April 4, 2012: £1,758 million) and provisions held against the portfolio amounted to £958 million (April 4, 2012: £547 million) representing a coverage ratio of 35% (April 4, 2012: 31%).

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

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

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

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

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

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

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

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

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

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

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	As at April 4,	
	2013	2012
	<i>(£ million)</i>	
Past due but not impaired .....	21	38
Impaired.....	972	600
Possessions .....	1	-
<b>Total</b> .....	<b>994</b>	<b>638</b>

## Consumer banking

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

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

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

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

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

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

## Country exposure

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

	<b>As at April 4, 2013</b>					
	<b>Greece</b>	<b>Ireland</b>	<b>Italy</b>	<b>Portugal</b>	<b>Spain</b>	<b>Total</b>
	<i>(£ million)</i>					
Mortgage backed securities .....	-	144	90	50	335	619
Covered bonds .....	-	71	-	22	326	419
Senior debt.....	-	-	25	-	17	42
Other assets.....	-	-	3	-	2	5
Other corporate.....	-	11	3	-	-	14
<b>Total</b> .....	<b>-</b>	<b>226</b>	<b>121</b>	<b>72</b>	<b>680</b>	<b>1,099</b>

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

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

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

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

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

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

	As at April 4, 2013								
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world	Total
	(£ million)								
Government bonds.....	133	-	505	1,039	-	1,677	672	-	2,349
Mortgage backed securities .....	-	28	273	273	-	417	147	86	650
Covered bonds.....	21	-	18	18	-	128	29	21	178
Senior debt ...	21	33	50	50	9	113	57	42	212
Loans to banks .....	-	164	-	-	-	294	460	620	1,374
Other assets ..	-	109	-	-	-	109	1,085	1,001	2,195
Other corporate .....	10	33	840	16	-	910	-	-	910
<b>Total .....</b>	<b>185</b>	<b>378</b>	<b>1,680</b>	<b>1,396</b>	<b>9</b>	<b>3,648</b>	<b>2,450</b>	<b>1,770</b>	<b>7,868</b>

	As at April 4, 2012								
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world	Total
	(£ million)								
Government bonds.....	75	-	169	1,049	-	1,293	1,104	-	2,397
Mortgage backed securities .....	-	34	114	239	41	428	110	147	685
Covered bonds.....	21	-	84	45	-	150	26	61	237
Senior debt ..	20	118	100	125	10	373	205	305	883
Loans to banks .....	-	127	41	-	-	168	490	766	1,424
Other assets .	-	-	35	-	-	35	1,335	1,441	2,811
Other corporate .....	10	46	984	25	-	1,065	28	11	1,104
<b>Total .....</b>	<b>126</b>	<b>325</b>	<b>1,527</b>	<b>1,483</b>	<b>51</b>	<b>3,512</b>	<b>3,298</b>	<b>2,731</b>	<b>9,541</b>

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

## Funding and Liquidity

### Funding strategy

We have a strong and well-diversified funding base, which continues to be predominantly funded by retail savings. Over the course of the year ended April 4, 2014, we have continued to manage our balance sheet in response to conditions in both the retail and wholesale markets.

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

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

	As at September 30,	As at April 4,		
	2014	2014	2013	2012
		(£ billions)		
<b>Liabilities:</b>				
Retail funding.....	140	136	132	132
Wholesale funding.....	40	38	43	49
Capital and reserves .....	11	11	10	10
Other.....	6	5	6	5
<b>Total .....</b>	<b>197</b>	<b>190</b>	<b>191</b>	<b>196</b>



	As at September 30,	As at April 4,		
	2014	2014	2013	2012
		(£ billions)		
<b>Assets:</b>				
Retail funding .....	149	146	137	130
Other lending .....	19	21	23	24
Core liquidity .....	16	12	17	25
Non-core treasury liquidity .....	7	6	7	9
Other .....	6	5	7	8
<b>Total .....</b>	<b>197</b>	<b>190</b>	<b>191</b>	<b>196</b>

We continue to maintain a high quality liquid asset portfolio consisting primarily of deposits at central banks and government bonds. In June 2012 the BoE activated the Extended Collateral Term Repo (“ECTR”) facility with the aim of mitigating prospective risks to financial stability. In July 2012, the BoE and HM Treasury introduced Funding for Lending, which, along with the ECTR, accepts the same broad range of collateral as the BoE’s Discount Window Facility (“DWF”). In addition, the FSA notified firms of a relaxation of their stance on the definition of assets that count towards the Liquid Asset Buffer (“LAB”), which now allows a proportion of a firm’s regulatory liquidity requirements to be met by collateral pre-positioned at the DWF. These developments have allowed us to reduce the volume of liquidity held such that the core liquidity ratio as at September 30 is 13.3% (April 4, 2014: 11.9%).

The section of Funding for Lending which provides funding linked to net residential mortgage lending has now been withdrawn and we do not expect to make any further drawings under Funding for Lending; our total drawings to date are £8.5 billion and we estimate our utilization of the scheme contributed approximately 2 basis points (April 4, 2014: 2 basis points) to our net interest margin for the year. We estimate that the marginal cost of retail funding has fallen by around 80 basis points since Funding for Lending was launched. See “—*Net Interest Income*” above for further discussion of the impact of Funding for Lending on our mortgage and savings business.

During the year ended April 4, 2014 we raised approximately £1.5 billion through issuance of CET1 CCDS and AT1 capital securities. The returns we pay to investors on these securities will be treated as an appropriation of profit after tax, reflecting their categorization as capital instruments, and hence are not reflected in our interest margin. The first distributions for CCDS, in respect of the year ended April 4, 2014, and AT1 capital securities in respect of the period from issue to the payment date, totaling £49 million, became payable in June 2014 and will be reflected in our financial statements for the current financial year ending April 4, 2015.

### **Liquidity**

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

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

form. We continue to monitor our position relative to the anticipated requirement of both the LCR and NSFR. Based on current interpretations of the requirements, we currently hold sufficiently high quality liquid assets and stable funding to meet the new measures.

Based on current interpretations of regulatory requirements and guidance including European CRR, as at April 4, 2014 we had an LCR of 90.7% and a NSFR of 112.4%. The LCR position represents a surplus to both European and anticipated UK regulatory requirements as at January 1, 2015. The NSFR already exceeds the 100% ratio requirement due for implementation in January 2018.

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

We ensure sufficient resources are available for day-to-day cash flow needs while enabling us to meet internal and regulatory liquidity requirements, which are calibrated to be resilient even in the event of unexpected outflows that could be seen across a range of stress scenarios. Liquid assets are managed centrally by the Treasury Division. All liquidity is held centrally to meet cash outflows seen in any entity across our Group with the exception of a small portfolio of assets held in our Irish branch, Nationwide (UK) Ireland (“**NUKI**”). These assets (£111 million sterling equivalent as at September 30, 2014 (April 4, 2014: £128 million)) are held at NUKI to ensure compliance with local liquidity regulations.

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

#### *Core Liquidity*

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

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

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

#### *Other Eligible Central Bank Assets*

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

#### *Other Securities*

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

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

We hold undrawn AAA-rated notes issued under our asset-backed funding programs. These self-issued securities represent eligible collateral for use in repurchase agreements with third parties or in central bank operations.

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

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

The table below sets out the fair value of each of the above liquidity types as at April 4, 2013 and 2014. The table is not a representation of the accounting balance sheet position as it includes off-balance sheet liquidity (including self-issued RMBS and covered bonds) but excludes any encumbered assets.

	<b>As at September 30, 2014</b>	<b>As at April 4, 2014</b>	<b>2013</b>
		<b>(£ billion)</b>	
Core liquidity <sup>(1)</sup> .....	24.2	20.8	19.2
Other central bank eligible assets .....	1.7	1.4	1.4
Other securities .....	3.0	3.0	2.7
Self-issued RMBS and covered bonds.....	14.0	14.0	14.0
Whole mortgage loan pools pre-positioned at the BoE .....	1.3	2.1	1.4
<b>Total</b> .....	<b>44.2</b>	<b>41.3</b>	<b>38.7</b>

Note:

- (1) Core liquidity includes off-balance sheet items, primarily treasury bills held through Funding for Lending participation. The average month-end balance for core liquidity during the year ended April 4, 2014 was £19.9 billion (April 4, 2013: £21.0 billion).

The tables below set out the sterling equivalent of the liquidity portfolio categorized by issuing currency:

	<b>30 September 2014 (Unaudited)</b>				<b>4 April 2014 (Audited)</b>			
	<b>GBP</b>	<b>EUR</b>	<b>USD</b>	<b>Total</b>	<b>GBP</b>	<b>EUR</b>	<b>USD</b>	<b>Total</b>
	<b>(£ billion)</b>				<b>(£ billion)</b>			
Primary liquidity* .....	<b>22.5</b>	<b>1.2</b>	<b>0.5</b>	<b>24.2</b>	19.0	1.3	0.5	20.8
Other central bank eligible assets .....	<b>0.4</b>	<b>1.3</b>	<b>-</b>	<b>1.7</b>	0.2	1.2	-	1.4
Other securities .....	<b>1.5</b>	<b>0.7</b>	<b>0.8</b>	<b>3.0</b>	1.3	0.8	0.9	3.0
Self-issued RMBS and covered bonds.....	<b>14.0</b>	<b>-</b>	<b>-</b>	<b>14.0</b>	14.0	-	-	14.0
Whole mortgage loan pools pre-positioned at the BoE .....	<b>1.3</b>	<b>-</b>	<b>-</b>	<b>1.3</b>	2.1	-	-	2.1
<b>Total</b> .....	<b>39.7</b>	<b>3.2</b>	<b>1.3</b>	<b>44.2</b>	36.6	3.3	1.4	41.3

Note:

- (1) Core liquidity includes off-balance sheet items, primarily treasury bills held through Funding for Lending participation. The average month-end balance for core liquidity during the year ended April 4, 2014 was £19.9 billion (April 4, 2013: £21.0 billion).

## Wholesale funding

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

	As at September 30,	As at April 4,			
	2014	2014		2013	
		<i>(£ billion, except percentages)</i>			
Repo and other secured agreements.....	0.1	-	-	1.2	2.8%
Deposits .....	10.4	9.2	24.4%	8.7	20.0%
Certificates of deposit .....	2.9	2.6	6.9%	3.8	8.8%
Commercial paper.....	2.9	3.5	9.3%	4.0	9.2%
Covered bonds .....	11.3	9.5	25.2%	11.4	26.3%
Medium-term notes.....	4.5	5.1	13.5%	4.7	10.8%
Securizations .....	6.3	6.9	18.3%	7.6	17.5%
Other .....	1.6	0.9	2.4%	2.0	4.6%
<b>Total</b> .....	<b>40.0</b>	<b>37.7</b>	<b>100.0%</b>	<b>43.4</b>	<b>100.0%</b>

The table below sets out an analysis of the currency composition of our wholesale funding as at September 30, 2014:

	USD	EUR	GBP	Other	Total
	<i>(£ billion, except percentages)</i>				
Deposits (including PEB balances).....	0.2	0.7	9.5	-	10.4
Certificate of deposit .....	0.1	-	2.8	-	2.9
Commercial paper.....	2.7	0.2	-	-	2.9
Covered bonds .....	-	8.5	2.6	0.2	11.3
Medium term notes .....	1.1	2.4	0.8	0.2	4.5
Securizations .....	2.8	0.9	2.6	-	6.3
Other .....	-	1.0	0.6	-	1.6
<b>Total as at September 30, 2014</b> .....	<b>7.0</b>	<b>13.7</b>	<b>18.9</b>	<b>0.4</b>	<b>40.0</b>
Total as at September 30, 2013 .....	7.6	13.4	16.3	0.4	37.7

The table below sets out an analysis of the currency composition of our wholesale funding as at April 4, 2014:

	USD	EUR	GBP	Other	Total
	<i>(£ billion, except percentages)</i>				
Deposits (including PEB balances).....	0.2	0.9	8.1	-	9.2
Certificate of deposit .....	0.2	-	2.4	-	2.6
Commercial paper.....	2.9	0.6	-	-	3.5
Covered bonds .....	-	7.6	1.7	0.2	9.5
Medium term notes .....	0.9	2.6	1.4	0.2	5.1
Securizations .....	3.4	0.9	2.6	-	6.9
Other .....	-	0.8	0.1	-	0.9
<b>Total as at April 4, 2014</b> .....	<b>7.6</b>	<b>13.4</b>	<b>16.3</b>	<b>0.4</b>	<b>37.7</b>
Total as at April 4, 2013 .....	9.0	15.5	18.4	0.5	43.4

To mitigate against cross-currency refinancing risk, we ensure we hold a surplus in each respective currency over our requirements in those currencies for at least ten business days.

After including Funding for Lending drawings held off balance sheet, which have a flexible and maximum maturity of four years, the residual maturity profile of our wholesale funding portfolio as at April 4, 2014 has decreased slightly to 34 months (April 4, 2013: 36 months) and the proportion of funding that is categorized as long term has decreased to 61.3% (April 4, 2013: 64.3%). As at April 4, 2014, the primary liquidity pool including Funding for Lending represented 116% (April 4, 2013: 117%) of wholesale funding maturing in less than one year, assuming no rollovers.

The table below sets out the residual maturity of the wholesale funding book as at April 4, 2014:

	As at April 4,			
	2014		2013	
	(£ billion, except percentages)			
Less than one year .....	17.9	47.5%	16.4	37.8%
One to two years .....	6.0	15.9%	7.3	16.8%
Two to five years .....	13.8	36.6%	19.7	45.4%
<b>Total.....</b>	<b>37.7</b>	<b>100%</b>	<b>43.4</b>	<b>100.0%</b>

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

	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Sub-total less than one year	Over one year but not more than two years	Over two years	Total
<i>(£ billion)</i>								
Repo and other secured arrangements.....	-	-	-	-	-	-	-	-
Deposits (including PEB balances).....	3.4	1.4	0.6	0.7	6.1	1.3	1.8	9.2
Certificate of deposit ..	0.9	1.0	0.3	0.4	2.6	-	-	2.6
Commercial paper.....	1.2	1.8	0.5	-	3.5	-	-	3.5
Covered bonds .....	-	0.1	-	0.7	0.8	2.7	6.0	9.5
Medium term notes .....	-	-	0.1	1.5	1.6	0.2	3.3	5.1
Securitizations .....	-	-	-	3.3	3.3	1.7	1.9	6.9
Other .....	-	-	-	-	-	0.1	0.8	0.9
<b>Total as at April 4,</b>								
<b>2014 .....</b>	<b>5.5</b>	<b>4.3</b>	<b>1.5</b>	<b>6.6</b>	<b>17.9</b>	<b>6.0</b>	<b>13.8</b>	<b>37.7</b>
Of which secured .....	-	0.1	-	4.0	4.1	4.4	7.9	16.4
Of which unsecured ....	5.5	4.2	1.5	2.6	13.8	1.6	5.9	21.3
<b>% of total .....</b>	<b>14.6</b>	<b>11.4</b>	<b>4.0</b>	<b>17.5</b>	<b>47.5</b>	<b>15.9</b>	<b>36.6</b>	<b>100.0</b>

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

### External Credit Ratings

Our short- and long-term credit ratings from the major rating agencies as at December 8, 2014 are as follows:

	Long-Term	Short-Term	Subordinated	Date of last rating action <sup>(1)</sup>
S&P .....	A	A-1	BBB-	August 2014
Moody's.....	A2	P-1	Baa1	December 2014
Fitch.....	A	F1	A-	July 2014

Note:

- (1) The outlook for Moody's and S&P is Negative; the outlook for Fitch is Stable.
- (2) The S&P rating of our Subordinated debt was downgraded by one notch in September 2014, in line with other issuers, as a result of the introduction of their "New Bank Hybrid Capital and Nondeferrable Subordinated Debt Methodology."

### Treasury Assets

Our treasury assets held on the balance sheet were £18.0 billion as at April 4, 2014 (April 4, 2013: £23.8 billion) and included £10.6 billion held as available for sale ("AFS") (April 4, 2013: £13.4 billion) and are held in three separate portfolios: primary liquidity, other central bank eligible assets and other securities to better reflect the management of the portfolios and bring the analysis in line with PRA definitions in BIPRU.

During the year ended April 4, 2014, we undertook significant deleveraging of legacy treasury assets that were outside of our current credit policy. The total balance of out of policy assets reduced from £2.9 billion as at April 4, 2013 to £1.8 billion as at April 4, 2014 through targeted sales, maturities and amortization.

We consider "out of policy" assets to be legacy assets (bought prior to the financial crisis) that are no longer approved in our Treasury Credit Policy. These assets are still actively managed, with natural maturities reducing the balance of the assets over time. In addition, we assess opportunities for exit positions, whether via a sale or a tender offer, while also considering the financial implications for us of those potential exits.

Credit risk in the treasury asset portfolio has reduced significantly during the year ended April 4, 2014 as economic and market conditions have improved and the risk of a eurozone break-up has receded. Asset

disposals have also removed some of the more vulnerable assets from our portfolio. Impairments have been within our expectations and the AFS reserve deficit reduced during the year ended April 4, 2014.

Primary liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks. The remaining two portfolios comprise available for sale assets held for investment purposes and loans and advances to banks.

Analysis of each of these portfolios by credit rating and geographical location of the issuers is set out in the tables below. The tables show those assets held on the balance sheet only. The decrease in the primary liquidity portfolio is a consequence of liquidity management planning following the additional Funding for Lending drawdowns during the year, which allowed us to reduce the volume of liquidity held on the balance sheet.

(Audited)	As at April 4, 2014								
	Credit Rating					Geography			
	AAA	AA	A	Other		UK	USA	Europe	Other
	(£ billion)					(percentages)			
Primary liquidity portfolio:									
Cash .....	5.3	100	-	-	-	100	-	-	-
Gilts .....	4.5	100	-	-	-	100	-	-	-
Non-domestic government bonds .	1.8	35	65	-	-	-	22	78	-
Supranational bonds.....	0.7	100	-	-	-	-	-	-	100
Domestic government bonds.....	-	-	-	-	-	-	-	-	-
<b>Primary liquidity portfolio total .....</b>	<b>12.3</b>	<b>91</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>80</b>	<b>4</b>	<b>11</b>	<b>5</b>
Other Central Bank eligible portfolio:									
RMBS .....	0.8	42	29	17	12	12		88	-
Covered bonds .....	0.5	29	17	34	20	29	5	66	-
Other .....	0.1	54	-	-	46	-	-	100	-
<b>Other Central Bank eligible portfolio total.....</b>	<b>1.4</b>	<b>38</b>	<b>22</b>	<b>23</b>	<b>17</b>	<b>18</b>	<b>2</b>	<b>80</b>	<b>-</b>
Other portfolio: .....									
Loans and advances to banks.....	2.1	15	10	75	-	53	17	23	7
RMBS .....	0.7	28	4	57	11	70	8	16	6
Commercial mortgage backed securities (CMBS) .....	0.2	-	24	38	38	40	29	31	-
Collateralised loan obligations.....	0.6	50	44	-	6	52	48	-	-
Financial institution bonds.....	0.1	-	-	100	-	-	-	-	100
Student loans.....	0.4	29	51	17	3	3	97	-	-
Other .....	0.2	-	29	6	65	26	48	26	-
<b>Other portfolio total.....</b>	<b>4.3</b>	<b>23</b>	<b>19</b>	<b>51</b>	<b>7</b>	<b>49</b>	<b>29</b>	<b>17</b>	<b>5</b>
<b>Total .....</b>	<b>18.0</b>	<b>71</b>	<b>12</b>	<b>14</b>	<b>3</b>	<b>68</b>	<b>9</b>	<b>18</b>	<b>5</b>

As at April 4, 2013									
T	Credit Rating					Geography			
	AAA	AA	A	Other		UK	USA	Europe	Other
	(£ billion)					(percentages)			
Cash .....	7.9	100	-	-	-	100	-	-	-
Gilts .....	5.6	100	-	-	-	100	-	-	-
Non-domestic government bonds ..	2.4	54	46	-	-	-	46	54	-
Supranational bonds.....	2.3	71	29	-	-	-	29	71	-
Domestic government bonds	1.0	100	-	-	-	-	5	93	2
<b>Core liquidity portfolio total .....</b>	<b>0.1</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>
Loans and advances to banks.....	16.9	96	4	-	-	81	4	15	-
RMBS .....	2.5	13	23	64	-	46	18	22	14
CMBS .....	1.6	25	23	31	21	35	5	56	4
Covered bonds .....	0.4	-	29	39	32	42	19	39	-
CLOs.....	0.6	11	28	34	27	-	5	92	3
Financial institution bonds.....	0.7	17	79	4	-	31	69	-	-
U.S. student loans .....	0.3	-	-	58	42	30	16	43	11
Other .....	0.5	22	52	14	12	-	100	-	-
<b>Non-core portfolio total .....</b>	<b>0.3</b>	<b>19</b>	<b>24</b>	<b>16</b>	<b>41</b>	<b>24</b>	<b>29</b>	<b>42</b>	<b>5</b>
<b>Total .....</b>	<b>6.9</b>	<b>16</b>	<b>31</b>	<b>40</b>	<b>13</b>	<b>33</b>	<b>26</b>	<b>35</b>	<b>6</b>

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

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

The quality and liquidity of treasury assets has been maintained with over 68% of the total portfolio as at April 4, 2014 held in core liquidity exposures (April 4, 2013: 71%). As at April 4, 2014, 97% of the total portfolio is rated A or better, with 83% rated AA or above (April 4, 2013: 97% rated A or better, 85% rated AA or above).

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

In assessing impairment, we evaluate, among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. An impairment loss of £3 million (April 4, 2013: £2 million) net of write backs has been recognized in the income statement in respect of other portfolios for the year ended April 4, 2014.

Collateral held as security for treasury assets is determined by the nature of the instrument. Core liquidity and non-core portfolios are generally unsecured with the exception of reverse repos, ABS and similar instruments, which are secured by pools of financial assets. Within loans and advances as at April 4, 2014 is a reverse repo of £0.1 billion (April 4, 2013: £0.1 billion), which is secured by gilts.

#### *Asset encumbrance*

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



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

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

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

An analysis of our encumbered and unencumbered on-balance sheet assets as at April 4, 2014 is set out below:

<b>As at April 4, 2014</b>					
	<b>Encumbered</b>		<b>Unencumbered</b>		<b>Total</b>
	<b>Pledged as collateral</b>	<b>Other</b>	<b>Available as collateral</b>	<b>Other</b>	
			<i>(£ million)</i>		
Cash .....	-	4,615	539	188	5,342
Loans and advances to banks .....	887	325	-	898	2,110
Investment securities—AFS .....	231	-	10,200	132	10,563
Loans and advances to customers .....	58,276	-	60,620	47,678	166,574
Derivative financial instruments .....	-	-	-	3,020	3,020
Other financial assets .....	-	-	-	250	250
Non-financial assets .....	-	-	-	2,067	2,067
<b>Total .....</b>	<b>59,394</b>	<b>4,940</b>	<b>71,359</b>	<b>54,233</b>	<b>189,926</b>

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

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

Our treasury assets held on the balance sheet were £18.0 billion as at April 4, 2014 (April 4, 2013: £23.8 billion) and included £10.6 billion (held as AFS (April 4, 2013: £13.4 billion). Under IFRS these items are marked to market through other comprehensive income and fair value movements are accumulated in reserves. Of the £10.6 billion of AFS assets, £71 million (April 4, 2013: £60 million) are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 13. Details of fair value movements can be found in the notes to our audited consolidated financial statements as at and for the year ended April 4, 2014 incorporated by reference herein.

The fair value movement of AFS assets that are not impaired currently has no effect on our profit or regulatory capital.

As at April 4, 2014, the balance on the AFS reserve had improved to £51 million negative, net of tax (April 4, 2013: £252 million negative). The improvement in the AFS reserve reflects general market movements and the disposal of assets in the non-primary liquidity portfolios.

The following table shows the breakdown of AFS reserves as at April 4, 2014 and April 4, 2013:

As at April 4,				
2014		2013		
Fair value on-balance sheet	Cumulative AFS reserve	Fair value on-balance sheet	Cumulative AFS reserve	
(£ billion)				
Cash .....	5.3	-	7.9	-
Gilts .....	4.5	(0.2)	5.6	(0.7)
Non-domestic government bonds .....	1.8	(0.1)	2.3	(0.1)
Supranational bonds .....	0.7	-	1.0	(0.1)
U.S. medium-term notes .....	-	-	0.1	-
<b>Core liquidity portfolio total</b> .....	<b>12.3</b>	<b>(0.3)</b>	<b>16.9</b>	<b>(0.9)</b>
Loans and advances to banks .....	2.1	-	2.5	-
RMBS .....	1.5	0.1	1.6	0.3
CMBS .....	0.2	-	0.4	0.1
Covered bonds .....	0.5	-	0.6	-
CLOs .....	0.6	-	0.7	-
Financial institutions bonds .....	0.1	-	0.3	-
U.S. student loan .....	0.4	-	0.5	-
Other investments .....	0.3	-	0.3	-
<b>Non-core portfolio total</b> .....	<b>5.7</b>	<b>0.1</b>	<b>6.9</b>	<b>0.4</b>
(Positive)/negative AFS reserve before hedge accounting and taxation .....		(0.2)		(0.5)
Hedge accounting adjustment for interest rate risk .....		0.3		0.9
Taxation .....		-		(0.1)
<b>Total value of AFS assets/negative AFS reserve</b> .....	<b>18.0</b>	<b>0.1</b>	<b>23.8</b>	<b>0.3</b>

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

As at April 4, 2014				
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
(£ million)				
Investment securities—AFS .....	6,994	3,498	71	10,563
Investments in equity shares .....	-	-	28	28
Derivative financial instruments .....	-	2,350	670	3,020
<b>Financial assets</b> .....	<b>6,994</b>	<b>5,848</b>	<b>769</b>	<b>13,611</b>
Derivative financial instruments .....	-	(2,390)	(1)	(2,391)
Other deposits—PEB .....	-	-	(3,222)	(3,222)
<b>Financial liabilities</b> .....	<b>-</b>	<b>(2,390)</b>	<b>(3,223)</b>	<b>(5,613)</b>

As at April 4, 2013				
	Level 1	Level 2	Level 3	Total
	(£ million)			
Investment securities—AFS .....	8,641	4,720	60	13,421
Investments in equity shares .....	-	-	28	28
Derivative financial instruments .....	-	3,828	384	4,212
Other financial assets <sup>(4)</sup> .....	-	8	-	8
<b>Financial assets</b> .....	<b>8,641</b>	<b>8,556</b>	<b>472</b>	<b>17,669</b>
Derivative financial instruments .....	-	(3,875)	(10)	(3,885)
Other deposits—PEB .....	-	-	(2,985)	(2,985)
<b>Financial liabilities</b> .....	<b>-</b>	<b>(3,875)</b>	<b>(2,995)</b>	<b>(6,870)</b>

Notes:

- (1) Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.
- (2) Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, ABS, certain collateralized debt obligations (“CDOs”), CLOs and over-the-counter (“OTC”) derivatives.
- (3) Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain ABS and bonds.
- (4) Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. We recommenced the practice of fair valuing a portion of the mortgage commitments on the balance sheet during the year ended April 4, 2013.

Our Level 1 portfolio comprises highly rated government securities for which traded prices are readily available. During the year ended April 4, 2014, we have reduced this portfolio in response to the changing regulatory environment created by Funding for Lending. There were no significant transfers between the Level 1 and 2 portfolios during the year ended April 4, 2014.

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

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

#### *Investment securities—AFS*

Our £71 million Level 3 AFS investment securities as at April 4, 2014 comprise mainly £59 million of CDOs, including CDOs with a fair value of £13 million that are subject to impairment. Substantially all of these securities are priced from internal models based on observable and unobservable performance assumptions.

#### *Investments in equity shares*

The Level 3 investments in equity shares of £28 million as at April 4, 2014 consist primarily of an interest in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of the instrument.

#### *Derivative financial instruments*

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

#### *Other deposits—PEB*

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

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

### **Financial Condition of the Group**

#### ***Capital Resources***

Capital is held by us to protect our depositors, cover our inherent risks, provide a cushion for stress events and support our business strategy. In assessing the adequacy of our capital resources, we consider our risk appetite in the context of the material risks to which we are exposed and the appropriate strategies required to manage those risks. We manage our capital structure to ensure it continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, we target a Common Equity Tier 1 ("CET1") ratio among the best in market compared to major banking peers. Our strategy is to meet this primarily through retained earnings, supplemented by external capital issuances where appropriate, as well as the strategic management of credit risk.

The table below reconciles the general reserves to total regulatory capital. This has been presented on an end point basis, which includes gains on the available for sale reserve but does not include grandfathered tier one and subordinated debt.

<b>Total regulatory capital</b>	<b>30 September 2014</b>	<b>4 April 2014</b>
	<b>(£ million)</b>	<b>(£ million)</b>
General reserve (note <sup>(1)</sup> ) .....	<b>7,756</b>	7,363
Core capital deferred shares (CCDS) .....	<b>531</b>	531
Revaluation reserve .....	<b>72</b>	71
Regulatory adjustments and deductions: .....		
Foreseeable distributions (note <sup>(2)</sup> ) .....	<b>(55)</b>	(45)
Prudent valuation adjustment (note <sup>(3)</sup> ).....	<b>(4)</b>	(5)
Own credit and debit valuation adjustments (note <sup>(4)</sup> ) .....	<b>(12)</b>	(17)
Available for sale reserve .....	<b>17</b>	(51)
Intangible assets (note <sup>(5)</sup> ).....	<b>(909)</b>	(890)
Goodwill (note <sup>(5)</sup> ) .....	<b>(12)</b>	(12)
Excess of regulatory expected losses over impairment provisions (note <sup>(6)</sup> ).....	<b>(677)</b>	(1,096)
Total regulatory adjustments and deductions .....	<b>(1,652)</b>	(2,116)
<b>Common Equity Tier 1 capital</b> .....	<b>6,707</b>	5,849
Additional Tier 1 capital securities (AT1) .....	<b>992</b>	992
<b>Total Tier 1 capital</b> .....	<b>7,699</b>	6,841
Dated subordinated debt (note <sup>(7)</sup> ).....	<b>1,782</b>	1,886
Excess of impairment provisions over regulatory expected loss (note <sup>(6)</sup> ) .....	<b>170</b>	171
Collectively assessed impairment allowances .....	<b>22</b>	27
<b>Tier 2 capital</b> .....	<b>1,974</b>	2,084
<b>Total regulatory capital</b> .....	<b>9,673</b>	8,925
<b>Solvency ratios (note <sup>(8)</sup>):</b> .....		
Common Equity Tier 1 ratio.....	<b>17.6%</b>	14.5%
<b>Total Tier 1 capital ratio</b> .....	<b>20.2%</b>	16.9%
<b>Total regulatory capital ratio</b> .....	<b>25.4%</b>	22.1%

Notes:

- (1) The general reserve includes unaudited profits for the period to 30 September 2014 to present the capital position on a basis consistent with the accounts. When reporting the capital position to the PRA, unaudited profits are excluded.
- (2) Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
- (3) A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.
- (4) Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in the Group's own credit standing and risk, in accordance with CRD IV rules.
- (5) Intangible assets and goodwill do not qualify as capital for regulatory purposes.
- (6) Under CRD IV the net regulatory capital expected loss in excess of accounting provisions is deducted from CET1 capital, gross of tax. Any provisions in excess of the expected loss are included in Tier 2 capital.
- (7) Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity. It does not include instruments that are subject to CRD IV grandfathering provisions, as this table is presented on an end point basis.
- (8) Solvency ratios are reported on an end point basis. The Group's CET1 ratio on a transitional basis does not include the gains on the available for sale reserve (£17 million), but remains unchanged at 17.6%. The total Tier 1 capital ratio and total regulatory capital ratio are 21.7% and 27.4% respectively on a transitional basis, as PIBS and some additional subordinated debt instruments qualify under grandfathering provisions under CRD IV.

Our capital position as of the six months ended September 30, 2014 is summarized in the table below, which shows our capital position on September 30, 2014 on a CRD IV “end point” basis with the exception of the Tier 1 capital and total regulatory capital resources and associated ratios, which include grandfathered legacy Tier 1 and 2 instruments under transitional rules. This reflects the PRA’s accelerated implementation of CET1 deductions, so that they apply in full from January 1, 2014 but retains transitional phasing for grandfathering of capital instruments. Pro forma CRD IV capital figures are included on the same basis to allow comparability. In addition, the pro forma figures reflect the change in treatment of securitization exposures rated below BB- as described below:

	As at September 30,			As at April 4,		
	2014	2013	2013	2014	2013	2013
	CRD IV Transiti onal <sup>(1)</sup>	CRD IV Transiti onal (pro forma) <sup>(2)</sup>	Basel II	CRD IV Transiti onal <sup>(1)</sup>	CRD IV Transiti onal (pro forma) <sup>(2)</sup>	Basel II
<b>Risk weighted assets (“RWAs”) (£ million)</b> .....	<b>38,071</b>	<b>44,231</b>	<b>41,096</b>	<b>40,455</b>	<b>50,285</b>	<b>44,440</b>
<b>CRD IV capital ratios (unadjusted)</b>						
CET1 ratio <sup>(3)</sup> .....	17.6%	11.0%	14.2%	14.5%	9.1%	12.3%
Leverage ratio <sup>(4)</sup> .....	3.8%	2.3%	3.1%	3.3%	2.2%	

Notes:

- (1) Capital ratios are reported under CRD IV on an “end point” basis.
- (2) On January 1, 2014, CRD IV was introduced. The column headed CRD IV shows the September 30, 2014 and April 4, 2014 figures on a pro forma basis, had these rules applied then, and reflecting a change in treatment to securitization exposures rated below BB-. It is provided here to assist in understanding the changes in regulator capital position during the year.
- (3) For April 4, 2014, on a Basel II basis Core Tier 1 ratio is reported in this line.
- (4) We reported a leverage ratio of 2.0% in the 2013 Pillar 3 disclosures. The principal reason for the difference between the figure previously reported and the pro forma figure now reported of 2.2% is the change in treatment of securitization exposures rated below BB-.

The Group previously disclosed PRA adjusted ratios, which applied across the industry following the PRA’s capital shortfall exercise in June 2013. In June 2014, the PRA announced that the adjustments would no longer apply from July 1, 2014, and therefore adjusted ratios have not been disclosed in this report.

In replacing the previous PRA capital rules, the CRD IV regulatory framework is supplemented by a number of technical standards published by the European Banking Authority (“EBA”). The PRA published its final rules to implement the CRD IV in the UK through Policy Statement PS7/13 and associated Supervisory Statements in December 2013.

Our total regulatory capital has increased from £8,925 million to £9,673 million in the six months ended September 30, 2014 as compared to the pro forma six months ended September 30, 2013 with increases in CET1 capital, total Tier 1 capital and Tier 2 capital despite CRD IV introducing adjustments that reduce constituents of CET1 and Tier 1 capital. Key changes include: (i) our reduced CET1 capital, through changes to the definition, such as the recognition of AFS reserves, the 100% deduction of expected losses from CET1, gross of tax and no longer adjusting CET1 capital to exclude pension deficits; and (ii) the first stage of our phased removal of PIBS and some subordinated debt instruments, which will be phased out over eight years from January 2014.

Our CRD IV position for the six months ended September 30, 2014 as compared to the pro forma six months ended September 30, 2013, CET1 capital has increased as a result of (i) increases in our general reserve (principally from profit after tax); (ii) a reduction of the negative AFS reserve due to deleveraging our asset backed securities portfolio and improved market values; and (iii) net proceeds from our issue of CCDS.

In addition, our total Tier 1 capital has increased for the six months ended September 30, 2014 as compared to the pro forma six months ended September 30, 2013, as a result of our net proceeds from the issue of AT1 capital, offset by the buy back of PIBS. Together, these changes account for the increase in total regulatory capital for the six months ended September 30, 2014 compared to the six months ended September 30, 2013.

Risk weighted assets (£ million)	As at September 30,			As at April 4,		
	2014	2013	2013	2014	2013	2013
	CRD IV <sup>(1)</sup>	CRD IV (pro forma) <sup>(2)</sup>	Basel II	CRD IV <sup>(1)</sup>	CRD IV (pro forma) <sup>(2)</sup>	Basel II
	(£ million)					
<b>Credit risk</b>						
Retail mortgages.....	14,331	-	15,571	15,105	16,953	16,953
Retail unsecured lending .....	6,908	-	6,659	6,899	6,485	6,485
Commercial loans.....	8,284	-	12,132	9,061	13,643	13,643
Treasury.....	3,497	-	2,228	4,304	8,119	2,802
Other.....	1,252	-	1,101	1,295	1,635	1,107
<b>Total credit risk .....</b>	<b>34,272</b>	<b>-</b>	<b>37,691</b>	<b>36,664</b>	<b>46,835</b>	<b>40,990</b>
Operational risk .....	3,762	-	3,398	3,762	3,398	3,398
Market risk.....	37	-	7	29	52	52
<b>Total risk weighted assets .....</b>	<b>38,071</b>	<b>44,231</b>	<b>41,096</b>	<b>40,455</b>	<b>5,488</b>	<b>6,894</b>

Our CRD IV Pillar 1 capital requirements (risk weights) are calculated using (i) the Retail IRB approach for prime, buy to let and self-certified mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline building societies) and unsecured lending; (ii) foundation IRB and the PRA's "slotting" methodology for treasury and commercial portfolios (other than sovereign exposures); and (iii) the standardized approach for all other credit risk exposures including some treasury and commercial exposures that are exempt from using the IRB approach. The introduction of CRD IV increased RWAs principally through asset value correlation, credit value adjustments and increased weightings for deferred tax assets. In addition, we chose to risk weight securitization exposures rated below BB- rather than deduct them from capital such that they are included in treasury RWAs; this change was made from January 1, 2014 but has been reflected in the September 30, 2013 and April 4, 2013 CRD IV pro forma figures to aid comparability. Compared to the six months ended September 30, 2013 CRD IV pro forma figures, RWAs have decreased by £2,384 million to £38,071 million. This has been driven by continued deleveraging of the commercial real estate portfolio and out of policy treasury assets. The Group's retail mortgage RWAs are lower as a result of the impact of an increase in the house price index (HPI), which more than offsets the portfolio growth. The deleveraging of treasury assets was partly offset by an increase in primary liquidity (including deposits held with the Bank of England), which also improved book quality. The reduction in counterparty credit risk RWAs has arisen due to collateral being received on previously uncollateralised exposures following counterparty credit rating downgrades.

	As at September 30,			As at April 4,		
	2014	2013	2013	2014	2013	2013
	CRD IV <sup>(1)</sup>	CRD IV (pro forma) <sup>(2)</sup>	Basel II	CRD IV <sup>(1)</sup>	CRD IV (pro forma) <sup>(2)</sup>	Basel II
	<i>(£million, except percentages)</i>					
<b>Solvency ratios<sup>(3)</sup></b>						
CET1 ratio .....	17.6%	11.0%	14.2%	14.5%	9.1%	12.3%
Total Tier 1 capital (transitional) <sup>(4)</sup> .....	20.2%	14.2%	16.1%	18.4%	10.9%	15.5%
Total regulatory capital (transitional) .....	25.4%	20.0%	20.0%	24.0%	15.4%	19.1%
<b>Leverage<sup>(5)</sup></b>						
Exposure .....	204,047	211,449	212,013	199,188	205,919	
Capital (excluding PIBS) .....	7,699	4,863	6,572	6,841	4,551	
Leverage ratio .....	3.8%	2.3%	3.1%	3.4%	2.2%	

Notes:

- (1) On January 1, 2014, CRD IV was introduced. The column headed CRD IV shows the September 30, 2013 and April 4, 2013 figures on a pro forma basis, had these rules applied then, and reflecting a change in treatment to securitization exposures rated below BB-.
- (2) Capital ratios are reported under CRD IV on an “end point” basis
- (3) Solvency ratios are calculated as the relevant eligible regulatory capital divided by RWAs, on group basis.
- (4) We reported a leverage ratio of 2.0% in the 2013 Pillar 3 disclosures. The principal reason for the difference between the figure previously reported and the pro forma figure now reported of 2.2% is the change in treatment of securitization exposures rated below BB-.
- (5) The leverage ratio is calculated using the CRR definition of Tier 1 capital, and the draft December 2010 Basel III exposure definition in accordance with PRA guidance. Exposures include on and off balance sheet exposures with some regulatory adjustments applied.

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

### Short-Term Borrowings

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

### Contractual Commitments

For details of the amounts of certain of our financial and other contractual liabilities and when payments are due, without taking into account customer deposits and deposits by other financial institutions, please see notes 32 and 33 to our audited consolidated financial statements as at and for the year ended April 4, 2014 incorporated by reference herein.

### Off-Balance Sheet Arrangements

For a description of off-balance sheet commitment items under IFRS, please see note 35 to our audited consolidated financial statements as at and for the year ended April 4, 2014 incorporated by reference herein.

### Critical Accounting Policies

For details on our critical accounting policies under IFRS, please see note 2 to our interim financial statements and note 2 to our audited consolidated financial statements as at and for the year ended April 4, 2014 incorporated by reference herein.



## DESCRIPTION OF BUSINESS

### OVERVIEW

We are a building society, incorporated in England and Wales under the UK Building Societies Act, as amended, and authorized by the PRA and regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. Our FCA Mutuals Public Register Number is 355B. Our principal office is Nationwide House, Pipers Way, Swindon SN38 1NW (phone number +44 (0) 1793 513 513). We are the largest building society in the United Kingdom in terms of total assets, with £197 billion of assets as at September 30, 2014. We are the third largest residential mortgage lender in the United Kingdom and the second largest UK savings provider (as calculated by us based on BoE data).

Our core business is providing personal financial services, including:

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

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

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

Profits on ordinary activities after tax for the six months ended September 30, 2014 and the year ended April 4, 2014 were £486 million and £549 million, respectively. Our lending activities are predominantly concentrated on secured lending, with residential mortgages accounting for 88% of our total loans and advances to customers as at September 30, 2014.

### HISTORY AND DEVELOPMENT

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organizations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings customers and residential mortgage customers. Our origins go back to the Northampton Freehold Land Society, which was founded in 1846. Over time, this entity merged with similar organizations to create Nationwide Building Society.

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

and voted upon at a future general meeting. For a discussion of the risks associated with a demutualization, see the section entitled *“Risk Factors—Risks Related to Our Business—Demutualization, mutual society transfers and consequences of the UK Building Societies Act, including introduction of depositor preference, may have an adverse impact on the holders of notes. In addition, changes to the current relative ranking between share accounts and other depositors and unsubordinated creditors, including introduction of depositor preference, could have a significant adverse impact on the holders of notes.”*

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

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

## **STRATEGY**

Our vision is to be the first choice for financial services, and to achieve this, our strategy is based on three independent themes:

- our members;
- our people; and
- our business.

While we aim primarily to drive our strategy through organic means, we periodically consider opportunities that offer scale diversification benefits to add value to our members.

In order to achieve our goal of becoming the first choice for financial services in the UK, we intend to:

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

## **Members**

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

We are currently one of the top three retail savings and residential mortgage providers in the UK. In order to achieve our aim of being the first choice for financial services, we are positioning ourselves 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 us to cultivate broader and deeper relationships with new and existing customers. Our strategic goals over the next five years include maintaining our current savings market share at approximately 10% and managing mortgage volumes to maintain an approximate 12% market share. In addition, we will focus on growing our share of the personal current accounts sector to approximately 8.5%.

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

- Maintain our position as the clear number one for customer satisfaction—In particular, we intend to increase the profile of the Nationwide brand and to continue to reinforce our service culture through our “Pride” values, reward structure and continued service monitoring and feedback across all customer interaction points;
- Develop a suite of life-stage specific product propositions, specifically focusing on our current account offering as the gateway to deeper and broader customer relationships and to building scale across all products;
- Optimize our distribution facilities to ensure they meet changing customer trends as consumers move into the digital era, while providing an efficient and effective means of driving revenue—In particular, we have introduced Nationwide Now, a remote advisory capability and are focused on further developing mobile banking capabilities as well as a tablet banking application; and
- Continue to develop new systems and capabilities to deliver a 24/7 operating model based on the principles of simplicity, automation, resilience and agility. Specifically, we intend to focus on the automation of customer servicing and back office processing to ensure delivery of exceptional customer service.

We provide long-term value to our Society’s membership through sustainable pricing, actively targeting the delivery of value to the most committed and valuable customers through our 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 sufficient level of profitability to mitigate the risk of income statement volatility and enable ongoing investment in the business.

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

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

We operate in a commercially competitive manner, aiming to be as cost-efficient as our competitors in the banking sector in order to maintain its mutual pricing advantage, while providing industry leading levels of employee engagement and enablement.

## **People**

Our culture is underpinned by our mutual heritage and our people are central to our delivery of a consistently exceptional member experience. The people strategy is built around ensuring that we are a great place to work so that we can attract and retain great people. We enable our people to deliver an exceptional customer experience and empower them through their service culture and “Pride” values.

## **Business model**

Our low risk business model is predominantly focused on the provision of personal financial services, almost exclusively in the UK. We recognize that in order to compete ever more effectively with our competitors, we must build a broader business portfolio to complement our existing core business and diversify and expand our income streams. We took our first steps in offering current accounts in 1987 and have made steady progress since then in building market share. Over the past five years we have replaced our core banking system, which has allowed expansion of the range of current accounts on offer. We also offer a competitive line of consumer

lending products, financial planning services, general insurance and protection products, and undertake a limited range of specialist activities including buy-to-let lending, commercial lending and deposit taking for SMEs.

Our transformation program is a key part of our business diversification strategy. We aim to exploit new technology to achieve our goal of being number one for customer satisfaction, having already successfully delivered a new core banking system, mortgage sales and originations system and enhanced internet banking capabilities alongside a number of other technology changes.

### **Strategic goals**

Our principal five-year strategic goals are to:

- Be the first choice brand for financial services;
- Be the clear number one in customer satisfaction;
- Grow our base of valuable customer relationships, with a profile aligned to that of the UK population;
- Protect and grow our market shares;
- Ensure our people have high levels of belief in and commitment to us, and are provided with the conditions that allow them to perform effectively;
- Achieve an optimum level of profitability;
- Achieve a Common Equity Tier 1 ratio in the top quartile of our peer group and exceed regulatory requirements for the leverage ratio;
- Maintain average risk weightings in the bottom quartile of its peer group comparison; and
- Run an efficient business with a cost income ratio of between 45% and 50%.

### **Lending**

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

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

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

As at September 30, 2014, we were the third largest mortgage lender in the United Kingdom (as measured by total loans outstanding) (as calculated by us based on BoE data). As at September 30, 2014, our total prime and specialist residential mortgage lending amounted to £149.2 billion (£145.6 billion as at April 4, 2014). Our residential mortgages are generally for terms of 20 to 30 years. While many customers remain with us for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although we generally retain approximately 85 to 90% of customers when they reach the end of a product.

We have a national franchise within the United Kingdom, with a regional distribution of UK residential mortgage lending to individuals generally matching the regional gross domestic product distribution in the United Kingdom. Below is a table showing the geographical distribution of our UK residential mortgage loans as at September 30, 2014:

	<b>% of UK residential mortgage lending to individuals as at September 30, 2014</b>
<b>Region</b>	
Greater London .....	32
Central England .....	18
Northern England .....	16
South East London (excluding London) .....	13
South West England .....	9
Scotland .....	7
Wales and Northern Ireland .....	5
<b>Total</b> .....	<b>100</b>

Source: CACI Limited

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

To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, we impose early repayment charges on some products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed or tracker rate for the particular product. Our asset quality has remained strong, which we believe is evidence of our continued prudent lending standards. We are committed to supporting the housing market, and first time buyers in particular, and as a result the average LTV of residential mortgages completed has improved by 2% as of September 30, 2014 (April 4, 2014: 69%). The indexed LTV for the whole residential portfolio has improved by 2% to 46% (April 4, 2014: 48%) on a volume basis in line with the growth in house prices. The proportion of our mortgage accounts three months or more in arrears has reduced to 0.55% as at September 30, 2014 (April 4, 2014: 0.63%), which compares favorably with the CML industry average of 1.42%.

Our asset quality has remained strong as a result of our continued prudent approach to lending. We are committed to supporting the housing market, and first time buyers in particular, and as a result the average LTV of residential mortgages completed has improved by 2% (April 4, 2014: 69%). The indexed LTV for the whole residential portfolio has improved by 2% to 46%. (April 4, 2014: 48%) on a volume basis in line with the growth in house prices. The proportion of our mortgage accounts three months or more in arrears has reduced to 0.55% as at September 30, 2014 (September 30, 2013: 0.63%), this compares favorably with the CML industry average of 1.42%.

The following table sets forth a breakdown of our loans in arrears as at September 30, 2014:

	<b>As at September 30, 2014</b>
<b>Arrears</b>	
3-6 months .....	0.26%
6-12 months .....	0.17%
Over 12 months .....	0.12%

Note:

(1) \_\_\_\_\_ Nationwide prime and specialist residential lending.

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

We focus our residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. In current market conditions, we are particularly keen to support our existing members and have introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. During the six-month period ended September 30, 2014 period, additional controls have been applied through policy and product changes to ensure the profile of new lending remains within the Group's risk appetite. The proportion of new lending to first time buyers has reduced during the period by 4% to 27% and 73% to experienced buyers. This compares to the six months ended, September, 30 2013 when 31% of residential mortgage advances were to first-time buyers and 69% to experienced buyers.

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

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

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

As at September 30, 2014, our outstanding specialist UK residential mortgage lending to individuals was £27 billion. The specialist residential mortgage balance is made up of advances made through our specialist lending brands, TMW and UCB, and from the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies portfolios. Our outstanding specialist lending loans were advanced primarily in the buy-to-let and self-certification markets. New specialist lending is restricted to buy-to-let via TMW with us having withdrawn from the self-certified lending market in 2009. A breakdown of our specialist UK residential mortgage lending outstanding balances as at September 30, 2014 is shown in the table below:

	<b>% of specialist UK residential mortgage lending to individuals as at September 30, 2014</b>
Buy-to-let.....	85%
Self-certified .....	10%
Near prime .....	4%
Sub prime.....	1%
<b>Total</b> .....	<b>100%</b>

TMW is an important provider of high-quality loans to the buy-to-let sector. Our total specialist mortgage book stood at £27.2 billion as at September 30, 2014 (April 4, 2014: £26.3 billion).

There has been a reduction in specialist arrears as a result of reducing arrears volumes on the self-originated books, and strong book growth in TMW. TMW continues to maintain a very favorable arrears

position relative to the industry on both originated business and total lending including acquired loans. Our specialist mortgages continue to perform well with cases three months or more in arrears representing only 1.29% of the total mortgage book as at September 30, 2014 (April 4, 2014: 1.53%), which compares favorably to the overall industry measure (source: CML), that is inclusive of prime lending, of 1.42% as at September 30, 2014 (April 4, 2014: 1.59%).

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

We engage in commercial secured lending, which as at September 30, 2014 accounted for 9% of our total loan assets. To maintain a prudent balance between our asset classes, we currently have a 10% cap on commercial lending as a percentage of our total lending (book balances). We intend to maintain a low risk exposure to commercial secured lending and to maintain the existing level of credit quality throughout our commercial loan portfolio.

The amount and types of loans in the commercial portfolio as at September 30, 2014 were as follows:

	<b>As at September 30, 2014</b>	
	<b>£ billion</b>	<b>% of total commercial loans</b>
<b>Commercial Secured Loans</b>		
Commercial real estate .....	5.9	38%
Registered Social Landlords .....	8.1	53%
Project Finance .....	1.4	9%
<b>Total</b> .....	<b>15.4</b>	<b>100%</b>

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

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

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

### ***Consumer Banking***

We engage in personal banking, which accounted for 2% of our total loan assets as at September 30, 2014 and 2% of our total loan assets as at April 4, 2014.

#### ***Unsecured Consumer Banking***

Unsecured consumer banking consists of loans that we make to individuals that are not secured on real or personal property. We offer three different forms of unsecured consumer lending: personal unsecured loans, credit card lending and current accounts with overdraft facilities.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because we have no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than our residential mortgage products. To manage this risk, we use an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, we impose a maximum limit on the size of unsecured consumer loans and encourage customers to take out payment protection insurance.

For information regarding our credit card and overdraft facilities, see the subsections entitled “—*Other Banking Services—Credit Cards*” and “—*Other Banking Services—Current Accounts*.”

## **Retail Funding**

The great majority of our retail funding is in the form of UK retail member deposits. In addition, we accept offshore deposits and deposits which do not convey member status. As at April 4, 2014 we had UK retail member deposits of £130.5 billion, which have increased to £134.0 billion as at September 30, 2014. UK retail member deposits represented 68.1% of our total liabilities and reserves as at September 30, 2014.

We provide a wide range of retail savings products that may be repayable on demand or notice and which may pay a variable or fixed rate of interest. On most retail savings products, we determine variable interest rates at our discretion according to market conditions. Generally, the more restrictions on withdrawal of retail savings, the higher the rate of interest. Balances on all of our notice deposit accounts are, by their terms, withdrawable on demand but, in some cases, subject to loss of interest.

We believe that the primary determinant for attracting retail savings is the interest rate offered to savers. As a mutual organization, we typically set higher interest rates on our retail funding products than those set by our main competitors. We gather UK retail member deposits from a number of sources, chiefly from our branch network but also by mail and internet-based deposit accounts.

The UK retail savings market is highly competitive among building societies and banks, including those banks owned by insurance companies and retailers. This competition has increased the relative cost of retail funds, especially new retail funds.

## **Other Banking Services**

### ***Current Accounts***

Our current account, called FlexAccount, is our checking and day-to-day transactional product. Holders of FlexAccounts may be eligible for ATM cards, check books, overdraft facilities and debit cards depending upon the account holder’s credit score and the performance of the account. The overdraft facility connected to the current account charges interest at one rate for authorized overdrafts and at a higher rate for unauthorized overdrafts. In addition, current account members have been able to upgrade their account to FlexPlus, thereby gaining access to a comprehensive range of benefits including interest on credit balances, worldwide travel insurance, breakdown cover and extended appliance warranties. Our market share of main standard and packaged accounts increased to 6.6% and includes the launch of FlexOne, a current account designed specifically for the youth market.

### ***Credit Cards***

We began issuing Nationwide-branded Visa credit cards to our customers in 1997. We market and process credit card applications ourselves (using our credit scoring system), and an outside contractor is responsible for billing and customer service functions. Our credit card holders receive differing credit limits, depending on their credit score. We do not charge customers an annual fee for using the credit card.

Credit card lending continues to grow reflecting increased growth in consumer borrowing over the period. During the past six months we opened over 100,000 new credit card accounts with overall balances at September 30, 2014 of £1.8 billion (April 4, 2014: £1.7 billion).

### ***Offshore Savings***

We offer offshore savings through our Isle of Man branch (previously a subsidiary, Nationwide International Limited), to give us access to another funding source. The branch offers demand and notice accounts in sterling, U.S. dollars and euros mainly to offshore investors. As at September 30, 2014, the Isle of Man branch had deposits of £5.6 billion.



### ***Other Banking Services***

We also provide our customers with foreign currency exchange and equity dealing services. We act as an agent in providing these services and assume no foreign exchange or equity price risk as a result of this activity.

### **Treasury Operations**

Our Treasury Division centrally manages our liquid asset portfolios as well as most of our financial risk exposures, and raises funds on the money and debt capital markets.

The Treasury Division manages risk exposures, including market risk, by making use of derivative instruments such as swaps, futures and options, which reduce our exposure to changes in interest rates and currency rates. See the sections entitled “*Financial Risk Management*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview*” for further details of risk management.

We maintain two liquid asset portfolios, categorized as core liquidity and non-core liquidity:

- core liquidity totaled £15.8 billion as at September 30, 2014 (compared to £12.3 billion as at April 4, 2014). Core liquidity comprises cash and highly rated debt securities issued by governments or multilateral development banks; and
- non-core liquidity totaled £6.5 billion as at September 30, 2014 (compared to £5.7 billion as at April 4, 2014). The non-core portfolio comprises available for sale assets held for investment purposes, plus balances in clearing accounts.

We raise funds from the money and debt capital markets, accepting time deposits and issuing certificates of deposit, commercial paper and medium-term notes. Funding from wholesale markets increased to £40.0 billion as at September 30, 2014 from £37.7 billion as at April 4, 2014, representing a wholesale funding ratio of 20.7% (compared to 19.6% as at April 4, 2014).

We aim to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. We have a variety of programs in place so that we can meet our short-term and long-term funding needs, including:

- Euro certificate of deposit and commercial paper program;
- U.S. commercial paper program;
- Canadian commercial paper program;
- French commercial paper program;
- Euro medium-term note program;
- U.S. medium-term note program;
- Covered Bond program; and
- Australian medium-term note and commercial paper program.

During the period a combination of strong retail performance, low long term wholesale maturities and Funding for Lending Scheme access has contributed to a reduced long term wholesale funding appetite. New capital raised via Core Capital Deferred Shares and Additional Tier 1 has also provided funding to the business.

We do not operate a trading portfolio.

### **Protection and Investments**

Income from protection and investments has decreased from £40 million for the six months ended September 30, 2013 to £37 million for the six months ended September 30, 2014, as a result of reduced sales volumes.

## **Insurance**

In conjunction with our core business of providing residential mortgage loans and retail savings, we develop and market insurance products branded with our name that are underwritten by third-party insurers. We sold our subsidiary Nationwide Life Limited to Legal & General on January 31, 2008, and as a result we no longer underwrite our own life assurance products. As part of our agreement, we distribute the insurance products of Legal & General. We also have a new strategic distribution agreement for the supply of motor and travel insurance with Liverpool Victoria to provide our customers with a broader range of competitively priced products from one of the UK's top financial services companies.

### ***Products Underwritten by Third Parties***

The insurance products that we market are:

- buildings and contents insurance, which we market to our residential mortgage customers and non-mortgage customers;
- payment protection products, covering loan repayments in case of sickness, unemployment or disability;
- landlord insurance;
- term income protection insurance, replacing up to 60% of gross income in case of unemployment;
- motor insurance; and
- personal accident insurance.

We typically use leading insurers as third-party underwriters for these insurance products. We receive a commission and, in some cases, participate in the profits, but not the losses, from third-party underwritten insurance products that we market. This provides us with a significant source of non-interest income, and in the six months ended September 30, 2014 and the year ended April 4, 2014 we earned £43 million and £120 million, respectively, from general insurance fees. We generally market our insurance products to new and existing customers, and it is our policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by our main competitors.

## **Distribution Network**

Our integrated and diversified distribution network allows our customers to choose how and when to undertake their transactions with us and has enabled us to expand our business while controlling costs. The distribution network helps us to achieve volume growth principally in residential mortgage lending and supports our retail funding activities. Developments in the network have focused on cost efficiency and meeting the needs of customers who are increasingly prepared to transact business by the Internet, telephone and mail.

We distribute our products primarily through:

- branches;
- ATMs;
- call centers;
- mail;
- Internet (e-commerce);
- agencies; and
- intermediaries.

### ***Branches***

Our branch network continues to be a major source of our mortgage lending and retail funding. As at September 30, 2014 we had over 750 branches of Nationwide Building Society in the United Kingdom and the Isle of Man. We believe that our branch network is an integral part of our distribution network and we expect to maintain its current size.

Our goal is to utilize our branch network efficiently. All of our branches market our residential mortgage, retail savings, personal lending, personal investment and insurance products. We have continued to make significant investment in transforming our products and delivery channels through the implementation of new systems and organizational structures and meet consumer expectations of digital banking.

### ***ATMs***

We had more than 1,400 ATMs at September 30, 2014, including some placed in retail stores, railroad stations, gas stations and other remote locations. In addition, our customers also have access to ATMs in the United Kingdom through the LINK and Cirrus networks and world-wide through the VISA network.

### ***Call Centers***

Our telephone call centers are open 24 hours a day to service customers and receive calls from potential customers that are interested in our products. In addition, we use telemarketing to supplement our mortgage, insurance and personal loan marketing.

### ***Mail***

We offer mail-based savings accounts that provide members with higher interest rates on their deposits in return for limiting them to transactions by mail, online banking and ATMs. We also use direct mail to market some of our products.

### ***E-commerce***

We first launched an internet banking service in 1997 and have continued to update our service in line with technological advances and in line with increasing customer expectations. Our website allows customers to transact on their accounts and apply for a broad range of our products online.

### ***Agents***

Agents are third parties that we appoint to market our products and perform retail transactions. Agents are typically intermediary financial advisers or real estate agents and increase our retail distribution network. We remunerate agents for the transactions and sales they perform.

### ***Intermediaries***

A substantial amount of our mortgage sales are introduced to us by third-party intermediaries. Intermediaries range from large UK insurance companies to small independent mortgage advisers. We remunerate intermediaries for introducing mortgage business.

### ***Employees***

For the financial year ended April 4, 2014, we employed, on average, 17,268 full and part-time employees. Set out below are our average number of employees during the financial years ended April 4, 2014, 2013 and 2012, respectively:

<b>Average number of employees</b>	<b>For the year ended April 4,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Full-time .....	13,150	12,720	13,156
Part-time .....	4,118	4,299	4,550
Total.....	<b>17,268</b>	<b>17,019</b>	<b>17,706</b>

We are party to a collective bargaining agreement with the Nationwide Group Staff Union and believe that our relationship with our employees is good. We have never experienced any work stoppages.

## Principal Subsidiaries

Our interests in our principal subsidiary undertakings, all of which are consolidated, as at September 30, 2014 are set out below: A9.6.1

<b>100% held subsidiary undertakings</b>	<b>Nature of business</b>
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc <sup>(1)</sup>	Centralized mortgage lender
Derbyshire Home Loans Limited <sup>(1)</sup>	Centralized mortgage lender
E-Mex Home Funding Limited <sup>(1)</sup>	Centralized mortgage lender
UCB Home Loans Corporation Limited <sup>(1)</sup>	Centralized mortgage lender

Note:

- (1) Regulated entities subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.

All the above subsidiary undertakings are limited liability companies which are registered in England and Wales and operate in the UK.

We have interests in a number of entities which give rise to the risks and rewards that are in substance no different from if they were subsidiary undertakings. As a consequence, these entities are consolidated in our accounts.

Our interests in these principal entities as at September 30, 2014 are set out below:

<b>Other Group undertakings</b>	<b>Nature of business</b>	<b>Country of registration</b>	<b>Country of operation</b>
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK

## Properties

Our property interests consist of our branches and non-specialized buildings which may be owned or leased, as well as our head office/administration centers (which we own) and a small number of residential properties held for rental. For further information see note 20 to our audited consolidated financial statements incorporated by reference herein.

## FSCS

Like other UK financial institutions, we pay levies based on our share of protected deposits to the FSCS to enable the FSCS to meet claims against it. In 2008 a number of institutions were declared in default by the FSA. The FSCS has met the claims by way of loans received from HM Treasury. These loans total approximately £18 billion. The terms of these loans are interest only for the first three years, and the FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms over this period.

While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, there is an expected shortfall in relation to the refinancing loan between the FSCS and HM Treasury which took place in March 2012 which has been communicated as being an industry total of £299 million for the 2015/2016 scheme year. This shortfall is to be levied from all firms holding protected deposits including the Group.

FSCS made the first levy in respect of the Dunfermline Building Society failure during September 2014. Potential shortfall in relation to Dunfermline Building Society in future years continues to remain uncertain for both quantification and timing.

As at September 30, 2014 we held a provision of £46 million in respect of the interest levy relating to scheme years 2014/15 (September 30, 2013: £37 million in respect of the interest levy relating to scheme years

2013/14). As at April 4, 2014 we held a provision of £142 million in respect of the scheme years ending April 4, 2014 and 2015 (April 4, 2013: £133 million in respect of the scheme years ending April 4, 2013 and 2014).

### Bank Levy

On July 19, 2011, the Finance Act 2011 came into force, including the bank levy requirements enacted by section 73 and Schedule 19 thereof. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance is given against the first £20 billion of chargeable equity and liabilities, meaning that smaller institutions will effectively be exempted from the levy charge. Certain liabilities are excluded from the chargeable equity and liabilities, including Tier 1 capital, insured retail deposits and repos secured on sovereign debt. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of liabilities in the charge. Levy rates have been announced as follows:

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

Following the adoption of amendments to accounting policies; IFRIC 21 Levies, this interpretation provides guidance on accounting for the liability to pay a government imposed levy. IFRIC 21 affects the timing of recognition of these levies throughout the financial year. The costs of the UK bank levy and FSCS levy are now recognised when they become legally enforceable. This will not impact the full year results but has resulted in a change to the amounts recognised for bank levies in the Interim Results. The changes have been applied retrospectively and comparatives restated accordingly.

## SELECTED STATISTICAL INFORMATION

The following information has been extracted from our management information systems. This information is unaudited. The information contained in this section should be read in conjunction with our consolidated financial statements as well as the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

### Average Balance Sheets and Interest Rates

The tables below present, in accordance with IFRS, the average balances for our interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the financial years ended April 4, 2014, 2013 and 2012, respectively:

	For the year ended April 4, 2014		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
	(£ millions, except percentages)		
<b>Interest-earning assets:</b>			
Loans to credit institutions.....	9,959	38	0.38%
Debt securities <sup>(2)</sup> .....	15,065	12	0.08%
Loans to customers .....	163,707	5,245	3.20%
<b>Total average interest-earning assets .....</b>	<b>188,731</b>	<b>5,295</b>	<b>2.81%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	873		
Fair value adjustment for hedged risk.....	406		
Other financial assets at fair value .....	2		
Other assets.....	496		
Goodwill and intangible fixed assets .....	924		
Investment properties .....	8		
Deferred tax assets .....	176		
<b>Total average assets .....</b>	<b>191,616</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	130,196	2,250	1.73%
Other deposits .....	15,871	51	0.32%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	33,439	467	1.40%
Subordinated liabilities .....	2,433	79	3.25%
Tier 1 capital instruments .....	879	30	3.41%
Unwind of discount of pension liabilities .....	-	15	-
<b>Total average interest-bearing liabilities .....</b>	<b>182,819</b>	<b>2,892</b>	<b>1.58%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,548		
Fair value adjustment for hedged risk.....	77		
Other financial liabilities at fair value .....	5		
Reserves.....	7,090		
Current taxes.....	77		
<b>Total average liabilities .....</b>	<b>191,616</b>		

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

For the year ended April 4, 2013			
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
<i>(£ millions, except percentages)</i>			
<b>Interest-earning assets:</b>			
Loans to credit institutions.....	11,205	49	0.44%
Debt securities <sup>(2)</sup> .....	21,747	302	1.39%
Loans to customers .....	157,315	5,044	3.21%
<b>Total average interest-earning assets .....</b>	<b>190,267</b>	<b>5,395</b>	<b>2.84%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	948		
Fair value adjustment for hedged risk.....	1,107		
Other financial assets at fair value .....	11		
Other assets.....	539		
Goodwill and intangible fixed assets .....	757		
Investment properties .....	9		
Deferred tax assets .....	244		
<b>Total average assets .....</b>	<b>193,881</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	125,264	2,741	2.19%
Other deposits .....	17,090	6	0.04%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	40,034	563	1.41%
Subordinated liabilities .....	1,691	43	2.54%
Tier 1 capital instruments .....	1,536	38	2.47%
Unwind of discount of pension liabilities .....	-	23	-
<b>Total average interest-bearing liabilities .....</b>	<b>185,615</b>	<b>3,414</b>	<b>1.84%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,734		
Fair value adjustment for hedged risk.....	218		
Other financial liabilities at fair value .....	1		
Reserves.....	6,277		
Current taxes.....	37		
<b>Total average liabilities .....</b>	<b>193,881</b>		

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

	For the year ended April 4, 2012		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
	(£ millions, except percentages)		
<b>Interest-earning assets:</b>			
Loans to credit institutions.....	11,295	56	0.50%
Debt securities & derivative financial instruments <sup>(2)</sup> .....	27,924	406	1.45%
Loans to customers .....	151,998	4,696	3.09%
Expected return on pension assets .....	-	195	-
<b>Total average interest-earning assets .....</b>	<b>191,217</b>	<b>5,353</b>	<b>2.80%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	964		
Fair value adjustment for hedged risk.....	1,594		
Other financial assets at fair value .....	-		
Other assets.....	922		
Goodwill and intangible fixed assets .....	606		
Investment properties .....	9		
Deferred tax assets .....	256		
<b>Total average assets .....</b>	<b>195,568</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	125,456	2,826	2.25%
Other deposits .....	16,117	14	0.09%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	42,267	624	1.48%
Subordinated liabilities .....	1,858	58	3.12%
Tier 1 capital instruments .....	1,608	42	2.61%
Unwind of discount of pension liabilities .....	-	166	-
<b>Total average interest-bearing liabilities .....</b>	<b>187,306</b>	<b>3,730</b>	<b>1.99%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,691		
Fair value adjustment for hedged risk.....	211		
Other financial liabilities at fair value .....	-		
Reserves.....	6,265		
Current taxes.....	95		
<b>Total average liabilities .....</b>	<b>195,568</b>		

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

### Average Net Interest Margin and Spread

The following tables show our average interest-earning assets, average interest-bearing liabilities and net interest income and illustrate the comparative net interest margin and net interest spread for the financial years ended April 4, 2014, 2013 and 2012, respectively:



	<b>As at April 4, 2014</b>
	<i>(£ millions, except percentages)</i>
Net average interest-earning assets.....	188,731
Net average interest-bearing liabilities .....	182,819
Net interest income <sup>(1)</sup> .....	2,403
Average yield on average interest-earning assets .....	2.81%
Average rate on average interest-bearing liabilities.....	1.58%
Net interest spread <sup>(2)</sup> .....	1.23%
Net interest margin <sup>(3)</sup> .....	1.25%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

	<b>As at April 4, 2013</b>
	<i>(£ millions, except percentages)</i>
Net average interest-earning assets.....	190,267
Net average interest-bearing liabilities .....	185,617
Net interest income <sup>(1)</sup> .....	1,981
Average yield on average interest-earning assets .....	2.84%
Average rate on average interest-bearing liabilities.....	1.84%
Net interest spread <sup>(2)</sup> .....	1.00%
Net interest margin <sup>(3)</sup> .....	1.04%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

	<b>As at April 4, 2012</b>
	<i>(£ millions, except percentages)</i>
Net average interest-earning assets.....	191,217
Net average interest-bearing liabilities .....	187,306
Net interest income <sup>(1)</sup> .....	1,623
Average yield on average interest-earning assets .....	2.80%
Average rate on average interest-bearing liabilities.....	1.99%
Net interest spread <sup>(2)</sup> .....	0.81%
Net interest margin <sup>(3)</sup> .....	0.83%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

### Changes in Interest Income and Expenses – Volume and Rate Analysis

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended April 4, 2014 compared to the financial year ended April 4, 2013. We calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in

line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein:

<b>Year ended April 4, 2014</b> <b>compared to year ended April 4, 2013</b>			
<b>Increase/(decrease) in net interest due to changes in:</b>			
	<b>Volume</b>	<b>Yield/rate</b>	<b>Total net change</b>
		<i>(£ millions)</i>	
<b>Interest income:</b> <sup>(1)</sup>			
Loans to credit institutions .....	(5)	(6)	(11)
Debt securities .....	(78)	(212)	(290)
Loans to customers .....	205	(3)	202
<b>Total interest income .....</b>	<b>122</b>	<b>(220)</b>	<b>(99)</b>
<b>Interest expense:</b> <sup>(1)</sup>			
UK retail member deposits .....	104	(595)	(491)
Amounts owed to credit institutions .....	(5)	(4)	(9)
Amounts owed to other customers .....	-	54	54
Debt securities in issue .....	(77)	(19)	(96)
Subordinated liabilities .....	22	14	36
Subscribed capital .....	(20)	12	(8)
<b>Total interest expense .....</b>	<b>25</b>	<b>(538)</b>	<b>(514)</b>
<b>Net interest income .....</b>	<b>97</b>	<b>318</b>	<b>415</b>

Note:

- (1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended April 4, 2013 compared to the financial year ended April 4, 2012. We calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein:

<b>Year ended April 4, 2013</b> <b>compared to year ended April 4, 2012</b>			
<b>Increase/(decrease) in net interest due to changes</b> <b>in:</b>			
	<b>Volume</b>	<b>Yield/rate</b>	<b>Total net</b>
		<i>(£ millions)</i>	<b>change</b>
<b>Interest income:</b> <sup>(1)</sup>			
Loans to credit institutions.....	-	(7)	(7)
Debt securities .....	(98)	(6)	(104)
Loans to customers .....	167	181	348
<b>Total interest income .....</b>	<b>69</b>	<b>168</b>	<b>237</b>
<b>Interest expense:</b> <sup>(1)</sup>			
UK retail member deposits .....	(5)	(81)	(86)
Amounts owed to credit institutions .....	14	(66)	(52)
Amounts owed to other customers.....	-	45	45
Debt securities in issue .....	(36)	(25)	(61)
Subordinated liabilities .....	(5)	(10)	(15)
Subscribed capital.....	(2)	(2)	(4)
<b>Total interest expense .....</b>	<b>(34)</b>	<b>(139)</b>	<b>(173)</b>
<b>Net interest income .....</b>	<b>103</b>	<b>307</b>	<b>410</b>

Note:

- (1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

### Investment Securities Portfolios

As at April 4, 2014, our investment securities portfolios were carried at a book value of £10,563 million, representing 5.6% of our total assets. Investment securities are split into two portfolios with approximately £7 billion of the assets in the core liquidity portfolio and approximately £3.6 billion of the assets in the non-core portfolio. We only purchase investment-grade debt securities and do not operate a trading portfolio. The following table provides information on the breakdown of our investment securities as at April 4, 2014, 2013 and 2012, respectively:

<b>As at April 4,</b>			
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<i>(£ millions)</i>		
<b>Investment securities</b>			
UK government <sup>(1)</sup> .....	4,508	5,553	12,796
Other public sector securities <sup>(2)</sup> .....	2,486	3,431	3,750
Other issuers <sup>(3)</sup> .....	3,569	4,437	6,779
<b>Total .....</b>	<b>10,563</b>	<b>13,421</b>	<b>23,325</b>

Notes:

- (1) As at April 4, 2014, UK government securities that we held were equal to 61% of our general and revaluation reserves compared to 81% as at April 4, 2013 and 196% as at April 4, 2012.
- (2) Other public sector securities include securities issued by UK local authorities and sovereign debt backed by foreign (non-UK) governments.
- (3) As at April 4, 2014, we held no securities issued by counterparties where the values of which individually exceeded 10% of our general and revaluation reserves.

The following table shows the contractual maturity of investment securities held as at April 4, 2014:

	As at April 4, 2014				
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 years but within 10 years	Maturing after 10 years	Total
			(£ millions)		
UK government .....	-	-	3,537	971	4,508
Other public sector securities...	295	632	1,559	-	2,486
Other issuers .....	17	689	1,202	1,661	3,569
<b>Total</b> .....	<b>312</b>	<b>1,321</b>	<b>6,298</b>	<b>2,632</b>	<b>10,563</b>

The following table presents a further analysis of other issuers as at April 4, 2014, 2013 and 2012, respectively:

	As at April 4,		
	2014	2013	2012
	(£ millions)		
Investment securities – other issuers			
UK financial institutions.....	-	47	536
European financial institutions .....	269	556	1,045
Non-European financial institutions .....	95	148	537
ABS .....	2,926	3,453	4,339
Other issuers .....	278	233	322
Total.....	3,569	4,437	6,779

#### Loan Portfolio

As at April 4, 2014 total loans to customers excluding fair value adjustments for portfolio hedged risk, including accrued interest, were £165,694 million, representing 87.2% of our total assets. Our loan portfolio has increased by 4.1% during the last financial year from £162,109 million as at April 4, 2013 to £168,684 million as at April 4, 2014.

The following table summarizes our loan portfolio, net of allowances, as at April 4, 2014, 2013 and 2012, respectively:

	As at April 4,		
	2014	2013	2012
	(£ millions)		
Loans to customers:			
Residential mortgage loans .....	145,558	135,393	128,645
Consumer banking .....	3,689	3,401	2,888
Commercial Lending .....	16,283	18,958	20,961
Other lending .....	164	422	479
Total loans to customers.....	165,694	158,174	152,973
Fair value adjustment for micro hedged risk <sup>(1)</sup> .....	880	1,413	1,196
Loans and advances to banks.....	2,110	2,522	2,914
Total.....	168,684	162,109	157,083

Note:

(1) Under IFRS the carrying value of the hedged item is adjusted for the change in value of the hedged risk.

The following table presents the contractual maturity distribution for repayment for the loans held by us as at April 4, 2014:

	As at April 4, 2014						
	<u>Due on Demand</u>	<u>Due within 3 Months</u>	<u>Due in 3 months to 1 year</u>	<u>Due in 1 year to 5 years</u>	<u>Due after 5 years</u>	<u>Allowances</u>	<u>Total<sup>(1)</sup></u>
	(£ millions)						
Loans to customers .....	2,143	3,458	5,702	26,767	128,912	(408)	166,574
Loans and advances to banks.....	1,647	-	-	148	315	-	2,110
<b>Total Loans.....</b>	<b>3,790</b>	<b>3,458</b>	<b>5,702</b>	<b>26,915</b>	<b>129,227</b>	<b>(408)</b>	<b>168,684</b>

Note:

- (1) The maturity analysis is produced on the basis that where a loan is repayable by installments, each installment is treated as a separate repayment.

The following table presents the split of fixed and variable loans to customers and credit institutions as at April 4, 2014:

	As at April 4, 2014			
	Fixed rate	Variable rate	Outstanding Checks	Total <sup>(1)</sup>
	(£ millions)			
Loans to customers .....	70,682	95,892	-	166,574
Loans to credit institutions.....	637	1,662	(189)	2,110
<b>Total loans</b> .....	71,319	97,554	(189)	168,684

Note:

- (1) Outstanding checks were issued by Nationwide mostly on behalf of retail customers, and had not been presented through the banking system as at April 4, 2014.

### Loans in Arrears

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. As a result, the concept of suspended interest and interest write back is no longer recognized.

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2014:

As at April 4, 2014					
	Prime lending	Specialist lending	Consumer banking	Total	%
(£ billions, except percentages)					
<b>Not impaired:</b>					
Neither past due nor impaired.....	117.0	24.7	3.6	145.3	97%
Past due up to 3 months but not impaired .....	1.8	1.0	0.1	2.9	2%
<b>Impaired</b>	<b>0.5</b>	<b>0.6</b>	<b>0.2</b>	<b>1.3</b>	<b>1%</b>
	<b>119.3</b>	<b>26.3</b>	<b>3.9</b>	<b>149.5</b>	<b>100%</b>

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2013:

As at April 4, 2013					
	Prime lending	Specialist lending	Consumer banking	Total	%
<i>(£ billions, except percentages)</i>					
<b>Not impaired:</b>					
Neither past due nor impaired.....	108.2	23.1	3.4	134.6	97%
Past due up to 3 months but not impaired.....	1.8	1.2	0.0	3.0	2%
<b>Impaired</b>	0.6	0.7	0.1	1.4	1%
	<b>110.6</b>	<b>25.0</b>	<b>3.5</b>	<b>139.0</b>	<b>100%</b>

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2012:

As at April 4, 2012					
	Prime lending	Specialist lending	Consumer banking	Total	%
<i>(£ billions, except percentages)</i>					
<b>Not impaired:</b>					
Neither past due nor impaired.....	103.1	21.3	2.9	127.3	97%
Past due up to 3 months but not impaired.....	1.9	1.2	0.0	3.1	2%
<b>Impaired</b>	0.5	0.8	0.1	1.4	1%
	<b>105.6</b>	<b>23.3</b>	<b>3.0</b>	<b>131.8</b>	<b>100%</b>

### Loan Loss Experience

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

We first assess whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by us to reduce any differences between loss estimates and actual loss experience.

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2014:

	<b>Prime residential</b>	<b>Specialist residential</b>	<b>Consumer banking</b>	<b>Commercial lending</b>	<b>Other lending</b>	<b>Total</b>
			<i>(£ millions)</i>			
As at April 5, 2013 .....	32	133	87	958	14	1,224
Charge for the year .....	-	-	60	309	11	380
Amounts written off during the year .....	(15)	(52)	(3)	(215)	(9)	(294)
Amounts recovered during the year .....	1	4	33	10	-	48
Disposal	-	-	-	-	(4)	(4)
Unwind of discount of provision .....	-	(1)	(4)	(61)	-	(66)
<b>As at April 4, 2014 .....</b>	<b>18</b>	<b>84</b>	<b>173</b>	<b>1,001</b>	<b>12</b>	<b>1,288</b>

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2013:

	<b>Prime residential</b>	<b>Specialist residential</b>	<b>Consumer banking</b>	<b>Commercial lending</b>	<b>Other lending</b>	<b>Total</b>
			<i>(£ millions)</i>			
As at April 5, 2012 .....	40	162	80	547	14	843
Charge for the year .....	(6)	22	79	493	1	589
Amounts written off during the year .....	(9)	(87)	(100)	(130)	(3)	(329)
Amounts recovered during the year .....	1	4	30	2	2	39
Transfer from credit loss fair value adjustment	7	35	-	86	-	128
Unwind of discount of provision .....	(1)	(3)	(2)	(40)	-	(46)
<b>As at April 4, 2013 .....</b>	<b>32</b>	<b>133</b>	<b>87</b>	<b>958</b>	<b>14</b>	<b>1,224</b>

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2012:

	<b>Prime residential</b>	<b>Specialist residential</b>	<b>Consumer banking</b>	<b>Commercial lending</b>	<b>Other lending</b>	<b>Total</b>
			<i>(£ millions)</i>			
As at April 5, 2011 .....	40	161	90	463	11	765
Charge for the year .....	13	57	69	247	4	390
Amounts written off during the year .....	(13)	(60)	(111)	(135)	(3)	(322)
Amounts recovered during the year .....	1	2	27	1	2	33
Unwind of discount of provision .....	(1)	2	5	(29)	-	(23)
<b>As at April 4, 2012 .....</b>	<b>40</b>	<b>162</b>	<b>80</b>	<b>547</b>	<b>14</b>	<b>843</b>

The following table shows the allowances for loan losses as a percentage of total loans, analyzed by category:

	<b>As at April 4,</b>		
	<b>2014<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2012<sup>(1)</sup></b>
	<i>(percentages)</i>		
<b>Total Allowances as a % of total loans<sup>(1)</sup></b>			
Residential .....	0.07	0.12	0.16
Commercial .....	5.79	4.81	2.54
Consumer .....	4.48	2.49	2.70
Other .....	6.82	3.21	2.84
<b>Total loans .....</b>	<b>0.77</b>	<b>0.77</b>	<b>0.55</b>
<b>% of loans in each category to total loans</b>			
Residential mortgage loans .....	87.9	85.6	84.1
Commercial .....	2.2	12.0	13.7
Consumer .....	9.8	2.2	1.9
Other .....	0.1	0.2	0.3
<b>Total loans .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note:

- (1) The loan balances for the financial years ended April 4, 2014, 2013 and 2012 are summarized earlier in this section of the Base Prospectus.

## Deposits

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2014:

	<b>For year ended April 4, 2014</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ millions, except percentages)</i>	
UK retail member deposits .....	130,196	1.73%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	15,871	0.32%

Note:

- (1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2013:

	<b>For year ended April 4, 2013</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ millions, except percentages)</i>	
UK retail member deposits .....	125,264	2.19%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	17,089	0.04%

Note:

- (1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.



The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2012:

	<b>For year ended April 4, 2012</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ millions, except percentages)</i>	
UK retail member deposits .....	125,456	2.25%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	16,117	0.09%

Note:

- (1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

As explained in “*Description of Business—Strategy—Retail Funding*,” our member accounts include both instant access accounts, from which funds may be withdrawn on demand, and notice accounts, from which funds withdrawn without appropriate notice may be subject to penalties. The approximate split of UK retail member deposits between instant access accounts and notice accounts as at April 4, 2014, is as follows:

	<b>As at April 4, 2014</b>
	<i>(£ millions)</i>
Instant access accounts <sup>(1)</sup> .....	62,879
Notice accounts <sup>(2)</sup> .....	67,041
Accrued interest .....	548
UK retail member deposits .....	<b>130,468</b>

Notes:

- (1) Includes current, transactional, on demand and instant access accounts.  
(2) Includes tax advantaged savings accounts, fixed-notice accounts and fixed-term accounts.

### **Maturity of Deposits**

The following table shows the maturity analysis of time deposits over \$100,000 and certificates of deposit as at April 4, 2014:

	<b>As at April 4, 2014</b>			
	<b>Time deposits</b>	<b>Certificates Of deposit</b>	<b>Total</b>	<b>%</b>
	<i>(£ millions, except percentages)</i>			
Less than 3 months .....	2,777	1,915	4,692	71
3 months to 6 months.....	571	331	902	14
6 months to 1 year .....	572	402	974	15
Over 1 year .....	-	-	-	-
<b>Total</b> .....	<b>3,920</b>	<b>2,648</b>	<b>6,568</b>	<b>100</b>

## Return on Assets

The following table represents net income as a percentage of total average assets:

	<b>For the year ended April 4, 2014</b>	<b>For the year ended April 4, 2013</b>	<b>For the year ended April 4, 2012</b>
	<i>(£ millions, except percentages)</i>		
Net income <sup>(1)</sup> .....	549	178	179
Total average assets <sup>(2)</sup> .....	191,616	193,881	195,568
Return on total average assets.....	0.29%	0.09%	0.09%

Notes:

(1) Net income represents profit for the financial year after tax.

(2) Total average assets is based on the total assets as of the end of each month during the financial year.

As a mutual organization, we are managed for the benefit of our members, our retail savings and residential mortgage customers, rather than for equity shareholders. We return value to our members by offering generally higher interest rates on savings and lower interest rates on loans than those offered by our main competitors. As a result, we typically earn lower profits than our main competitors, which are typically banks or other non-mutual organizations. However, most of our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements.

We have not presented any information regarding returns on equity because, as a mutual organization, we do not have equity.

## FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments incorporate the vast majority of our assets and liabilities, both on a Group level and for the Society. Given the dominant position of the Society within the Group structure, the term ‘Group’ is used in the remainder of this note to cover the activities of both Group and Society.

We accept deposits from customers at fixed and variable interest rates for various periods and seek to earn an interest margin by investing these funds in high quality assets, predominantly mortgages. The principal risks which arise from this core activity, and which need to be managed by the Group, are interest rate risks (including basis risk), credit risks, foreign exchange, liquidity and funding risks.

All risks are monitored and managed within the Enterprise Risk Management Framework (“**ERMF**”), which we have continued to upgrade and strengthen. The ERMF comprises a Board-approved risk appetite, detailed risk management frameworks (including policies and supporting documentation), and independent governance and oversight functions.

We also use derivative instruments to manage various aspects of risk. However, in doing so it complies with the UK Building Societies Act in relation to the use of derivatives for the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

### Derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency swaps, interest rate futures, foreign exchange contracts and equity index swaps. Derivatives are used to hedge balance sheet and income exposures arising, inter alia, from fixed rate mortgage lending, fixed rate savings products, funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. Group risk exposures are recorded on our information systems and monitored accordingly.

The Group is exposed to liquidity risk, interest rate risk, foreign exchange risk, equity risk and credit risk in its derivatives positions. All of the Group’s derivative financial instruments are held for risk mitigation purposes, although not all of these derivatives are designated as hedging instruments as defined by IAS 39. Interest rate swaps are used in hedge accounting relationships to remove the interest rate risk on fixed rate assets and liabilities.

The following table describes the significant activities we have undertaken, the risks associated with such activities and the types of derivatives which are used in managing such risks. Such risks may alternatively be managed using cash instruments as part of an integrated approach to risk management:

Activity	Risk	Type of derivative instrument used
Savings products and funding activities involving instruments which are fixed rate with embedded options	Sensitivity to changes in interest rates	Interest rate swaps, interest rate futures, swaptions, and forward rate agreements
Mortgage lending and investment activities involving instruments which are fixed rate or which include explicit or embedded options	Sensitivity to changes in interest rates, including differential between Base Rate and LIBOR	Interest rate swaps including basis swaps, interest rate futures, swaptions, caps, collars and forward rate agreements
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency swaps and foreign exchange contracts
PEB savings products	Sensitivity to changes in stock indices	Equity index swaps

The accounting policy for derivatives and hedge accounting is described in the Statement of Accounting Policies. Where possible, fair value hedge accounting is employed but no use is currently made of cash flow hedge accounting.

The Board and the Assets and Liabilities Committee (“ALCO”) are responsible for setting certain parameters respectively over the Group’s exposure to interest rates, foreign exchange rates and other indices. The Lending Committee for Retail, Commercial and Treasury sets Group credit policy and regularly monitors and reviews credit exposures arising in all aspects of Group operations, including derivatives. ALCO and the Lending Committee are also responsible for mandating, directing and overseeing the Weekly Trading Committee. All risk committees are overseen by the Executive Risk Committee, while the Board Risk Committee provides oversight of the risk framework for the Group including governance.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with certain counterparties are collateralized (e.g. with cash deposits), to mitigate credit exposures. All Group derivatives activity is contracted with Organization for Economic Co-operation and Development financial institutions.

Each of the principal financial risks to which the Group is exposed (interest rate, credit, foreign exchange, liquidity and funding risk) is considered below.

### **Interest rate risk**

The primary market risk faced by the Group is interest rate risk. The net interest income and market value of the Group’s assets are exposed to movements in interest rates. This exposure is managed on a continuous basis, within parameters set by ALCO, using a combination of derivative instruments, cash instruments (such as loans, deposits and bonds), and contractual terms within products and associated procedures.

The Group does not run a trading book and therefore does not have the higher risk exposure run by many banking institutions. Given our policy of hedging fixed rate assets and liabilities back to floating rate, interest rate market value risk arises mainly from the Board’s decision to invest the Group’s reserves according to a fixed rate maturity profile specified by ALCO. The level of risk can deviate from this, subject to limits, in particular as a result of decisions made by the Group’s Treasury department to temporarily deviate from the specified fixed rate maturity profile in the light of market conditions.

Interest rate earnings risk arises mainly from the diversity of product terms and associated procedures adopted by the Group in originating and administering retail and commercial products. Should reported exposure approach internal risk parameters, action is initiated by ALCO to mitigate such exposure, through changes to these product terms and procedures or to the product mix, or through the use of derivatives.

The Group uses several metrics to monitor interest rate risk, and details of these are set out below. The controls around these metrics have been set by the Board or by ALCO and reflect the Group’s low risk appetite.

*Value at Risk* (“**VaR**”) is a technique that estimates the potential losses that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. It is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This takes into account inter-relationships between different markets and rates, including interest rates and foreign exchange rates.

VaR is used to monitor interest rate, swap spread and currency risks and is not used to model income. In its day-to-day monitoring the Society uses a 10-day horizon and a 99% confidence level.

Our VaR model incorporates underlying risk factors based on interest rate volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years equally weighted. Exposures against limits are reviewed daily by management. Actual outcomes are monitored periodically to test the validity of the assumptions and factors used in the VaR calculation.

Although a valuable guide to risk, VaR needs to be viewed in the context of the following limitations:

- historic data is not necessarily a good guide to future events;
- the use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence. The VaR numbers may not encompass all potential events, particularly those that are extreme in nature; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

*Sensitivity analysis (PV01 sensitivity).* This is used to assess the change in value of the Group's current net worth against a one basis point (0.01%) parallel shift in interest rates. As is the case with VaR, this analysis is done on a daily basis separately for each currency (but with the main risk arising from sterling exposures) and in aggregate.

*Stress testing (PV200 sensitivity).* This is calculated in a similar manner to PV01 but against a much more severe 200 basis point (2.0%) parallel shift in interest rates. Both PV01 and PV200 numbers are generated and monitored daily.

Change in value of the Group's current net worth is also calculated against a range of non-linear stresses to the yield curve. This output is reported and monitored on a regular basis.

The average gross exposures (after deduction of the above mentioned specified fixed rate maturity profile for the Group's reserves) through the reporting period are as follows:

	2014			2013		
	Average	High	Low	Average	High	Low
	(£ millions)					
VaR.....	0.6	2.2	0.1	0.8	1.8	0.1
Sensitivity analysis (PV01).....	-	0.1	(0.1)	0.0	0.1	(0.1)
Stress testing (PV200: all currencies) ..	(0.2)	22.9	(20.4)	7.9	22.3	16.2

*Earnings risk.* Earnings risks are calculated using a variety of stochastic and deterministic scenarios.

Interest rate earnings risks, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, for example LIBOR and BoE Base Rate) and prepayment risk (the risk of loss arising from early repayment of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

The sensitivity of the Group net interest margin to changes in interest rates is measured monthly using a dynamic forecasting model and interest rate scenarios, and is calculated for a forward period of 12 months.

## Credit risk

The Group takes on exposure to credit risk, which is defined as the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for credit exposures where the Group does not expect to receive contractual cash flows when due. Significant changes in the economy, or from individual exposures, could result in losses that are different from those provided for at the balance sheet date. There could also be idiosyncratic factors that might lead a particular investment to suddenly perform worse than expected.

The Group's Lending Committee is responsible for approving and monitoring the Group's credit exposures, which it does through a formal annual review and the approval of the Group's lending policies. Regular monitoring and review of lending is undertaken through detailed management information including the performance of credit scoring systems for all retail lending. Formal limits are set and reviewed at individual, sector and portfolio levels. Summary minutes of the Lending Committee together with key risk monitoring metrics are reviewed by the Executive Risk Committee.

Prior to advancing funds, an assessment is made of the credit quality of borrowers and other counterparties for all lending to both retail and commercial customers. Retail lending is subject to credit scoring and lending policies. Commercial lending is based on counterparty assessment that includes the use of multiple rating methodologies.

Credit risk within the Treasury Division arises primarily from the investments held by Treasury for liquidity and investment purposes and for income generation purposes. This aspect of credit risk is managed by our Treasury Credit Team within our Treasury Division and overseen by Group Lending Risk Oversight. Our Treasury Credit Team underwrites all new facilities and monitors existing facilities. It also sets and monitors compliance with policy and limits, reporting to the Treasury Lending Risk Committee and then to the Lending Committee, when appropriate. In addition, counterparty credit risk arises from the use of derivatives where the market values are positive.

The Treasury Credit function monitors exposure concentrations against a variety of criteria including industry sector, asset class, and country of risk. The Treasury portfolio exposure is well spread across both industry sectors and jurisdictions. We have no exposure to emerging markets or hedge funds and modest exposure to non-investment grade debt.

The following table presents the Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements and after allowance for impairment where appropriate. The maximum exposure to loss for off-balance sheet financial instruments is considered to be their contractual nominal amounts:

	2014			2013		
	Carrying value	Commitments	Maximum credit risk exposure	Carrying value	Commitments	Maximum credit risk exposure
	<i>(£ millions)</i>					
Cash .....	5,342	-	5,342	7,886	-	7,886
Loans and advances to banks.....	2,110	408	2,518	2,522	423	2,945
Investment securities – AFS.....	10,563	-	10,563	13,421	-	13,421
Derivative financial instruments .....	3,020	-	3,020	4,212	-	4,212
Future value adjustment for portfolio hedged risk .....	221	-	221	872	-	872
Loans and advances to customers.....	166,574	7,415	173,989	159,587	6,736	166,323
Investment in equity shares .....	29	-	29	28	-	-
<b>Total .....</b>	<b>187,859</b>	<b>7,823</b>	<b>195,682</b>	<b>188,528</b>	<b>7,159</b>	<b>195,687</b>

In addition to the figures shown above, the Group has, as part of its retail operations, commitments of £7,662 million (year ended April 4, 2013: £7,169 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

#### Foreign exchange risk

Foreign exchange risk is the risk that the sterling value of, or net income from, assets and liabilities that are denominated in foreign currency changes as a consequence of changes to foreign exchange rates.

In addition to commercial loans denominated in euro, a significant proportion of Treasury funding and investment activity is undertaken in foreign currencies. Foreign currency exposure is hedged on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels.

In line with the prudential guidance applying to all building societies and after taking account of foreign currency derivatives, the Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. ALCO sets limits on the level of exposure by currency, which is monitored daily.

VaR is used to monitor the risk arising from open foreign currency positions. Open currency positions represent the net value of assets, liabilities and derivatives in foreign currency. The parameters of the VaR methodology, and frequency of reporting are exactly as described above under Interest Rate Risk.

The average gross sterling equivalent exposures for foreign exchange risk through the year are as follows:

	2014			2013		
	Average	High	Low	Average	High	Low
	( <i>£ millions</i> )					
VaR.....	0.2	0.7	-	0.3	0.8	0.0

### Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to meet or settle its financial obligations as they fall due or maintain public and stakeholder confidence. Funding risk is the risk that the Group is unable to realise assets or otherwise raise funds on reasonable terms and/or within reasonable timescales.

The Group management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow imbalances and fluctuations in funding, to retain full public confidence and to enable it to meet all financial obligations as they fall due, even during periods of stress. This is achieved through maintaining a prudent level of high quality liquid assets, through management and stress testing of business cash flows and through management of funding facilities. The Group liquidity and funding risk policy is approved by ALCO and reviewed by the Board.

Liquid assets are categorized according to their liquidity characteristics. The most liquid category of assets predominantly comprises holdings of unencumbered high-quality sovereign-issued securities and deposits with central banks and is aligned to the “liquid asset buffer” defined in BIPRU 12. Assets may be acquired through direct purchase, through repurchase agreements or through collateral swaps. Encumbered assets are excluded from the calculation of liquid assets which is conducted on a daily basis.

The Board is responsible for setting limits for the minimum level of liquidity resources. A series of liquidity stress tests are performed daily to determine the required levels of liquidity. The Board has also set limits for the funding mix of the balance sheet.

ALCO is responsible for setting more detailed limits within the context of overall Board limits, including the level and maturity profile of funding, and for monitoring the composition of the Group balance sheet. Wholesale and retail funding maturities are monitored to ensure that there is not excessive concentration in future maturities. This enhances the ability of the Group to refinance maturing liabilities. A consolidated cash flow forecast is maintained on an ongoing basis and reviewed by the weekly trading committee, which has responsibility for the monitoring of liquidity measures and limits.

Fixed rate sovereign debt securities are held for liquidity purposes. When swapped to a floating rate using an interest rate swap, the net market value of the security and swap is subject to changes in the relative spreads on sovereign debt and interest rate swaps. This risk is only realized if the debt is sold ahead of maturity (rather than being converted through repurchase agreements), and is subject to a trigger set by ALCO.

A Contingency Funding Plan has been approved by ALCO, and describes procedures and available actions to manage the Group’s liquidity resources through a period of market-wide and/or Nationwide-specific disruption. This is reviewed every six months and various components are tested on a scheduled basis.

The Group undertakes securities financing transactions in the form of repos to demonstrate liquidity of the securities held in the Group's LAB. Cash is borrowed in return for pledging securities as collateral and because settlement is on a 'delivery versus payment' basis, the main credit risk arises from intraday changes in the value of the collateral. This is largely mitigated by the Group's collateral management processes.

From a liquidity perspective the main risk is that during a stress, the Group has insufficient repo market capacity to rapidly monetize the LAB. To mitigate this risk, repo market capacity is assessed via a quarterly review process. This is supplemented by the frequent execution of bilateral repos to maintain credit lines and anonymous transactions via a central counterparty clearing house, such as the London Clearing House, using an electronic trading platform.

All LAB repo activity is secured against highly liquid assets and generally transacted for an overnight term. The weighted average duration of repo trades maturing in the period was 2.2 days as at April 4, 2014 (April 4, 2013: 1.7 days).

LAB securities funding transactions currently have no impact on either funding or encumbered asset reporting due to the short term nature of the transactions, meaning they do not impact the income statement. Repo transactions convert Government bonds (highly liquid securities) into cash, so there is marginal movement in our liquidity position.

The table below analyzes the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for the years ended April 4, 2013 and 2014. In practice, customer deposits will be repaid later than on the earliest date on which repayment can be required. As such, the Society uses the past performance of each asset and liability class, in addition to judgment based upon experience, to forecast the likely cash flow requirements of the Group.



The carrying values of derivative financial instruments are included in the columns according to their contractual maturity:

As at April 4, 2014	Repayable	Up to 3	3 – 12		More than	
Residual maturity	on demand	months	months	1 – 5 years	5 years	Total
				(£ millions)		
<b>Assets</b>						
Cash .....	5,342	-	-	-	-	5,342
Loans and advances to banks.....	1,647	-	-	148	315	2,110
Investment securities – available for sale .....	4	15	157	1,321	8,931	10,563
Loans and advances to customers.....	3,007	1,305	3,989	26,864	129,694	166,574
Derivative financial instruments .....	7	22	118	1,465	1,388	3,020
Other financial assets.....	-	1	8	93	148	250
<b>Total financial assets .....</b>	<b>10,007</b>	<b>1,343</b>	<b>6,142</b>	<b>29,891</b>	<b>140,476</b>	<b>187,859</b>
<b>Liabilities</b>						
Shares .....	90,633	3,076	19,552	13,938	3,269	130,468
Deposits from banks.....	1,579	310	74	13,938	3,269	130,468
Of which repo .....	-	-	-	-	-	-
Other deposits .....	1,777	1,066	1,198	3,094	-	7,135
Due to customers ....	3,865	504	1,803	36	-	6,208
Secured funding – ABS and covered bonds .....	6	106	4,034	7,538	5,705	17,389
Senior unsecured.....	2,107	2,811	2,835	1,686	1,726	11,168
Derivative financial instruments .....	34	27	88	663	1,529	2,391
Other financial liabilities .....	-	2	20	11	-	33
Subordinated liabilities .....	-	-	125	1,464	680	2,269
Subscribed capital...	3	-	207	139	252	601
<b>Total financial liabilities.....</b>	<b>100,004</b>	<b>7,902</b>	<b>29,986</b>	<b>28,593</b>	<b>13,161</b>	<b>179,646</b>
<b>Net liquidity gap....</b>	<b>(89,997)</b>	<b>(6,559)</b>	<b>(23,844)</b>	<b>1,298</b>	<b>127,315</b>	<b>8,213</b>

The analysis above excludes other assets including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and certain other liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities:

For the year ended April 4, 2014						
Gross contractual cash flows	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
(£ millions)						
Shares .....	90,633	3,213	19,847	14,311	3,386	131,390
Deposits from banks .....	1,579	311	74	21	-	1,985
Other deposits .....	1,777	1,086	1,241	3,176	-	7,280
Due to customers ....	3,865	512	1,811	36	-	6,224
Secured funding – ABS and covered bonds .....	55	69	4,790	8,190	6,085	19,189
Senior unsecured.....	2,108	2,813	2,937	2,146	1,786	11,790
Derivative financial instruments .....	58	135	466	1,289	753	2,841
Other financial liabilities .....	-	2	20	11	-	33
Subordinated liabilities .....	16	4	110	1,924	703	2,760
Subscribed capital...	1	5	231	223	327	787
<b>Total financial liabilities.....</b>	<b>100,092</b>	<b>8,150</b>	<b>31,670</b>	<b>31,327</b>	<b>13,040</b>	<b>184,279</b>

For the year ended April 4, 2013						
Gross contractual cash flows	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
(£ millions)						
Shares .....	77,103	8,981	20,672	18,603	1,647	127,006
Deposits from banks .....	1,688	255	268	1,045	45	3,301
Other deposits .....	362	2,077	1,400	3,110	-	6,949
Due to customers ....	3,812	855	1,194	124	-	5,985
Secured funding – ABS and covered bonds .....	-	62	2,631	13,302	6,745	22,740
Senior unsecured.....	-	4,929	3,408	3,238	1,949	13,524
Derivative financial instruments .....	-	257	675	2,038	704	3,674
Other financial liabilities .....	-	4	273	2,075	764	3,116
Subordinated liabilities .....	-	10	60	563	1,106	1,739
Subscribed capital...	82,965	17,435	30,604	44,228	12,960	188,192
<b>Total financial liabilities.....</b>	<b>-</b>	<b>4,842</b>	<b>351</b>	<b>1,227</b>	<b>739</b>	<b>7,159</b>
<b>Off-balance sheet commitments .....</b>	<b>-</b>	<b>4</b>	<b>273</b>	<b>2,075</b>	<b>764</b>	<b>3,116</b>

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the balance sheet date.

#### **Fair values of financial assets and liabilities**

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group balance sheets at fair value:

	<b>Group</b>	
	<b>Carrying value</b>	<b>Fair value</b>
	<b>For the year ended April 4, 2014</b>	
	<i>(£ millions)</i>	
<b>Financial assets</b>		
Loans and advances to banks.....	2,110	2,110
Loans and advances to customers:		
Residential mortgages.....	145,558	141,660
Consumer banking .....	3,689	3,551
Commercial lending.....	17,163	15,675
Other lending .....	164	164
<b>Financial liabilities</b>		
Shares .....	130,468	130,491
Deposits from banks .....	1,984	1,985
Other deposits .....	3,913	3,915
Due to customers .....	6,208	6,210
Debt securities in issue .....	28,557	29,168
Subordinated liabilities .....	2,269	2,434
Subscribed capital.....	601	583
<b>Total</b> .....	<b>174,000</b>	<b>174,786</b>

	<b>Group</b>	
	<b>Carrying value</b>	<b>Fair value</b>
	<b>For the year ended April 4, 2013</b>	
	<i>(£ millions)</i>	
<b>Financial assets</b>		
Loans and advances to banks.....	2,522	2,522
Loans and advances to customers:		
Residential mortgages.....	135,393	130,871
Consumer banking .....	3,401	3,413
Commercial lending.....	20,371	20,752
Other lending .....	422	422
<b>Financial liabilities</b>		
Shares .....	125,574	125,316
Deposits from banks .....	3,230	3,232
Other deposits .....	6,747	7,126
Due to customers .....	5,960	5,958
Debt securities in issue .....	33,429	34,003
Subordinated liabilities .....	2,540	2,566
Subscribed capital.....	1,304	1,012
<b>Total</b> .....	<b>175,799</b>	<b>176,228</b>

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

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received based on expectations of future interest rates and future loan repayment profiles. For fixed rate loans, discount rates are based on the market offer rates currently available for equivalent fixed rate products. For retail variable rate loans, estimated future cash flows are discounted at the currently available market standard variable interest rate. Similar types of retail loan products are grouped together and the expected capital cash flows are discounted at the differential between the current product rate and the standard variable rate to determine fair value. The fair value estimations do not incorporate adjustments for future credit risk. However, incurred loss provisions are deducted from the fair value amounts.

### ***Shares, deposits and borrowings***

The estimated fair value of deposits with no stated maturity (including non-interest bearing deposits) is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market price represents the discounted amount of estimated future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalization. For variable interest rate deposits, estimated future cash flows are discounted using current market interest rates for new debts with similar remaining maturity. For fixed rate shares and deposits, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

### ***Debt securities in issue***

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

### ***Fair value measurement***

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

<b>For the year ended April 4, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Group</b>				
				<i>(£ millions)</i>
<b>Financial Assets</b>				
Investment securities—AFS .....	6,994	3,498	71	10,563
Investments in equity shares .....	-	-	28	28
Derivative financial instruments .....	-	2,350	670	3,020
Other financial assets	-	-	-	-
<b>Total .....</b>	<b>6,944</b>	<b>3,498</b>	<b>71</b>	<b>10,563</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(2,390)	(1)	(2,391)
Other deposits—PEB .....	-	-	(3,222)	(3,222)
<b>Total .....</b>	<b>-</b>	<b>(2,390)</b>	<b>(3,223)</b>	<b>(5,613)</b>

<b>For the year ended April 4, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Group</b>	<i>(£ millions)</i>			
<b>Financial Assets</b>				
Investment securities—AFS .....	8,641	4,720	60	13,421
Investments in equity shares .....	-	-	28	28
Derivative financial instruments .....	-	3,828	384	4,212
Other financial assets	-	8	-	8
<b>Total .....</b>	<b>8,461</b>	<b>8,556</b>	<b>472</b>	<b>17,669</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(3,875)	(10)	(3,885)
Other deposits—PEB .....	-	-	(2,985)	(2,985)
<b>Total .....</b>	<b>-</b>	<b>(3,875)</b>	<b>(2,995)</b>	<b>(6,870)</b>

Notes:

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

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

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

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. We recommenced the practice of fair valuing a portion of the mortgage commitments on the balance sheet during the year.

Our Level 1 portfolio comprises highly rated government and multi-lateral development securities for which traded prices are readily available and during the year ended April 4, 2014, we have reduced this portfolio in response to the changing regulatory environment created by Funding for Lending. There were no significant transfers between the Level 1 and Level 2 portfolios during the year ended April 4, 2014.

With respect to our Level 2 investment securities, AFS assets are sourced from consensus pricing or other observable market prices. None of these Level 2 AFS assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

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

***Investment securities – AFS***

Our £71 million Level 3 investment securities – AFS assets as at April 4, 2014 comprised £59 million of CDOs, including CDOs with a fair value of £13 million that are subject to impairment. Substantially all of these securities are priced from internal models based on observable and unobservable performance assumptions.

***Investments in equity shares***

Our Level 3 investments in equity shares of £28 million as at April 4, 2014 consist primarily of an interest in a fund which is supported by zero coupon bonds of an A-rated bank. External valuations are used to obtain the fair value of the instrument.

***Derivative financial instruments***

Level 3 assets and liabilities in this category are equity linked derivatives with external counterparties which economically match the investment return payable by us to customers invested in the PEB product. The

derivatives are linked to the performance of specified stock market indices and have been valued by an external third party.

#### ***Other deposits—PEB***

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

#### **Level 3 portfolio – movements analysis**

The table below analyzes movements in the Level 3 portfolio:

<b>For the year ended April 4, 2014</b>	<b>Investment securities – AFS</b>	<b>Investments in equity shares</b>	<b>Derivative financial instruments – liabilities</b>	<b>Other deposits</b>
<b>Group</b>	<i>(£ millions)</i>			
As at April 4, 2013 .....	60	28	374	(2,985)
(Loss)/gain recognized in the income statement:				
Net interest (expense)/income ....	-	-	(39)	-
Gains/(losses) from derivatives and hedge accounting .....	-	-	295	(305)
Impairment losses on investment securities.....	2	-	-	-
Gain recognized in other comprehensive income:	5	-	-	-
Settlements .....	(6)	-	39	68
Transfers into Level 3 .....	11	-	-	-
Transfers out of Level 3.....	(1)	-	-	-
<b>As at April 4, 2014 .....</b>	<b>71</b>	<b>28</b>	<b>669</b>	<b>(3,222)</b>

<b>For the year ended April 4, 2013</b>	<b>Investment securities – AFS</b>	<b>Investments in equity shares</b>	<b>Derivative financial instruments – liabilities</b>	<b>Other deposits</b>
<b>Group</b>	<i>(£ millions)</i>			
As at April 4, 2012 .....	76	20	197	(2,890)
(Loss)/gain recognized in the income statement: .....				
Net interest (expense)/income ....	-	-	(52)	-
Gains/(losses) from derivatives and hedge accounting .....	-	-	174	(160)
Impairment losses on investment securities .....	(23)	-	-	-
(Loss)/gain recognized in other comprehensive income:				
Fair value movement taken to equity .....	3	8	-	-
Settlements.....	-	-	55	65
Transfers out of Level 3 .....	4	-	-	-
<b>As at April 4, 2013 .....</b>	<b>60</b>	<b>28</b>	<b>374</b>	<b>(2,985)</b>

The significant movements in Level 3 positions during the year ended April 4, 2013 are explained below:

- A reduction in investment securities driven by the further impairment of a UK CMBS asset, partially offset by transfers of three assets from Level 2 to Level 3, together with a price increase in a CDO asset;
- An increase in investments in equity shares due to price increases driven by an improvement in both the issuer's credit default swap and CLO values;
- An increase in other deposits—PEB related to positive stock market performance over the past 12 months (settlements are due to customers withdrawing their deposits);
- An increase in net derivative financial instruments due to an increase in the market value of the derivatives (settlements were interest paid together with swap receipts for early redemption).

### Level 3 portfolio – sensitivity analysis

The table below provides sensitivity analysis of reasonably possible alternative valuation assumptions for the assets in the Level 3 portfolio:

<b>For the year ended April 4, 2014</b>	<b>Carrying value</b>	<b>Increase in fair value</b>	<b>Decrease in fair value</b>
<b>Group</b>		<b>(£ millions)</b>	
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	71	11	(14)
Investments in equity shares .....	28	1	(2)
Net derivative financial instruments .....	669	-	-
Other deposits – PEBs .....	(3,222)	-	-
<b>Total .....</b>	<b>(2,454)</b>	<b>12</b>	<b>(16)</b>

  

<b>For the year ended April 4, 2013</b>	<b>Carrying value</b>	<b>Increase in fair value</b>	<b>Decrease in fair value</b>
<b>Group</b>		<b>(£ millions)</b>	
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	60	15	(11)
Investments in equity shares .....	28	-	(7)
Net derivative financial instruments .....	374	-	-
Other deposits – PEBs .....	(2,985)	-	-
<b>Total .....</b>	<b>(2,523)</b>	<b>15</b>	<b>(16)</b>

Reasonable alternative assumptions applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The scenarios applied are considered for each product and varied according to the quality of the data and variability of the underlying market.

Any increases in fair values of the PEB derivative financial instruments would be offset by decreases in the fair values of the associated PEB deposit and vice versa. Any resultant impact is deemed by the Group to be immaterial; therefore these items have been excluded from the table above.



### ***Investment securities – AFS***

#### ***Collateralized debt obligations***

Sensitivities on these assets where there are no alternative pricing sources have been calculated by applying a range of probable scenarios against our current valuation process, resulting in a range of possible prices.

#### ***Commercial mortgage backed securities***

Sensitivities on this asset, which is subject to impairment, have been derived from a modeled approach using estimated expected losses at legal maturity and risk adjusted discount rates.

#### ***Investments in equity shares***

Sensitivities in these holdings have been based on the prices seen in these holdings in the preceding 12 months. As the highest price in the previous 12 months was equal to the current price, there is no upper sensitivity of fair value.

## MANAGEMENT

Our business is under the control of our Board of Directors. Each director is elected annually by the members. The executive directors are the Chief Executive, the Group Finance Director, the Group Retail Director and the Chief Operating Officer, Group Operations. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under our rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board meeting to form a quorum.

No potential conflicts of interest exist between any duties to us, as Issuer, of the persons on the board of directors and their private interests or other duties.

### Directors

The following table presents information with respect to current directors:

Name	Age	Position	Other Directorships
Geoffrey Howe <sup>(1)</sup>	65	Chairman	Gateway Electronic Components Limited Close Brothers Group plc Jardine Lloyd Thompson Group plc, Chairman The Cavendish School Charitable Trust Limited
David Roberts	51	Chairman Elect and Non-executive Director	Campion Willcocks Ltd Dr. Challoner's Grammar School (Governor) NHS England
Roger Perkin	66	Senior Director	Independent Electra Private Equity plc Electra Private Equity Investments plc Crime Reduction Initiatives Bower Bequest Trustee Company Limited Tullett Prebon plc Friends Life Group Ltd (registered in Guernsey) Friends Life Holdings Plc Sova
Graham Beale	56	Chief Executive	
Mark Rennison	54	Group Finance Director	Arkose Funding Limited

Name	Age	Position	Other Directorships
			Confederation Mortgage Services Limited
			Exeter Trust Limited
			First Nationwide
			LBS Mortgages Limited
			Nationwide Anglia Property Services Limited
			Nationwide Investments (No.1) Limited
			Nationwide Housing Trust Limited
			Nationwide Lease Finance Limited
			Nationwide Mortgage Corporation Limited
			Nationwide Syndications Limited
			Staffordshire Leasing Limited
			NBS Fleet Services Limited
Chris Rhodes	51	Group Retail Director	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 (Trustee)
			Visa Europe Limited
			Visa Europe Services Inc.
Tony Prestedge	44	Chief Operating Officer	Nationwide Anglia Property Services Limited
			Opportunity Now
			Dunfermline BS Nominees Limited
			Monument (Sutton) Limited
			The Derbyshire (Premises) Limited
Rita Clifton	56	Non-executive Director	The British United Provident Association Limited (“ <b>BUPA</b> ”)

Name	Age	Position	Other Directorships
			Populus Limited
			WWF – UK (Fellow)
			Henley Festival Ltd
			BrandCap Ltd
			The Conservation Volunteers
			TCV Trading 1 Limited
			TCV Trading 2 Limited
			ASOS Plc
			BTCV
			Rita Clifton Limited
Michael Jary	51	Non-executive Director	Duchy Originals Ltd
			OC&C Peleus Advisors LLP
			OC&C Strategy Consultants LLP
			OC&C Strategy Consultants International (Netherlands)
			PCF Social Enterprises LTD
			The Michael Jary Charitable Trust
			Fairtrade Foundation (Chairman)
Michael Lenson	60	Non-executive Director	Eclipse Film Partners No.39 LLP
			The Invicta Film Partnership No.37 LLP
			Elysian Fuels 1 LLP
			Elysian Fuels 2 LLP
			MVA Consultant Services Ltd
Lynne Peacock	60	Non-Executive Director	Hawkins Residents Limited
			Scottish Water
			Scottish Water Business Stream Holdings Limited
			Scottish Water Horizon Holdings Limited
			Standard Life plc
			Standard Life Charitable Trust

## **Biographies**

### **Geoffrey Howe**

#### *Group Chairman*

Geoffrey Howe joined the Board in 2005 and became Chairman of the Society in July 2007. He has considerable regulatory, management and legal experience in financial services, insurance and investment markets. He is currently Chairman of Jardine Lloyd Thompson Group plc and a director of Close Brothers Group plc. Geoffrey was formerly Chairman of Railtrack Group plc, a director of Investec plc and General Counsel of Robert Fleming Holdings Limited and Managing Partner of international law firm Clifford Chance.

### **David Roberts**

#### *Chairman Elect, Non-executive Director*

David joined the Board on 1 September 2014 as Chairman Elect and Chairman of the Board Risk Committee. For the past four years he has been on the board of directors of Lloyds Banking Group, where he was Group Deputy Chairman and Chairman of the Board Risk Committee. David has many years of experience at board and executive level in retail and commercial banking in the UK and internationally. He joined Barclays in 1983 and held various senior management positions culminating in Executive Director, member of the Group Executive Committee and Chief Executive, International Retail and Commercial Banking, a position he held until December 2006. He is a former non-executive director of BAA plc and Absa Group SA, and was Chairman and Chief Executive of Bawag PSK AG, Austria's second largest retail bank.

David is a non-executive director of NHS England and is a member of the Strategy Board of Henley Business School at the University of Reading.

### **Graham Beale**

#### *Chief Executive*

Graham Beale joined the Society in 1985. He is a chartered accountant by training and was appointed to the Board as Group Finance Director in April 2003. He took up his current role as Chief Executive in April 2007. Prior to his appointment to the Board, he worked extensively in the Finance function and held a number of senior, general management positions within the Society. As Chief Executive, Graham leads the strategic direction of the Group and oversees its operation through the Executive Committee which comprises the Executive and Group Directors. Graham is also responsible for Group Legal & Compliance. Graham is Chairman of the Financial Conduct Authority Practitioner Panel and a member of the Building Societies Association Council.

### **Mark Rennison**

#### *Group Finance Director*

Mark Rennison is a chartered accountant who joined the Society and was appointed to the Board in February 2007. He is responsible for Finance, Treasury and Corporate Development. He is a director of various Society subsidiaries. Prior to his appointment, Mark was a partner at PricewaterhouseCoopers LLP where he worked in the financial services practice with a specific focus on retail and corporate banking. He has also worked extensively with group treasury operations, leasing and asset finance businesses.

### **Chris Rhodes**

#### *Executive Director Group Retail*

Chris Rhodes is a chartered accountant who joined the Society in April 2009 from Abbey Santander, where he was Director of Retail Distribution for Alliance & Leicester Public Limited Company. Currently, Chris is the Group Retail Director. His responsibilities include Nationwide's retail product range, distribution and marketing. Chris has spent 20 years working in the financial services sector and his previous positions include Deputy Managing Director of Girobank Plc and Retail Operations Director at Alliance & Leicester Public Limited Company. In 2003, he was appointed Managing Director of Retail Banking for the entire Alliance & Leicester Group and in 2007, became Group Finance Director, a role he held until the merger with

Santander in 2008. Chris is a non-executive director of Visa Europe Limited and a board member of National Numeracy.

**Rita Clifton**

*Non-Executive Director*

Rita Clifton joined the Board in July 2012. Rita holds a number of non-executive directorships, including at BUPA Limited, ASOS Plc and Populus Limited and is a former non-executive director of Dixons Retail plc. She is also a fellow of WWF-UK, and sits on the Assurance and Advisory Board for BP's carbon off-setting program. Rita has over 20 years' senior management experience in a range of roles with an expertise in demonstrating how brand is an integral part of long-term business strategy and in analyzing and understanding consumer perceptions and behavior. Her executive career has been in advertising, strategic marketing and market research, and she was previously Chairman and Chief Executive at Interbrand UK Ltd, and prior to that Vice Chairman at Saatchi & Saatchi Limited. During her career Rita has advised, at the most senior level, some of the UK's best known organizations, including British Airways, Barclays, BT, Citigroup, Visa and the British Army.

**Tony Prestedge**

*Chief Operating Officer, Group Operations*

Tony Prestedge was appointed to the Board in August 2007 and was previously Executive Director Group Development. He has held a number of senior management and executive roles at Barclays plc, including Managing Director Home Finance and Retail Support and Operations Director. He was a member of both Woolwich plc and Barclays Retail Banking Executive Committee. Tony is accountable for the Group's Operational Strategy, Performance and Transformation and his divisional reports include Customer Services and Product Operations, Digital Development, Technology, Transformation Delivery, Telephone Channels, Payments and Property Services. Tony is a board member of Opportunity Now.

**Michael Jary**

*Non-Executive Director*

Michael Jary joined the Board in January 2009. Michael is Chairman of Fairtrade Foundation, the charity working for better prices and decent conditions for farmers in the developing world. He is also Chairman of Duchy Originals, the organic food company founded by HRH The Prince of Wales, and of The Prince's Social Enterprises, a group which gifts its profits to The Prince of Wales's Charitable Foundation. He is a partner and one of the founding team members of OC&C Strategy Consultants, a global strategy consulting firm, and an expert in retail and consumer industries.

**Roger Perkin**

*Non-Executive Director*

Roger Perkin joined our Board as a non-executive director in April 2010. Roger is a former partner at Ernst & Young, and has spent 40 years in the accounting profession. During his time at Ernst & Young, he worked with many blue chip clients and has advised boards across the spectrum of financial services, including banking, insurance, fund management and private equity. He is also a non-executive director at Electra Private Equity Plc and Tullett Prebon plc, chairing the audit committees of those two companies as well as Friends Life Group Limited. Additionally, he is a trustee of two charities, Chiddlingstone Castle and Crime Reduction Initiatives.

**Mitchel Lenson**

*Non-Executive Director*

Mitchel Lenson joined the Board in July 2011. Mitchel has spent nearly 30 years in the financial services industry and is a former Group Chief Information Officer at Deutsche Bank AG with responsibility for IT and Operations for all operating divisions of the bank, including its retail banking operations. Mitchel was a member of the executive committees previously for both the Corporate and Investment Bank and the Private

Client and Asset Management Division. He has also served as MD, Global Head of Operations & Operations IT at UBS Warburg Limited and as Director, Group Operations at Credit Suisse First Boston. More recently, Mitchel was a partner of Olivant & Co. Limited, an investment company providing strategic and operational expertise alongside investment capital to financial services businesses in Europe, the Middle East and Asia-Pacific and was a non-executive director of NYFIX, a NASDAQ listed company.

### **Lynne Peacock**

#### **Non-Executive Director**

Lynne Peacock joined the Society in July 2011. Lynne, a former Chief Executive UK of National Australia Bank (NAB) and Chief Executive of Woolwich plc, has over 25 years' senior management experience in a range of roles comprising brand development, mergers and acquisitions, change management and business transformation, including 15 years at board level. During her time at NAB, Lynne was responsible for its businesses in the UK consisting of the Clydesdale Bank plc and Yorkshire Bank Public Limited Company. She became Chief Executive of Woolwich plc in October 2000 following its takeover by the Barclays Bank Group, having previously held a number of senior management and board positions at the Woolwich Building Society, both before and after its conversion to a public listed company in 1997. Lynne is a non executive director of Scottish Water and Standard Life plc.

### **Committees of Our Board of Directors**

Our Board of Directors operates through its meetings and through its four main committees, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Board Risk Committee. To the extent that matters are not reserved to our Board of Directors, responsibility is delegated to the Chief Executive, who is assisted by the Executive Committee and the Executive Risk Committee.

The Audit Committee, in accordance with its commitment to good corporate governance, seeks to ensure that we maintain sound controls in relation to the responsibilities of the directors, meets regularly with senior management and the internal audit department and regularly reviews its relationship with the external auditors.

The Nomination Committee regularly reviews the balance of skills and experience on the Board and the requirements of the business. It also considers the appointment of new directors and makes recommendations to the Board.

The Remuneration Committee is responsible for our director and executive officer remuneration policy. We have designed our policy to ensure that director and executive officer remuneration reflects performance and allows us to attract, retain and motivate a sufficient number of talented executives. The Remuneration Committee reviews, evaluates and makes recommendations to the Board regarding our executive compensation standards and practices, including basic salaries, bonus distributions, pension fund contributions and the medium-term incentive scheme. The Remuneration Committee consists of all non-executive directors.

The Board Risk Committee, which meets six times a year, has responsibility for overseeing the risk framework, policies and risk appetite, and making recommendations to the Board.

The Executive Committee is our key operational committee which oversees the day-to-day operations of our business. This committee meets once each week, reviews all matters that are to be presented to the Board of Directors, and is composed of our Chief Executive and the three other executive directors and the four Group Directors.

The Executive Risk Committee, which meets monthly, is responsible for ensuring a coordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the Executive and Group Directors. The risk committees comprise the ALCO, Lending Committee, Group Oversight Committee, Customer Committee, Operational Risk Committee and the Compliance Committee.

The Operational Risk Committee, which meets monthly, is responsible for determining and amending the Group's attitude to operational risk and set thresholds for endorsement by the Executive Risk Committee and the Board Risk Committee; exercising primary responsibility for controlling operational risk across the Group, ensuring that controls over operational risk are adequately designed and operating effectively and

managing and reviewing the operational risk exposures of the Group in accordance with the Enterprise Risk Framework, Board Risk Appetite, Group Strategy and the Corporate Plan. The Committee's membership comprises the Group Operating Officer, Chief Risk Officer, Chief Compliance Officer, and the Divisional Directors Financial Reporting & Tax, Group Services, Business Transformation, Financial Performance, HR, Central Distribution and Customer Experience.

ALCO sets operational limits to control exposures so that they are within overall limits set by our Board of Directors. ALCO meets on a monthly basis. ALCO comprises the Chief Executive, Group Finance Director, Group Retail Director, Chief Risk Officer, the Divisional Director Treasury and Divisional Director Financial Performance. For more information about ALCO, see the section entitled "*Financial Risk Management*."

The Lending Committee is responsible for determining the Group's attitude to risk, monitoring and overseeing the performance of the profile of lending risk across all the various lending portfolios. The Committee's core membership comprises the Executive Director Group Retail, Chief Risk Officer, Group Finance Director who form the quorum for the committee. Specialist members attend the sections of the committee meeting relevant to their lending portfolio, and comprise the Divisional Director Mortgages and Savings, Divisional Director Commercial, Divisional Director Treasury, and the Heads of Secured, Unsecured, Commercial and Treasury Credit Risk. For more information about the Lending Committee, see the section entitled "*Financial Risk Management—Credit Risk*."

The Group Oversight Committee is responsible for providing second-line oversight of risk management and compliance on a Group-wide basis. The Committee is comprised of the Chief Risk Officer, Group Risk Director, Chief Compliance Officer and Compliance Oversight Director.

The Customer Committee, which meets monthly, is responsible for determining and amending the Group's approach to customer risk (defined as Retail Conduct Risk & Customer Experience Risk) and set thresholds for endorsement by the Executive Risk Committee and the Board. The Committee's membership comprises the Group Director Distribution, Chief Risk Officer, Chief Compliance Officer, Divisional Director Customer Experience, Divisional Director Central Distribution and various Heads of.

The purpose of Compliance Committee, which meets monthly, is responsible for co-ordinating first line adherence to all relevant legislation, regulation and codes of conduct, on a Group-wide basis, on behalf of the Executive Risk Committee. The Committee's membership comprises the Chief Compliance Officer, the Chief Risk Officer, the Executive Director Retail. Group Director Distribution, Divisional Director Group General Counsel and various Heads of.

## **Compensation**

For the financial year ended April 4, 2014 the aggregate amount of compensation that we paid to all directors and executive officers as a group totalled £7.4 million. From April 2014 Directors may receive an annual performance pay award which features deferral periods of up to 5 years on some elements and only pays out if performance targets are met under a broad range of individual, strategic and financial corporate metrics. The Remuneration Committee sets the performance targets each year. The maximum incentive value that could be paid during the year to the Chief Executive is 160% of base salary and for other executive directors is 120% of salary. In addition, compensation may be paid under the terms of awards made to Directors under performance based arrangements in place prior to April 2014 and which are still outstanding.

In addition, executive directors receive other benefits including a car allowance, access to shared drivers when required, fuel allowance, healthcare, mortgage allowance and insurance benefits.

## **Directors' Loans**

As at April 4, 2014, we had loans to directors or persons connected to directors totaling £0.8 million. All of these loans were granted in the normal course of business and were largely made up of residential mortgage loans and balances on credit cards. Our directors and other employees are eligible for discounts on residential mortgage loans.



We maintain a register containing the details of all loans, transactions and other arrangements made between our directors (and persons connected with our directors) and Nationwide or its subsidiaries. This register is available for inspection at our annual general meetings and during normal business hours at our principal office during the 15 days prior to our annual general meeting.

#### **Management Employee Pension Schemes**

G.J. Beale has opted out of the Fund, and he receives a monthly allowance in lieu of pension scheme accrual.

T.P. Prestedge has opted out of the Group Personal Pension Arrangement and receives a monthly allowance in lieu of an employer contribution into the Group Personal Pension Arrangement.

M.M. Rennison has opted out of the Fund, and he receives a cash allowance in lieu of pension scheme accrual.

#### **Related-Party Transactions**

For information on transactions with related parties, see note 40 to our audited consolidated financial statements incorporated by reference herein.

## **COMPETITION**

### **Industry Background**

Our main competitors are the five largest UK banking groups. In addition we also compete with other building societies, with smaller banks and with insurance companies. In recent years, new providers have emerged as competitors in all areas of the UK personal financial services market. A description of the traditional types of organizations with which we continue to compete as well as a description of certain new competitors is set forth below.

#### ***UK Banks***

The UK financial services market is dominated by the five largest banking groups, namely Lloyds Banking Group, Royal Bank of Scotland, Barclays, HSBC and Santander UK. Within the UK retail banking sector there have also been a number of significant business combinations and this trend was accelerated by the financial crisis.

#### ***Building Societies***

Over the past 30 years, many building societies have merged with other building societies or, in a number of cases, transferred their businesses to the subsidiary of another mutual organization or demutualized and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 137 in 1985 to 45 as at April 4, 2014. Building societies today continue to hold an important share of the UK mortgage and savings market and have been recognized by recent UK Governments and the Independent Commission on Banking as bringing valuable diversity and competition to the UK banking market. For further information about the UK residential mortgage market and UK retail deposit market see below.

#### ***UK Insurance Companies***

The UK insurance industry has traditionally been made up of a large number of mutual insurance organizations and several composite insurers originating a range of products, distributed through building societies, banks, direct sales forces and independent financial advisers. Recent trends include consolidation within the industry, the demutualization of mutual insurers and the entry of building societies and banks into the market as underwriters as well as distributors.

#### ***Other Competitors***

A number of large retailers sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. Retailing groups, namely Tesco and J. Sainsbury, have entered the market as manufacturers of financial service products in their own right. In addition, foreign banks, investment banks, insurance and life assurance companies have at various times been active in UK personal financial services, particularly the mortgage and retail savings markets, and a number of companies have expressed a desire to enter the market. The growth of internet price comparison sites has enabled consumers to have access to information that has increased price competition particularly in certain insurance markets. Companies are using low cost telephone, mail and internet based distribution channels to offer competitively priced retail savings accounts, mortgages and other financial products. The Internet and mobile communications technology provide opportunities for further competition from organizations from outside the traditional banking sector. The use of the intermediary sector also allows new entrants to gain access to the UK mortgage market. Since the financial downturn, several additional entrants have launched, or investigated ways to launch, on a relatively small scale, seeking to take advantage of the problems faced by some of the larger participants, though scope to do this is reducing as the incumbents tackle their shortcomings. Competition regulation has and may eventually further assist potential entrants if it enforces the breakup of some of the larger participants or the sale of those in public ownership.

## The UK Residential Mortgage Market

The table below sets out information for the last three years concerning year-end balances of UK lending secured on residential property and the proportions held by building societies, banks and us:

Year ended December 31,	Total Balances <sup>(1)</sup>	Building Societies <sup>(1)</sup>	Banks <sup>(1)</sup>	Others	Our share of total UK residential mortgages <sup>(1)</sup>
			(£ billions, except percentages)		
2013.....	1,235.4	85.0% <sup>(2)</sup>		15.0%	11.7%
2012.....	1,265.7	16.1%	69.0%	14.9%	11.0%
2011.....	1,246.3	15.8%	69.0%	15.2%	10.6%

Notes:

(1) *Source:* BoE (excluding lending to housing associations), except for information regarding our balances which are taken from our own data. Building society figures include our own balances. Separate data for Banks & Building Societies is not available from December 2013 onwards.

(2) As of 2013, the BoE no longer quotes banks and building societies market shares on an individual basis.

Although the overall size of the new mortgage market has shrunk considerably since 2007, the nature of competition is essentially unchanged, in that it involves defending the existing stock of balances and competing for the flow of new lending. Competition for new lending remains fierce and is driven by first-time buyers or next-time buyers remortgaging, changing homes or extending their mortgages. In most cases this is for residential purposes, although the popularity of buy-to-let has grown from a low point in 2009 (albeit volumes remain at or around one-third of their 2007 levels according to CML research). In recent years, based on English Housing Survey data, there has been a slight decline in the proportion of the UK population owning their own homes, from a peak of around 71% in 2003 to around 65% in 2013. The aftermath of the global financial crisis is still evident in the mortgage market, with more limited credit availability at higher LTV ratios, although this is improving as a result of government schemes such as Help To Buy mortgage guarantee. Competition is driven by a combination of price, risk profile and access to funding by lenders.

Our market share of gross advances of 14.9% during the financial year ended April 4, 2014 was above our par share of 10.9% as at January 1, 2014. Over the year ended April 4, 2014, the average LTV ratio of new mortgage lending was 69% (excluding further advances) compared with 67% in the same period a year earlier.

## The UK Retail Deposit Market

The UK retail deposit market is dominated by banks, building societies and National Savings and Investments, a UK government-sponsored savings and investment organization. Below is a table breaking down the total UK retail deposit market by type of financial institution compiled from details published by the BoE:

Year ended December 31,	Total UK retail deposits <sup>(1)</sup>	Building societies' share of total UK retail deposits <sup>(1)</sup>	Banks' share of total UK retail deposits <sup>(1)</sup>	Others <sup>(1)</sup>	Our share of total UK retail deposits <sup>(1)</sup>
		<i>(£ billions, except percentages)</i>			
2013 .....	1,225.0	91.4% <sup>(2)</sup>		91.4% <sup>(2)</sup>	10.7%
2012 .....	1,181.8	21.1%	70.2%	8.7%	10.5%
2011 .....	1,125.7	22.0%	68.8%	9.2%	11.2%

Notes:

- (1) Source: BoE, except for information regarding our balances which are taken from our own data. Separate data for Banks & Building Societies is not available from December 2013 onwards.
- (2) As of 2013, the BoE no longer publishes data for Building Societies and Banks separately, but rather as a combined Monetary & Financial Institutions (MFI) percentage.

The UK retail deposit market has become an increasingly commoditized market driven primarily by price, particularly for the flow of new money that generally seeks the most attractive rates available. However the bank failures of 2007 and 2008 and the limits of the FSCS appear to have led some customers to spread their savings across a number of different companies. Older deposit balances have traditionally subsidized the cost of new retail deposits, primarily reflecting customer inertia.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance/life assurance companies and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing players in the market and have impacted the flow of new retail deposits. The competition intensified as banks have sought to rebalance their liabilities away from short-term wholesale and back towards retail funding but the introduction of Funding for Lending has eased competition for retail deposits.

We believe that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organizations and between different accounts within organizations. This, in turn, has resulted in a reduction in the differential between rates paid to existing and new balances as customers transfer to high rate accounts and organizations aim to retain existing balances. In addition, the recent Government budget announcements, namely the "New ISA" and the pensioner bonds, have the potential to increase volatility further and have made the outlook for deposits much more uncertain,

In this context our deposit balances grew by £4.9 billion in the financial year ended April 4, 2014.

## Competitive Outlook

Whilst some weaknesses remain, the major banks have now largely completed a process of financial repair upon which they embarked following the financial crisis. In recent years, greater public optimism about the UK economy and a parallel recovery of net new volumes in the mortgage and savings markets have been accompanied by a reduction in the cost of retail funding as a result of the Funding for Lending Scheme. These trends have resulted in increased income for financial institutions which have grown volumes and improved net interest margins. However, many banks now expect limited scope for this margin improvement to continue. Consequently, there is a possibility that competition for volumes will intensify as banks seek to maintain growth rates. Competition also looks set to remain intense for current accounts and deposits, as regulatory measures to allow customers to switch provider more easily are accompanied by increased appetite by providers to grow, or at least maintain, a current account base as a driver of active customer relationships. Investment in new digital capabilities continues at high levels, as major participants look to compete digitally against their existing peers and potential new entrants innovating with digital technology.

## SUPERVISION AND REGULATION

### EU Legislation

The framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by EU legislation. The Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee in 2011) has been implemented in the EEA through the CRR and the associated directive, the CRD (together, CRD IV), which was published in the Official Journal of the European Union on June 27, 2013. The CRR establishes a single set of harmonized prudential rules for financial institutions and certain minimum liquidity standards which apply directly to all credit institutions in the EEA, with the CRD containing less prescriptive provisions which (unlike the CRR, which applies across the EU without the need for any implementing legislation at member-state level) are required to be transposed into national law. Together the CRR and CRD reinforce capital standards and establish a leverage ratio “backstop.” Full implementation began from January 1, 2014, with particular elements being phased in over a period of time (the requirements will largely be effective by 2019 and some minor transitional provisions provide for phase-in until 2024). As CRD IV allows certain national discretion, the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation. The Basel Committee has also published certain proposed revision to the securitization framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 15%.

The principal intention underlying CRD IV is the harmonization of banking regulation and supervision throughout the EU and the EEA. CRD IV prescribes minimum standards in key areas and requires EEA member states to give “mutual recognition” to each other’s standards of regulation. CRD IV also addresses the “passport” concept, which amounts to freedom for a credit institution authorized in its “home” state to establish branches in, and to provide cross-border services into, other EEA member states.

Although credit institutions are primarily regulated in their home state by a local regulator, CRD IV prescribes minimum criteria for regulation of the authorization of credit institutions and the prudential supervision applicable to them. Our local regulators are the PRA and the FCA. For further information about regulation in the UK see the subsection entitled “—*UK Regulation.*”

CRD IV substantially reflects the Basel III capital and liquidity standards. CRD IV also makes provision for (among other things) new requirements to reduce reliance by credit institutions on external credit ratings, by requiring that all banks’ investment decisions are based not only on ratings but also on their own internal credit opinion, and that banks with a material number of exposures in a given portfolio develop internal ratings for that portfolio instead of relying on external ratings for the calculation of their capital requirements. Certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority.

The CRR gives express recognition for Common Equity Tier 1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves.

On March 31, 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers (the “**Mortgage Directive**”). The council of the EU adopted the Mortgage Directive on January 28, 2014. Member states will be required to implement the Mortgage Directive into national law within two years after it enters into force.

The Mortgage Directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a EU member state on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements the purpose of which is to finance the purchase or retention of rights in land or in an existing or proposed residential building; and extends the Consumer Credit Directive (2008/48/EC) to (c) unsecured credit agreements the purpose of which is to renovate residential immovable property involving a total amount of credit above €75,000. The Mortgage Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The Mortgage Directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any

ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The Mortgage Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

Until the Mortgage Directive is implemented into UK law, it is too early to tell what effect the implementation of the Mortgage Directive into UK law would have on us and our respective businesses and operations.

## **UK Regulation**

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

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

The UK Financial Services Act 2012 amended certain existing legislation including the Financial Services and Markets Act 2000, the UK Building Societies Act and the UK Banking Act to make provision about the exercise of certain statutory functions relating to building societies.

Another area of change which impacts on the UK regulatory landscape relates to banking reform. On June 14, 2012, HM Treasury issued a white paper ("Banking reform: delivering stability and supporting a sustainable economy") on how the Government intended to implement the measures recommended by Sir John Vicker's ICB final report of September 12, 2011. The Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") provides for, inter alia, the ring-fencing of vital banking services from international and investment banking services, measures on loss absorbency and depositor preference and proposals for enhancing competition in the banking sector. Certain aspects of such measures will enter into force on January 1, 2015 although the full ring-fencing regime will not apply until 2019, further the Government has carved building societies out of the proposed ring-fencing legislation and, instead, reserves the power to amend the UK Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements. The subsection below entitled "*The UK Building Societies Act*" refers to the discussion document published by HM Treasury in 2012 which sets out the Government's vision for the building societies sector.

### ***The UK Building Societies Act***

The main piece of legislation regulating building societies is the UK Building Societies Act. The UK Building Societies Act governs the creation, authorization and management of building societies. We are regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. With the introduction of the Financial Services and Markets Act 2000, certain sections of the UK Building Societies Act were repealed. However, a substantial part of the UK Building Societies Act, including the constitutional parts dealing with the principal purpose of building societies, nature limits and general governance, among others, still remains in force. The UK Building Societies Act has been amended and supplemented since its introduction by secondary legislation. For further information on the reforms under the Financial Services and Markets Act 2000, see the subsection below entitled "*Financial Services and Markets Act 2000*."

On July 6, 2012, HM Treasury published a consultation document entitled "The future of building societies" which set out the Government's aim to maintain the distinctiveness of the building society sector

while creating a level playing field and removing unnecessary barriers to growth. The Government stated that it intended to amend the UK Building Societies Act to widen the opportunities for building societies and to align them with ring-fenced banks without compromising their mutuality.

As a result, modernizing changes to the UK Building Societies Act were made under the Banking Reform Act to bring it more in line with company law, assist building societies in raising funding and make minor technical changes in order to allow the building society sector to compete on a more level playing field with banks. The changes, in particular:

- Facilitate electronic communications with members;
- Remove the restrictions on building societies relating to floating charges;
- Make it easier for building societies to accept small business deposits by making adjustments to the funding limit calculation;
- Make certain changes concerning the distribution of shares on the transfer of a building society's business on a demutualization; and
- Permit holders of deferred shares of less than two years' standing to be eligible to receive shares or cash when a society demutualizes.

All of these changes to the UK Building Societies Act are in force except for the provision relating to floating charges which will be commenced by a separate order.

### ***Building Society key characteristics***

The following sections set forth some of the concepts for a building society which is authorized under the Financial Services and Markets Act 2000.

#### ***Mutuality***

Building societies are mutual organizations that are managed for the benefit of their members, who are primarily retail savings customers and residential mortgage customers. Each member is normally entitled to one vote at a building society's general meeting, regardless of the size of the member's deposit account or mortgage loan or the number of accounts the member maintains.

#### ***Purpose***

Building societies are required to be engaged primarily in the business of making loans secured on residential property, which are substantially funded by members. In addition, as long as building societies comply with specific limits on lending and funding, they may engage in additional activities such as commercial lending, unsecured personal lending, insurance and personal investment product activities, subject to compliance with regulatory requirements of the FCA, the PRA and the Competition and Markets Authority (the “**CMA**”).

Building societies have a statutory duty to keep accounting records as well as establishing and maintaining systems of control. The FCA and PRA are empowered to request ad hoc reports regarding our compliance with these requirements.

#### ***Nature of Membership***

The members of a building society fall into two categories. The first category consists of investing or “shareholding” members. Shareholding members are individuals who have made a deposit (also referred to as an “**investment**”) in a share account with a building society or who hold deferred shares in the society, and bodies corporate which hold deferred shares. In this Base Prospectus we refer to deposits in these share accounts as “UK retail member deposits” and to people holding UK retail member deposits as “UK retail member depositors.” “Deferred shares” includes our CCDS, Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities and Permanent Interest Bearing shares.

There are restrictions on building societies raising funds from individuals other than in the form of deposits in share accounts or by the issue of deferred shares. A subsidiary of a building society may, however,

offer deposit accounts which do not confer member status provided it has the required regulatory authorization. Deposits in these accounts are referred to as “non-member deposits.”

The second category of members are “borrowing” members, that is, persons who have received a loan from the building society which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

#### *Limitations on Funding and Lending*

The UK Building Societies Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50% of its total funding. In calculating this amount, a specified amount of deposits made by individuals with a building society’s subsidiaries in other EEA member states, the Channel Islands, the Isle of Man or Gibraltar is disregarded. The specified amount is up to 10% of what would have been the society’s funding but for the exclusion.

Loans made by a building society and its subsidiaries which are fully secured on residential property must account for not less than 75% of its total trading assets (that is, the total assets of a society and its subsidiaries, plus provisions for bad or doubtful debts, less liquid assets, fixed assets and certain long-term insurance funds).

#### *Nature of Capital*

UK retail member deposits are classified as shares in a building society's balance sheets. There is a fundamental distinction between a share in a building society and a share in a limited liability company. Holders of ordinary shares in a company normally do not have the right to withdraw their share capital from the company. The share capital of a company is therefore fixed. A UK retail member depositor has a right to withdraw his investment from a building society. The share capital of a building society therefore fluctuates each time UK retail member depositors deposit or withdraw funds from their account. As a result shares in a building society do not form a permanent capital resource. The permanent capital of a building society consists primarily of its reserves (which have been built up over the years mainly from its retained earnings) and any deferred shares that it has issued. In addition, a building society can issue deferred shares, which count towards its permanent capital. These have, in the past, mainly been in the form of permanent interest bearing shares, which have counted towards a society’s Tier 1 capital. Profit participating deferred shares (a type of deferred share) have also been recognized by the FCA (and now the PRA) as Core Tier 1 capital, although these shares have, to date, only been issued by way of exchange for an existing instrument in circumstances of financial stress, by way of a private placement, or as a part of a society’s contingent convertible capital (in which case it would only be issued upon a serious decline in the society’s capital ratio). Changes to the Capital Requirements Directive which were implemented in the UK at the end of 2010 toughened the requirements for eligibility as Tier 1 capital. Permanent interest bearing shares, which were already in existence, retain their capital status, but the extent to which such shares count towards regulatory capital will be phased out over a long transitional period. CCDS, a new form of deferred share, are intended to meet the new regulatory criteria for Common Equity Tier 1 capital under CRR, while being consistent with the values of mutuality and supporting members' interests. CCDS are also designed to be a suitable instrument for raising new capital from external investors.

We have also issued Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities which qualify as Additional Tier 1 Capital under the CRR.

#### *Hedging*

The UK Building Societies Act prohibits building societies and their subsidiaries from entering into any transaction involving derivative investments unless the transaction falls within one of the specified exceptions, including where it is entered for the purpose of limiting the extent to which it will be affected by fluctuations in interest rates, exchange rates, any index of retail prices, any index of residential property prices, any index of the prices of securities or the ability or willingness of a borrower to repay a loan owing to the building society.



### *Demutualization*

The UK Building Societies Act permits a building society to demutualize by transferring the whole of its business to an existing company (referred to as a “**takeover**”) or to a specially formed company (referred to as a “**conversion**”) so long as the process meets statutory requirements. Any such demutualization must be approved by members and confirmed by the PRA. The successor company will be a bank, which must be duly authorized to carry on its deposit-taking business by the PRA or equivalent EEA regulatory authority.

The member approval threshold required varies depending on the type of demutualization. In order to convert into a new bank by transferring the society’s business to a specially formed company, a minimum of 50% of shareholding members qualified to vote would have to vote on a requisite shareholders’ resolution, and a minimum of 75% of those voting would have to support the resolution to convert. In addition, more than 50% of borrowing members who vote would have to vote in favor of a borrowing members’ resolution to convert. On a demutualization as a result of a takeover by an existing bank or other company, the requirements would be similar except that 50% of shareholding members qualified to vote (or shareholding members representing 90% by value of the society’s shares) must actually vote in favor of the requisite shareholding members’ resolution.

### *Mutual society transfers*

The UK Building Societies Act (as modified by the Mutual Transfers Order) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). The successor subsidiary must be duly authorized to carry on its deposit-taking business by the PRA or equivalent EEA regulatory authority. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favorable than those enjoyed by existing members of the holding mutual (or such parent undertaking, as the case may be).

A transfer of business to a subsidiary of another mutual society requires approval by members and confirmation by the PRA. The member approval thresholds require a shareholding members’ resolution to be passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution and a borrowing members’ resolution to be passed by more than 50% of borrowing members qualified to vote and voting on the resolution.

### *Directed transfers*

The UK Building Societies Act confers power on the PRA, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The UK Financial Services Act 2012 also amended the UK Building Societies Act to extend this power of direction to a transfer of a building society’s business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). Where any such direction is made, the PRA may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

### *The UK regulators*

The PRA is currently the prudential regulator for building societies, banks, insurance companies and other deposit takers. The general objective of the PRA is promoting the safety and soundness of PRA-authorized persons.

The PRA supervises and regulates financial institutions, including building societies, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the Financial Services and Markets Act 2000, the PRA has a variety of enforcement powers including:

- issuing a private warning; or

- taking disciplinary measures, such as issuing a public statement of misconduct or imposing a financial penalty.

The FCA is currently the conduct regulator for firms that are prudentially regulated by the PRA (dual-regulated firms). The FCA regulates both prudential and conduct matters for all other firms. The FCA's strategic objective is ensuring the relevant markets function well. The FCA's operational objectives are:

- the consumer protection objective;
- the integrity objective; and
- the competition objective.

The FCA also has a variety of enforcement powers under the Financial Services and Markets Act 2000, and from April 1, 2014, is responsible for supervision of consumer credit regulation and superintendence and enforcement of the Consumer Credit Act 1974, as amended.

#### ***Authorization under the Financial Services and Markets Act 2000***

The Financial Services and Markets Act 2000 prohibits any person from carrying on a "regulated activity" by way of business in the UK unless that person is authorized or exempt under this Act. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), consumer credit lending, effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). We are authorized for, among other things, deposit-taking and mortgage activities, and are authorized for certain investment activities. The Financial Services and Markets Act 2000 also prohibits Financial Promotions in the UK unless the promotion is issued or approved by an authorized person or exempt from such requirements.

#### ***Lending***

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

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

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

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

case of buy-to-let mortgages satisfying prescribed conditions. Buy-to-let mortgages entered into on or after October 31, 2008 and satisfying prescribed conditions are exempt agreements under the Consumer Credit Act 1974.

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

### ***Insurance***

We are also authorized for carrying out insurance mediation. The Insurance: Conduct of Business sourcebook, which is part of the FCA Handbook, sets out rules in respect of non-investment insurance.

### ***FSCS***

The Financial Services and Markets Act 2000 established the FSCS, which pays compensation to eligible customers of authorized financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default on or after January 1, 2010 (December 31, 2010 for deposits): (i) for deposits, 100% of the first £85,000; (ii) for mortgage advice and arranging, 100% of the first £50,000; and (iii) for insurance, 90% of the claim with no upper limit (except compulsory insurance is protected in full). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. These limits reflect Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes, which requires member states to set the minimum level of compensation for deposits, for firms declared in default on or after January 1, 2011, at €100,000. A review of Directive 94/19/EC has been completed and the recast DGSD 2014/49/EC, strengthening the protection of citizens' deposits in case of bank failures, has been published in the Official Journal on June 12, 2014. Implementation by EU member states is expected by July 2015. See "*Risk Factors—Risks Related To Our Business—We are required to pay levies under the FSCS and are exposed to future increases of such levies, which might impact our profits.*"

### ***FOS***

The Financial Services and Markets Act 2000 established the FOS, which determines complaints by eligible complainants in relation to authorized financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £150,000 plus interest and costs. The FOS may also make directions awards, which direct the business to take such steps as the FOS considers just and appropriate.

### ***Unfair Terms in Consumer Contracts Regulations 1994 and 1999***

In the UK, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the "**1999 Regulations**"), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the "**UTCCR**"), apply to agreements made on or after July 1, 1995. The UTCCR provides that a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term), and the lead enforcement body, and any "qualifying body" within the UTCCR (such as the FCA), may seek to enjoin a business from relying on unfair terms.

The UTCCR will not generally affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, or price terms, provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention. The UTCCR may affect terms that are not considered to be terms which define the main subject matter of the contract or price terms, such as

the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. For example, if a term permitting the lender to vary the interest rate (as the originator is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement that the borrower has taken with the lender (or exercise analogous rights in Scotland).

The lead enforcement body for the UTCCR was the OFT before April 1, 2014, and is the CMA from April 1, 2014. The qualifying body in relation to Regulated Mortgage Contracts and mortgage loans originated by lenders authorized under the Financial Services and Markets Act was the Financial Services Authority before April 1, 2013. The lead enforcement body was and is responsible for enforcing the UTCCR in relation to other mortgage loans.

While the CMA and FCA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any loans covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans.

### ***Distance Marketing***

In the UK, the Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after October 31, 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the Financial Services and Markets Act 2000, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive the prescribed information at the prescribed time, or in any event for certain unsecured lending. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels the credit agreement under these regulations, then:

- (a) the borrower is liable to repay the principal, and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;
- (b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- (c) any security is treated as never having had effect for the cancelled agreement.

If a significant portion of our loans are characterized as being cancellable under these regulations, then there could be an adverse effect on its receipts in respect of those loans.

### ***Consumer protection from Unfair Trading Regulations 2008***

On May 11, 2005, the European Parliament and the Council of the EU adopted a Directive (2005/29/EC) regarding unfair business-to-consumer commercial practices (the Unfair Practices Directive). Generally, this directive applies full harmonization, which means that EU member states may not impose more stringent provisions in the fields to which full harmonization applies. By way of exception, the Unfair Practices Directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans. The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair"

within the Unfair Practices Directive. The Unfair Practices Directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defense or right of set-off to an individual consumer.

The Unfair Practices Directive is implemented into UK law by the Consumer Protection from Unfair Trading Regulations 2008 (the “**CPUTR**”), which came into force on May 26, 2008. The CPUTR prohibit certain practices which are deemed “unfair” within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but is a criminal offence punishable by a fine and/or imprisonment. The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreements may result in irrecoverable losses on amounts to which such agreements apply. The CPUTR do not provide consumers with a private act of redress. Instead, consumers must rely on existing private law remedies based on the law of misrepresentation and duress. However, draft amendments to the CPUTR propose to give consumers a right to redress for prohibited practices, including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing rules under the Financial Services and Markets Act 2000. For example, MCOB rules for regulated mortgage contracts from June 25, 2010 prevent the lender from (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term, or conversion to interest-only for a period, or an alternative product, and (b) automatically capitalizing a payment shortfall.

The Unfair Practices Directive provided for a transitional period until June 12, 2013 for the application of full harmonization in the fields to which it applies. In March 2013, the European Commission published a report on the application of the Unfair Practices Directive, which indicated (among other things) that there is no case for further harmonization in the fields of financial services and immovable property.

#### ***Other Relevant Legislation & Regulation***

The EU anti-money laundering regime was amended by the implementation of the EU Third Money Laundering Directive (Directive 2005/60/EC) (the “**EU Third Money Laundering Directive**”), which has imposed requirements in relation to such matters. As a result of the implementation of the EU Third Money Laundering Directive in the UK, the UK Money Laundering Regulations 2007 place a requirement on us to identify and verify the identity and address of customers opening accounts with us, and to keep records to help prevent money laundering and fraud. Guidance in respect of the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. The EU Third Money Laundering Directive, which underpins the Money Laundering Regulations 2007, is currently being reviewed and the European Commission published a report on the application of the EU Third Money Laundering Directive on April 11, 2012, which found that there were no fundamental shortcomings in the regime but that some modifications are necessary to adapt to the evolving threats posed. On July 31, 2012 the European Commission published a paper summarizing the responses to the report published on April 11, 2012. The overall result of the consultation in relation to the report represented a general confirmation of the issues highlighted in the report. Broad support was expressed for the proposed alignment to the revised Financial Action Task Force standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border situations.

The European Commission published on February 5, 2013 two legislative proposals in relation to the EU anti-money laundering regime: (i) a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (i.e. the Fourth Money Laundering Directive); and (ii) a regulation on information accompanying transfers of funds to secure “due traceability” of these transfers. These legislative proposals are currently subject to the ordinary EU legislative procedure involving the European Parliament and Council of Ministers. The Presidency of the European Council released its general approaches to each of the Fourth Money Laundering Directive and wire transfer regulation on June 15, 2014.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers. We participate in the unclaimed assets scheme established under the Dormant Bank and Building Society Accounts Act 2008. The purpose of this scheme is to enable money in dormant bank and building society

accounts (i.e. balances in accounts that have been inactive or dormant for 15 years or more) to be distributed for the benefit of the community, while protecting the rights of customers to reclaim their money.

On November 1, 2009, the former Financial Services Authority introduced its Banking Conduct Regime for retail banking. The main constituents of this regime are: (i) extending the principles for businesses as they apply to deposit-taking, from prudential matters only, to conduct of business matters in addition; (ii) conduct of business requirements in the Payment Services Regulations 2009 (the “**PSR**”), which apply to certain payment services made in euro or sterling; and (iii) the Banking: Conduct of Business sourcebook, which applies to deposit-taking in respects not covered by the PSR.

On November 1, 2009, the British Bankers’ Association, the Building Societies Association and The UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect.

On April 1, 2010, the Building Societies specialist sourcebook (the “**BSOCS**”) came into effect, subject to certain transitional provisions. BSOCS contains PRA guidance on the systems and controls in relation to treasury management operations and lending. BSOCS focuses on the key financial and lending risks to which building societies are exposed and sets out the framework within which the PRA will supervise building societies’ treasury activities.

***Potential effects of any additional regulatory changes***

No assurance can be given that additional regulatory changes by the CMA, the FCA, the PRA, the FOS or any other regulatory authority will not arise with regard to the mortgage market in the UK generally, our particular sector in that market or specifically in relation to us. Any such action or developments or compliance costs may have a material adverse effect on us and our respective businesses and operations.

## **EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING HOLDERS OF NOTES**

Subject to the withholding tax requirements set out under the subsection entitled “*Taxation–UK Taxation*,” there are currently no UK laws, decrees or regulations that would reduce the payment by the issuer of interest or other payments to holders of notes who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the subsection entitled “*Taxation–UK Taxation*.” There are also no restrictions under our memorandum and rules or under current UK laws that limit the right of non-resident or foreign owners to hold the notes or to vote, when entitled to do so.

## TERMS AND CONDITIONS OF THE NOTES

This section describes the material terms and provisions of the notes to which any Final Terms may relate. We will describe in each Final Terms the particular terms of the notes that we offer by that Final Terms and the extent, if any, to which the general provisions described below may apply to those notes. Capitalized terms used but not defined in this section have the meanings given to them in the senior notes, subordinated notes, or indenture, as the case may be.

### General

We will offer the notes under an indenture, dated as at February 8, 2002 and as supplemented and amended from time to time, between us (the “**Issuer**”) and The Bank of New York Mellon (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One Trust Company, N.A.)), as trustee. The notes are limited to an aggregate principal amount of up to \$20,000,000,000 outstanding at any time, including, in the case of notes denominated in one or more other currencies or composite currencies, the equivalent thereof at the Market Exchange Rate in the one or more other currencies on the date on which such note will be issued (the “**Original Issue Date**”), subject to reduction by or pursuant to action of our Board of Directors, provided that a reduction will not affect any note already issued or as to which we have already accepted an offer to purchase. We may, however, increase these limits without the consent of the holders of the notes if in the future we determine that we wish to sell additional notes.

The notes will mature twelve months or more from the date of issue and may be subject to redemption or early repayment at our option or the holder’s option as further described in the subsection entitled “—*Redemption and Repurchase*.” Each note will be denominated in U.S. dollars or in another currency as we specify in the applicable Final Terms. For a further discussion, see “—*Payment of Principal, Premium, if any, and Interest, if any*.” Each note will be either:

- a Fixed Rate Note; or
- a Floating Rate Note, which will bear interest at a rate determined by reference to the interest rate basis or combination of interest rate bases plus or minus the Margin (if any), in each case as specified in the applicable Final Terms; or
- a Zero Coupon Note, in which case references to interest in these terms and conditions are not applicable; or
- any appropriate combination thereof, depending upon the Interest Basis shown in the applicable Final Terms.

### Status of Senior Notes

The Senior Notes are direct, unconditional and (subject to the provisions of “—*Negative Pledge*”) unsecured obligations of the Issuer and rank (subject to any applicable statutory exceptions or preferences and subject to the provisions of “—*Negative Pledge*”) equally with non-member deposits, to the extent that such deposits are not preferred, and all other unsecured and unsubordinated obligations of the Issuer and in priority to investment shares in the Issuer from time to time outstanding. The senior notes will rank senior to our UK retail member deposits, subject to any applicable statutory exceptions or preferences and, in the event of insolvency, to any other laws of general applicability relating to or affecting creditors' rights, and provided that our other unsecured and unsubordinated indebtedness may contain covenants, events of default and other provisions which differ from or which are not contained in the senior notes. If we demutualize or transfer the whole of our business to the subsidiary of another mutual society, our UK retail member deposits will, subject to applicable statutory exceptions or preferences and, in the event of insolvency, to any other laws of general applicability relating to or affecting creditors' rights, rank *pari passu* with our obligations under our senior debt, including the senior notes. Further, the expected transposition of the EU Bank Recovery and Resolution Directive on or before January 1, 2015 will have the effect of ensuring that the senior notes and all other unsecured and unsubordinated indebtedness will be subordinated to all deposits which qualify for FSCS protection, even where the value of such deposits exceeds the FSCS coverage limit.



For a further discussion of (i) the effects of demutualization on the ranking of our obligations and (ii) proposed statutory changes which would afford priority ranking to certain deposits and share accounts ahead of the senior notes, see the section entitled *“Risk Factors—Risks Related to Our Business—Demutualization, mutual society transfers and consequences of the UK Building Societies Act, including introduction of depositor preference, may have an adverse impact on the holders of notes. In addition, changes to the current relative ranking between share accounts and other depositors and unsubordinated creditors, including introduction of depositor preference, could have a significant adverse impact on the holders of notes.”*

### **Status and Subordination of Subordinated Notes**

The Subordinated Notes are direct and unsecured obligations of the Issuer, conditional as described below, and rank without any preference among themselves, and the rights of the holders of the Subordinated Notes will, in the event of the winding up of the Issuer, be subordinated in right of payment in the manner provided in the indenture to the claims of depositors (including investment creditors) and other unsubordinated creditors of the Issuer in respect of their respective Senior Claims. Accordingly, if the Issuer is at any time in winding up, then no principal or interest in respect of the Subordinated Notes (whether or not already due or accrued prior to the commencement of such winding up) shall be payable by, nor shall any claim in respect thereof be provable against, the Issuer in such winding up unless and until and except to the extent that the Issuer could make such payment in whole or in part and still be solvent immediately thereafter. For the purpose of this subsection, the Issuer shall be deemed to be solvent if it is able to pay its debts in full, or the liquidator of the Issuer determines that it will be able to do so within a period not exceeding twelve months, and in determining whether the Issuer is deemed to be solvent for the purposes of this subsection there shall be disregarded obligations which are not provable in the winding up or which are themselves subordinated to the claims of all or any of the unsecured creditors of the Issuer.

Subject to applicable law, no holder of Subordinated Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes and each holder shall, by virtue of being the holder of any such Subordinated Note be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any holder of Subordinated Notes against the Issuer is discharged by set-off, such holder of Subordinated Notes will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up of the Issuer the liquidator of the Issuer and accordingly such discharge will be deemed not to have taken place.

The subordinated notes do not have the benefit of the negative pledge covenant described below under the subsection entitled *“—Negative Pledge”* and are subordinated to most of our liabilities. For a further discussion of risks relating to subordination see the section entitled *“Risk Factors—Risks Related to the Notes—The subordinated notes are subordinated to most of our liabilities.”*

**“Senior Claims”** means the aggregate amount of all claims which are admitted against us in the event of our winding up (i) relating to all UK retail member deposits in respect of any principal and interest due in respect thereof up to the date of commencement of the winding up (but excluding all claims in respect of our subordinated indebtedness) and (ii) relating to our obligations to our other creditors (including, without limitation, all contingent and potential claims, all claims in respect of deposits with or loans to us and all claims of interest thereon or in respect thereof) but excluding (a) all claims in respect of our subordinated indebtedness and (b) all claims in respect of our permanent interest bearing shares and CCDS and Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities.

To the extent that holders of the notes are entitled to any recovery with respect to the notes in any winding up or liquidation, it is unclear whether such holders would be entitled in such proceedings to recovery in U.S. dollars and they may be entitled only to a recovery in pounds sterling and, as a general matter, the right to claim for any amounts payable on notes may be limited by applicable insolvency law.

### **Certain Definitions**

**“Business Day”** means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New

York City and each Additional Business Center specified in the applicable Final Terms; provided, however, that, with respect to notes denominated in a Specified Currency other than U.S. dollars, it is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center, as defined below, of the country issuing the Specified Currency (or, if the Specified Currency is euro or EURIBOR is an applicable Interest Rate Basis, such day is also a day on which the euro payments settlement system known as TARGET2 (or any successor thereto) is open for settlement of payments in euro, a “**TARGET Settlement Date**”); provided, further, that, with respect to notes as to which LIBOR is an applicable Interest Rate Basis, it is also a London Business Day. “**London Business Day**” means a day on which commercial banks are open for business (including dealings in the Designated LIBOR Currency, as defined below) in London.

“**New York City Banking Day**” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the city of New York.

“**Principal Financial Center**” means the capital city of the country issuing the Specified Currency except, that with respect to U.S. dollars, Canadian dollars, and Swiss francs, the “**Principal Financial Center**” shall be New York City, Toronto, and Zurich, respectively.

“**Relevant Supervisory Consent**” means the consent to the relevant redemption, payment, repayment or purchase, as the case may be, of the FCA or any other body performing the same or similar functions in relation to building societies (so long as we remain a building society) or banks (in the event that we transfer our business to an authorized institution pursuant to section 97 of the UK Building Societies Act).

“**Specified Currency**” means a currency issued and actively maintained as a country’s or countries’ recognized unit of domestic exchange by the government of any country and such term shall also include the euro.

“**TARGET2**” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilizes a single shared platform and which was launched on November 19, 2007 or any successor thereto.

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which The Security Industry & Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

#### **Form, Transfer, Exchange and Denomination**

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

Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with these transfer restrictions and subject to certification requirements. In no event will notes in bearer form be issued.

The Global Note or Global Notes representing a series of notes will be issued to and deposited with, or on behalf of, DTC in New York City and registered in the name of Cede & Co. (“**Cede**”), as DTC’s nominee. Interests in a Global Note or Global Notes representing notes of a series will be shown in, and transfers thereof will be effected only through, records maintained by DTC and its participants until such time, if any, as physical registered certificates (“**Certificated Notes**”) in respect of such notes are issued, as set forth in the section entitled “*Description of the Global Notes—Book-Entry System.*”

The Global Note or Global Notes representing a series of notes may be transferred only to a successor of DTC or another nominee of DTC. For additional information, see the section entitled “*Description of the Global Notes—Book-Entry System.*”

Under the following circumstances, Global Notes of a series may be exchanged for certificated registered notes of such Series:

- if at any time DTC notifies us that it is unwilling or unable to continue as the depositary for the notes, or DTC ceases to be a clearing agency registered under the Exchange Act, and we are unable to appoint a successor to DTC registered as a clearing agency under the Exchange Act within 90 days of such notification or of our becoming aware of such ineligibility;
- upon the occurrence of any Event of Default under the indenture; and
- if we determine in our sole discretion (subject to DTC's procedures) that the notes of any series should no longer be represented by such Global Note or notes.

Certificated Notes representing a series of notes, if any, will be exchangeable for other Certificated Notes representing notes of such series of any authorized denominations and of a like aggregate principal amount and tenor. Certificated Notes will be serially numbered.

Certificated Notes may be presented to the trustee for registration of transfer of exchange at its Corporate Trust Office which at the date hereof is located at 101 Barclay Street, 8W, New York, New York 10286. Certificated Notes may be presented for exchange and transfer in the manner, at the places and subject to the restrictions set forth in the indenture and the notes. We have not registered the notes under the Securities Act or with any securities regulatory authority of any jurisdiction, and accordingly, transfers of the notes will be subject to the restrictions set forth in the sections entitled "*Notice to Investors*" and "*Transfer Restrictions*."

Certificated Notes and interests in the U.S. Global Notes may be transferred to a person who takes delivery in the form of interests in an International Global Note only upon receipt by the trustee of written certifications, in the form provided in the indenture, to the effect that the transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act and that, if this transfer occurs prior to 40 days after the commencement of the offering of such notes, the interest transferred will be held immediately thereafter through Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, *société anonyme* ("**Clearstream**"), each of which is a participant in DTC.

Until 40 days after the closing date for the offering of a series of notes, interests in an International Global Note may be held only through Euroclear or Clearstream, which are participants in DTC. Certificated Notes and interests in International Global Notes may be transferred to a person who takes delivery in the form of interests in a U.S. Global Note only upon receipt by the trustee of written certifications, in the form provided in the indenture, to the effect that such transfer is being made in accordance with Rule 144A to a person whom the transferor reasonably believes is purchasing for its own account or for an account as to which it exercises sole investment discretion and that such person and such account or accounts are "qualified institutional buyers" within the meaning of Rule 144A and agree to comply with the restrictions on transfer set forth in the sections entitled "*Notice to Investors*" and "*Transfer Restrictions*."

In the event of any redemption of notes, we will not be required to (i) register the transfer of or exchange the notes during a period of 15 calendar days immediately preceding the date of redemption; (ii) register the transfer of or exchange the notes, or any portion thereof called for redemption, except the unredeemed portion of any of the notes being redeemed in part; or (iii) with respect to notes represented by a Global Note or Global Notes, exchange any such note or notes called for redemption, except to exchange such note or notes for another Global Note or Global Notes of that series and like tenor representing the aggregate principal amount of notes of that series that have not been redeemed.

The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A.) is the principal paying agent (the "**Paying Agent**") pursuant to the indenture. We may at any time designate additional paying agents or rescind the designation of any paying agent provided that if and for so long as the notes are listed on any stock exchange which requires the appointment of a paying agent in any particular place, we shall maintain a paying agent with an office in the place required by such stock exchange or relevant authority.

We will issue senior notes in minimum denominations of \$200,000 and subordinated notes in minimum denominations of \$250,000, and in each case in integral multiples of \$1,000 in excess thereof, in the case of Notes denominated in U.S. dollars. We will issue notes denominated in a Specified Currency other than U.S.

dollars in minimum denominations that are the equivalent of these amounts in any other Specified Currency, and in any other denominations in excess of the minimum denominations as specified in the applicable Final Terms. The notes will be issued in integral multiples of 1,000 units of any such Specified Currency in excess of their minimum denominations. If the principal, premium, if any, and interest, if any, on any of the notes not denominated in U.S. dollars, euro or sterling are to be payable at our or the holder's option in U.S. dollars, such payment will be made on the basis of the Market Exchange Rate, computed by the Currency Determination Agent, on the second Business Day prior to such payment or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

**Payment of Principal, Premium, if any, and Interest, if any**

Payments of principal, premium, if any, and interest, if any, to owners of beneficial interests in the Global Notes are expected to be made in accordance with those procedures of DTC and its participants in effect from time to time as described in the subsection entitled "*Description of the Global Notes—Book-Entry System*" and, in the case of any note denominated in a Specified Currency other than U.S. dollars, as provided below.

Payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of "*—Payments of Additional Amounts*" below) any law implementing an intergovernmental approach thereto.

Except as described below, with respect to any Certificated Note, payments of interest, if any, will be made by mailing a check to the holder at the address of such holder appearing on the register for the notes on the regular record date (the "**Regular Record Date**"). Notwithstanding the foregoing, at our option, all payments of interest on the notes may be made by wire transfer of immediately available funds to an account at a bank located within the United States as designated by each holder not less than 15 calendar days prior to the relevant Interest Payment Date. A holder of \$10,000,000 (or, if the Specified Currency is other than U.S. dollars, the equivalent thereof in that Specified Currency) or more in aggregate principal amount of notes of like tenor and terms with the same Interest Payment Date may demand payment by wire transfer but only if appropriate payment instructions have been received in writing by any paying agent with respect to such note appointed by us, not less than 15 calendar days prior to the Interest Payment Date. In the event that payment is so made in accordance with instructions of the holder, such wire transfer shall be deemed to constitute full and complete payment of such principal, premium and/or interest on the notes. Payment of the principal, premium, if any, and interest, if any, due with respect to any Certificated Note at Maturity will be made in immediately available funds upon surrender of such note at the principal office of any paying agent appointed by us with respect to that note and accompanied by wire transfer instructions, provided that the Certificated Note is presented to such paying agent in time for such paying agent to make such payments in such funds in accordance with its normal procedures.

Payments of principal, premium, if any, and interest, if any, with respect to any note to be made in a Specified Currency other than U.S. dollars will be made by check mailed to the address of the person entitled thereto as its address appears in the register for the notes or by wire transfer to such account with a bank located in a jurisdiction acceptable to us and the trustee as shall have been designated at least 15 calendar days prior to the Interest Payment Date or Maturity, as the case may be, by the holder of such note on the relevant Regular Record Date or at Maturity, provided that, in the case of payment of principal of, and premium, if any, and interest, if any, due at Maturity, the note is presented to any paying agent appointed by us with respect to such note in time for such paying agent to make such payments in such funds in accordance with its normal procedures. Such designation shall be made by filing the appropriate information with the trustee at its Corporate Trust Office, and, unless revoked, any such designation made with respect to any note by a holder will remain in effect with respect to any further payments with respect to such note payable to such holder. If a payment with respect to any such note cannot be made by wire transfer because the required designation has not been received by the trustee on or before the requisite date or for any other reason, a notice will be mailed to the holder at its registered address requesting a designation pursuant to which such wire transfer can be made and, upon such trustee's receipt of such a designation, such payment will be made within 15 calendar days of such receipt. We will pay any administrative costs imposed by banks in connection with making payments by wire

transfer, but any tax, assessment or governmental charge imposed upon payments will be borne by the holders of such notes in respect of which such payments are made.

Except as provided below, payments of principal, premium, if any, and interest, if any, with respect to any note represented by Global Notes that is denominated in a Specified Currency other than U.S. dollars will be made in U.S. dollars, as set forth below. If the holder of such note on the relevant Regular Record Date or at Maturity, as the case may be, requests payments in a currency other than U.S. dollars, the holder shall transmit a written request for such payment to any paying agent appointed by us with respect to such note at its principal office on or prior to such Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be. Such request may be delivered by mail, by hand, by cable or by telex or any other form of facsimile transmission. Any such request made with respect to any note by a holder will remain in effect with respect to any further payments of principal, and premium, if any, and interest, if any, with respect to such note payable to such holder, unless such request is revoked by written notice received by such paying agent on or prior to the relevant Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be (but no such revocation may be made with respect to payments made on any such note if an Event of Default has occurred with respect thereto or upon the giving of a notice of redemption). Holders of notes denominated in a currency other than U.S. dollars whose notes are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in a currency other than U.S. dollars may be made.

The U.S. dollar amount to be received by a holder of a note denominated in other than U.S. dollars who elects to receive payments in U.S. dollars will be based on the highest indicated bid quotation for the purchase of U.S. dollars in exchange for the Specified Currency obtained by the Currency Determination Agent, as defined below, at approximately 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date (the “**Conversion Date**”) from the bank composite or multicontributor pages of the Quoting Source for three (or two if three are not available) major banks in New York City. The first three (or two) such banks selected by the Currency Determination Agent which are offering quotes on the Quoting Source will be used. If fewer than two such bid quotations are available at 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date, such payment will be based on the Market Exchange Rate as of the second Business Day immediately preceding the applicable payment date. If the Market Exchange Rate for such date is not then available, such payment will be made in the Specified Currency. As used herein, the “**Quoting Source**” means Reuters Monitor Foreign Exchange Service, or if the Currency Determination Agent determines that such service is not available, such comparable display or other comparable manner of obtaining quotations as shall be agreed between us and the Currency Determination Agent. All currency exchange costs associated with any payment in U.S. dollars on any such notes will be borne by the holder thereof by deductions from such payment. The currency determination agent (the “**Currency Determination Agent**”) with respect to any such note will be specified in the applicable Final Terms.

If the Specified Currency for a note denominated in a currency other than U.S. dollars is not available for the required payment of principal, premium, if any, and/or interest, if any, in respect thereof due to the imposition of exchange controls or other circumstances beyond our control, we will be entitled to satisfy our obligations to the holder of such note by making such payment in U.S. dollars on the basis of the Market Exchange Rate, computed by the Currency Determination Agent, on the second Business Day prior to such payment or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate. Any payment made in U.S. dollars under such circumstances where the required payment was to be in a Specified Currency other than U.S. dollars will not constitute an Event of Default under the indenture with respect to the notes.

All determinations referred to above made by the Currency Determination Agent shall be at its sole discretion in accordance with its normal operating procedures and shall, in the absence of manifest error, be conclusive for all purposes and binding on all holders and beneficial owners of notes.

## Interest

### *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year specified in the applicable Final Terms and on the Maturity Date specified in the applicable Final Terms if that does not fall on an Interest Payment Date. The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date.

Interest shall be calculated in respect of any period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Fixed Rate Notes and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest subunit of the relevant Specified Currency, half of any such subunit being rounded upwards or otherwise in accordance with applicable market convention.

If any Interest Payment Date or the date of Maturity of a Fixed Rate Note falls on the day that is not a Business Day, the required payments of principal, premium, if any, and interest, if any, with respect to such note will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after such Interest Payment Date or the date of Maturity, as the case may be, to the date of such payment on the next succeeding Business Day.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with the applicable Final Terms for any Fixed Rate Note:

- (a) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as so specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
- (b) if **30/360** is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of twelve 30 day months) divided by 360.

If no Day Count Fraction for Fixed Rate Notes is specified in the applicable Final Terms then the Day Count Fraction for such Notes shall be **Actual/Actual (ICMA)** for Notes other than those denominated or payable in U.S. Dollars and **30/360** for Notes denominated or payable in U.S. Dollars.

**Determination Period** means the period from (and including) a Determination Date in any year to (but excluding) the next Determination Date; and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

### ***Interest on Floating Rate Notes***

#### ***Interest Payment Dates***

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrear on either:

- (i) the Interest Payment Date(s) in each year specified in the applicable Final Terms (the period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date, each an **Interest Period**); or
- (ii) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date, each such date being an Interest Payment Date.

If any Interest Payment Date which is specified in the applicable Final Terms to be subject to adjustment in accordance with a business day convention would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (A) in any case where Interest Periods are specified in accordance with (ii) above, the Floating Rate Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

#### ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

Interest on Floating Rate Notes will be determined by reference to the applicable Interest Rate Basis or Bases, which may, as described below, include:

- the CD Rate;
- the one-year Constant Maturity Treasury Rate ("**CMT Rate**");
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;
- EURIBOR;
- the Federal Funds Rate;

- LIBOR;
- the Prime Rate; or
- the Treasury Rate.

The applicable Final Terms will specify whether any Margin, expressed as a percentage amount, is to be added or subtracted from the related Interest Rate Basis or Bases applicable to such Floating Rate Note.

The applicable Final Terms will specify whether the rate of interest on the related Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually or annually or at such other specified intervals as specified in the applicable Final Terms (each, an “**Interest Reset Period**”) and the dates on which such rate of interest will be reset (each, an “**Interest Reset Date**”). If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Reset Date will be postponed to the next succeeding Business Day except that in the case of a Floating Rate Note as to which EURIBOR or LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Reset Date will be the immediately preceding Business Day.

The interest rate applicable to each Interest Period will be the rate determined by the Calculation Agent (as specified in the applicable Final Terms) as of the applicable Interest Determination Date (“**Interest Determination Date**”).

The interest rate applicable to each Interest Reset Period commencing on the related Interest Reset Date will be the rate determined by the Calculation Agent (as specified in the applicable Final Terms) as of the applicable Interest Determination Date and calculated on or prior to the Calculation Date (as defined below), except with respect to the Eleventh District Cost of Funds Rate, EURIBOR and LIBOR, which will be calculated on such Interest Determination Date, except with respect to the Commercial Paper Rate and the Prime Rate, which will be calculated on or prior to the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, and except with respect to the CMT, which will be calculated on the dates specified below under “—*CMT Rate*.” The “Interest Determination Date” with respect to:

- the CD Rate and the Commercial Paper Rate will be the second Business Day preceding the applicable Interest Reset Date;
- the Federal Funds Rate will be the Business Day immediately preceding the applicable Interest Reset Date;
- the CMT Rate will be the second U.S. Government Securities Business Day preceding the applicable Interest Reset Date;
- the Prime Rate will be the applicable Interest Reset Date;
- the Eleventh District Cost of Funds Rate will be the last Business Day of the month immediately preceding the applicable Interest Reset Date on which the Federal Home Loan Bank of San Francisco (the “**FHLB of San Francisco**”) publishes the Index, as defined below;
- EURIBOR will be the second TARGET Settlement Date immediately preceding the applicable Interest Reset Date;
- LIBOR will be the second London Business Day immediately preceding the applicable Interest Reset Date, unless the Designated LIBOR Currency is pounds sterling, in which case the “Interest Determination Date” will be the applicable Interest Reset Date; and
- the Treasury Rate will be the day in the week in which the applicable Interest Reset Date falls on which the day Treasury Bills, as defined below, are normally auctioned (Treasury Bills are normally sold at an auction held on Monday of each week, unless such Monday is a legal holiday, in which case the auction is normally held on the immediately succeeding Tuesday although such auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the applicable Interest Reset Date, the



“Interest Determination Date” will be such preceding Friday; provided, further, that if the Interest Determination Date would otherwise fall on an Interest Reset Date, then such Interest Reset Date will be postponed to the next succeeding Business Day.

The “Interest Determination Date” pertaining to a Floating Rate Note the interest rate of which is determined by reference to two or more Interest Rate Bases will be the most recent Business Day which is at least two Business Days prior to the applicable Interest Reset Date for such Floating Rate Note on which each Interest Rate Basis is determinable. Each Interest Rate Basis will be determined as of such date, and the applicable interest rate will take effect on the applicable Interest Reset Date.

The “**Calculation Date**,” if applicable, pertaining to any Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

The Calculation Agent shall determine each Interest Rate Basis in accordance with the following provisions:

*CD Rate*

“**CD Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CD Rate, the rate on such date for negotiable U.S. dollar certificates of deposit having the Index Maturity specified in the applicable Final Terms as published in H.15(519), (as defined below), under the heading “CDs (secondary market)” or, if not so published by 3:00 p.m., New York City time on the related Calculation Date, the rate on such Interest Determination Date for negotiable U.S. dollar certificates of deposit of the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update (as defined below), or such other recognized electronic source used for the purpose of displaying such rate, under the caption “CDs (secondary market).” If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m. New York City time on the related Calculation Date, then the CD Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the secondary market offered rates as of 10:00 a.m. New York City time on such Interest Determination Date, of three leading non-bank dealers in negotiable U.S. dollar certificates of deposit in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) for negotiable U.S. dollar certificates of deposit of major U.S. money center banks with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms in an amount that is representative for a single transaction in that market at that time; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the CD Rate determined as of such Interest Determination Date will be the CD Rate in effect on such Interest Determination Date, or, if no CD Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

“**H.15(519)**” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System (the “**Board of Governors**”), or its successor, available through the website of the Board of Governors at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>.

“**H.15 Daily Update**” means the daily update of H.15(519) available at the Board of Governors of the Federal Reserve System’s Internet web site located at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>, or any successor site or publication.

### *CMT Rate*

“**CMT Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CMT Rate:

- (1) if the Reuters 7051 Page is specified in the applicable Final Terms as the Designated CMT Reuters Page:
  - (a) the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption “Treasury Constant Maturities,” as the yield is displayed on Reuters (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) (“**T7051 Page**”), on such Interest Determination Date, or
  - (b) if the rate referred to in clause (a) does not so appear on the T7051 Page, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index and for such Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities,” or
  - (c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on such Interest Determination Date for the period of the particular Designated CMT Maturity Index as may then be published by either the Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519), or
  - (d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the agents or their affiliates) (each, a “**Reference Dealer**”), selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
  - (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
  - (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT

- Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated, or
  - (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on such Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.
- (2) if the Reuters Page T7052 is specified in the applicable Final Terms as the Designated CMT Reuters Page:
- (a) the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities,” as the yield is displayed on Reuters (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) on page FEDCMT (or any other page as may replace the specified page on that service) (“**T7052 Page**”), for the week preceding the week in which such Interest Determination Date falls, or
  - (b) if the rate referred to in clause (a) does not so appear on the T7052 Page, the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index and for the week preceding such Interest Determination Date as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities,” or
  - (c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index as otherwise announced by the Federal Reserve Bank of New York for the week preceding the week in which such Interest Determination Date falls, or
  - (d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
  - (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or

- (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at the time, or
- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest or the lowest of the quotations will be eliminated, or
- (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

If two United States Treasury securities with an original maturity greater than the Designated CMT Maturity Index specified in the applicable Final Terms have remaining terms to maturity equally close to the particular Designated CMT Maturity Index, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

**“Designated CMT Maturity Index”** means the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in the applicable Final Terms with respect to which the CMT Rate will be calculated.

#### *Commercial Paper Rate*

**“Commercial Paper Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Commercial Paper Rate, the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “Commercial Paper— Nonfinancial” or, if not so published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the Money Market Yield on such Interest Determination Date for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper—Nonfinancial.” If such rate is not yet published in H.15(519), the H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Commercial Paper Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 a.m., New York City time on such Interest Determination Date of three leading dealers of U.S. dollar commercial paper in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) for U.S. dollar commercial paper having the Index Maturity specified in the applicable Final Terms placed for industrial issuers whose bond rating is “Aa,” or the equivalent, from a nationally recognized statistical rating organization; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Commercial Paper Rate determined as of such Interest Determination Date will be the Commercial Paper Rate in effect on such Interest Determination Date, or, if no Commercial Paper Rate

was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

“**Money Market Yield**” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{MoneyMarketYield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “**D**” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “**M**” refers to the actual number of days in the applicable Interest Reset Period.

#### *Eleventh District Cost of Funds Rate*

“**Eleventh District Cost of Funds Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Eleventh District Cost of Funds Rate, the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which such Interest Determination Date falls as set forth opposite the caption “11th Dist COFI” on the display on Reuters (or any successor service) on page COFI/ARMS (or any other page as may replace such page on such service) (“**COFI/ARMS Page**”) as of 11:00 a.m., San Francisco time, on such Interest Determination Date. If such rate does not appear on the COFI/ARMS Page on such Interest Determination Date then the Eleventh District Cost of Funds Rate on such Interest Determination Date shall be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the “**Index**”) by the FHLB of San Francisco as such cost of funds for the calendar month immediately preceding such Interest Determination Date. If the FHLB of San Francisco fails to announce the Index on or prior to such Interest Determination Date for the calendar month immediately preceding such Interest Determination Date, the Eleventh District Cost of Funds Rate for such Interest Determination Date will be the Eleventh District Cost of Funds Rate in effect on such Interest Determination Date; provided, that if no Eleventh District Cost of Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

#### *EURIBOR*

“**EURIBOR**” means the rate determined in accordance with the following provisions:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to EURIBOR, EURIBOR will be the rate for deposits in euro for a period of the Index Maturity as specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated EURIBOR Page as of 11:00 A.M., Brussels time, on such Interest Determination Date; or if no such rate so appears, EURIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (2) below.
- (2) With respect to an Interest Determination Date on which no rate appears on the Designated EURIBOR Page as specified in clause (1) above, the Calculation Agent will request the principal eurozone office of each of four major reference banks (which may include affiliates of the Placement Agents) in the eurozone interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in euro for the period of the Index Maturity specified in the applicable Final Terms commencing on the applicable Interest Reset Date, to prime banks in the eurozone interbank market at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in euro in such market at such time. If at least two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then EURIBOR on such

Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such Interest Determination Date by three major banks (which may include affiliates of the Placement Agents) in the eurozone selected by the Calculation Agent (after consultation with us) for loans in euro to leading European banks, having the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in euro in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, EURIBOR determined as of such Interest Determination Date will be EURIBOR in effect on such Interest Determination Date, or, if no EURIBOR was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

**“Designated EURIBOR Page”** means the display on the page specified in the applicable Final Terms for the purpose of displaying the eurozone interbank rates of major banks for the euro; provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any successor service) on the EURIBOR 01 page (or any other page as may replace such page on such service) shall be used.

**“eurozone”** means the region comprised of member states of the European Union that have adopted the single currency in accordance with the Treaty on European Union signed at Maastricht on February 7, 1992.

#### *Federal Funds Rate*

**“Federal Funds Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Federal Funds Rate, the rate on such date for U.S. dollar federal funds as published in H.15(519) opposite the heading “Federal Funds (Effective),” as such rate is displayed on Reuters (or any successor service) on page FEDFUNDS 1 (or any other page as may replace such page) (**“Reuters Page FEDFUNDS 1”**), or, if such rate does not appear on Reuters Page FEDFUNDS 1 or is not so published by 5:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date for U.S. dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective).” If such rate does not appear on Reuters Page FEDFUNDS 1 or is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the related Calculation Date, then the Federal Funds Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) prior to 9:00 a.m., New York City time, on such Interest Determination Date; provided, however, that if the brokers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Interest Determination Date will be the Federal Funds Rate in effect on such Interest Determination Date, or, if no Federal Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

#### *LIBOR*

**“LIBOR”** means the rate determined in accordance with the following:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to LIBOR, LIBOR will be the rate for deposits in the Designated LIBOR Currency for a period of the Index Maturity specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 A.M., London time, on such Interest Determination Date, or if no such rate so appears, LIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (2) below.

- (2) With respect to an Interest Determination Date on which no rate appears on the Designated LIBOR Page as specified in clause (1) above, the Calculation Agent will request the principal London offices of each of four major reference banks (which may include affiliates of the Placement Agents) in the London interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in the Designated LIBOR Currency for the period of the Index Maturity specified in the applicable Final Terms, commencing on the applicable Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on such Interest Determination Date by three major banks (which may include affiliates of the Placement Agents) in such Principal Financial Center selected by the Calculation Agent (after consultation with us) for loans in the Designated LIBOR Currency to leading European banks, having the Index Maturity specified in the applicable Final Terms, commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined as of such Interest Determination Date will be LIBOR in effect on such Interest Determination Date or, if no LIBOR rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

**“Designated LIBOR Currency”** means the currency specified in the applicable Final Terms as to which LIBOR shall be calculated or, if no such currency is specified in the applicable Final Terms, U.S. dollars.

**“Designated LIBOR Page”** means the display on the page specified in the applicable Final Terms for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency, provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any such service) on the LIBOR 01 page (or any other page as may replace such page on such service) shall be used for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency.

#### *Prime Rate*

**“Prime Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Prime Rate, the rate on such date as such rate is published in H.15(519) opposite the caption “Bank Prime Loan” or, if not published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the rate on such Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, opposite the caption “Bank Prime Loan.” If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Prime Rate shall be the arithmetic mean, as determined by the Calculation Agent, of the rates of interest publicly announced by three major banks (which may include affiliates of the Placement Agents) in New York City selected by the Calculation Agent (after consultation with us) as the U.S. dollar prime rate or base lending rate in effect for such Interest Determination Date. (Each change in the prime rate or base lending rate of any bank so announced by such bank will be effective as of the effective date of the announcement or, if no effective date is specified, as of the date of the announcement.) If fewer than three major banks (which may include affiliates of the Placement Agents) so selected in New York City have publicly announced a U.S. dollar prime rate or base lending rate for such Interest Determination Date, the Prime Rate with respect to such Interest Determination Date shall be the rate in effect on such Interest Determination Date, or, if no Prime Rate was in effect on such Interest

Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

#### *Treasury Rate*

“**Treasury Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined by reference to the Treasury Rate, the rate from the auction held on such Interest Determination Date (the “**Auction**”) of direct obligations of the United States (“**Treasury Bills**”) having the Index Maturity specified in the applicable Final Terms under the caption “INVEST RATE” on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace such page) (“**USAUCTION 10**”) or page USAUCTION 11 (or any other page as may replace such page) (“**USAUCTION 11**”) or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/ Auction High” or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of such Treasury Bills as announced by the U.S. Department of the Treasury. In the event that the auction rate of Treasury Bills having the Index Maturity specified in the applicable Final Terms is not so announced by the U.S. Department of the Treasury, or if no such Auction is held, then the Treasury Rate will be the Bond Equivalent Yield of the rate on such Interest Determination Date of Treasury Bills having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “U.S. Government Securities/Treasury Bills/Secondary Market” or, if not yet published by 3:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date of such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/Secondary Market.” If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be calculated by the Calculation Agent and will be the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on such Interest Determination Date, of three primary U.S. government securities dealers (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us), for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Interest Determination Date will be the Treasury Rate in effect on such Interest Determination Date, or, if no Treasury Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

“**Bond Equivalent Yield**” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{BondEquivalentYield} = \frac{D \times N \times 100}{360 - (D \times M)}$$

where “**D**” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis, “**N**” refers to 365 or 366, as the case may be, and “**M**” refers to the actual number of days in the applicable Interest Reset Period.

#### *Minimum and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

The interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified, or other applicable law.



*Determination of Rate of Interest and calculation of Interest Amount; Percentages*

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Calculation Agent will calculate the amount of interest (each an “**Interest Amount**”) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the aggregate outstanding nominal amount of the notes and multiplying such sum by the Day Count Fraction specified in the applicable Final Terms. The resultant figure will be rounded as follows (or otherwise in accordance with applicable market convention):

- (i) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up);
- (ii) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen; and
- (iii) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

All percentages resulting from any calculation on Floating Rate Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five or more one millionths of a percentage point rounded upwards (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)).

**Day Count Fraction** means, in respect of the calculation of an amount for any period of time in accordance with the applicable Final Terms for any Floating Rate Note:

- (A) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360; and
- (E) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (F) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30.

- (G) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

### *Notification of Rate of Interest and Interest Amounts*

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Issuer, to the Trustee and to any listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to be published as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will promptly be notified to each listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to the holders in accordance with the indenture.

### *Determination or calculation by Trustee*

If for any reason at any time after the Original Issue Date, the Calculation Agent defaults in its obligation to determine the Rate of Interest in accordance with this subsection or the Calculation Agent defaults in its obligation to calculate any Interest Amount in accordance with this subsection, the Trustee (or an agent acting on its behalf) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this subsection, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee (or an agent acting on its behalf) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

### *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this subsection, whether by the Paying Agent or the Calculation Agent or the Trustee, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Paying Agent, the Calculation Agent, the Trustee, any other paying agents and all holders and (in the absence as aforesaid) no liability to the Issuer or the holders shall attach to the Paying Agent, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

### **Additional Notes**

We may issue additional notes of a series having identical terms to that of a prior series of notes of the same series but for the Original Issue Date and the public offering price (“**Additional Notes**”). The Final Terms relating to any Additional Notes will set forth matters related to such issuance, including identifying the prior series of notes, their Original Issue Date and the aggregate principal amount of notes then comprising such series.

### **Payment of Additional Amounts**

We will pay to the holder of any note such additional amounts as may be necessary in order that every net payment of the principal of (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount (as defined below) or other amount payable in respect thereof) and interest, if any, on such note, after deduction or other withholding for or on account of any present or future tax, assessment, duty or other governmental charge of any nature whatsoever imposed, levied or collected by or on behalf of the United Kingdom, or any political subdivision thereof or authority therein having power to tax, will not be less than the amount provided for in such note as then due and payable. No such additional amount shall, however, be payable on any note on account of any tax, assessment, duty or other governmental charge which is payable:

- (1) otherwise than by deduction or withholding from any payments of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on such note;

- (2) by reason of the holder or beneficial owner who is liable for such taxes having some connection with the United Kingdom (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in the United Kingdom) other than by the mere holding of such note or enforcement of rights thereunder or the receipt of payments in respect thereof;
- (3) by reason of a change in law or official practice of any relevant taxing authority that becomes effective more than 30 days after the Relevant Date (as defined below) for payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of such note;
- (4) on a payment to or for the benefit of an individual and is required to be made pursuant to any European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of November 26–27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (5) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant note to another paying agent in a member state of the European Union;
- (6) by reason of any estate, excise, inheritance, gift, sales, transfer, wealth, personal property tax or any similar assessment or governmental charge;
- (7) as a result of the failure of a holder to satisfy any statutory requirements or make a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (8) by reason of any note presented for payment in the United Kingdom if such payment could have been made by or through any other paying agent without such tax, assessment, duty or other governmental charge; or
- (9) owing to a combination of clauses (1) through (8) above.

“**Relevant Date**” means the date on which the payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on a note first becomes due and payable but, if the full amount of the monies payable on such date has not been received by the relevant Paying Agent or as it shall have directed on or prior to such date, the “**Relevant Date**” means the date on which such monies shall have been so received. No additional amounts will be paid as provided above with respect to any payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on such note to any holder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of any such note.

## **Redemption and Repurchase**

### ***Final Redemption***

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at 100% of its nominal amount in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

### ***Redemption for Tax Reasons***

The notes of any series may be redeemed, subject to, in the case of the subordinated notes, any Relevant Supervisory Consent, as a whole but not in part, at our option upon not more than 60 days’, nor less than 30 days’, prior notice given as provided below under the subsection entitled “—*Notices*,” at a redemption

price equal to 100% of the principal amount (or at the then current Amortized Face Amount if the note is a Zero Coupon Note) (and premium, if any, thereon) together with interest, if any, to the date fixed for redemption, if on the occasion of the next payment due on the notes we would become obligated to pay additional amounts (as provided in the indenture) and such obligation cannot be avoided by the use of reasonable measures available to us; provided, that notes of a series may not be so redeemed if our obligation to pay such additional amount arises by reason of the notes not being admitted to listing on the Official List, and not being admitted to trading on the London Stock Exchange or not being listed on another “recognized stock exchange” within the meaning of Section 1005 of the UK Income Tax Act 2007.

In the event that we elect to redeem the notes of any series pursuant to the provisions set forth in the preceding paragraph, we will deliver to the trustee (i) a certificate, signed by two of our authorized officers, evidencing compliance with such provisions and stating that we are entitled to redeem the notes of any such series pursuant to the terms of such notes and the indenture and (ii) a written opinion of our counsel to the effect that the circumstances referred to above exist.

#### ***Redemption at Our Option***

If so specified in the applicable Final Terms, the notes of a series will be redeemable at our option prior to the Stated Maturity. If so specified, and subject to the terms set forth in the applicable Final Terms and, in the case of subordinated notes, any Relevant Supervisory Consent, the notes will be subject to redemption at our option on any date on and after the applicable Initial Redemption Date specified in the applicable Final Terms in whole or from time to time in part in minimum increments of \$200,000 for senior notes and \$250,000 for subordinated notes, or the minimum denomination specified in such Final Terms (provided that any remaining principal amount thereof shall be at least \$200,000 for senior notes and \$250,000 for subordinated notes, or such minimum denomination), at the Redemption Price specified in the applicable Final Terms on notice given not more than 60 days, if the notes are being redeemed in whole, or 45 days, if the notes are being redeemed in part, nor less than 30 days prior to the date of redemption and in accordance with the provisions of the indenture.

The notes will not be subject to any sinking fund.

#### ***Repayment at the Option of the Holders (other than holders of Subordinated Notes)***

If so specified in the applicable Final Terms (unless the relevant Note is a Subordinated Note), the notes will be repayable by us in whole or in part at the option of the holders thereof on their respective optional repayment dates (“**Optional Repayment Dates**”) specified in such Final Terms, upon not more than 30 days’, nor less than 15 days’, notice prior to such Optional Repayment Dates. If no Optional Repayment Date is specified with respect to a note, such note will not be repayable at the option of the holder thereof prior to the Stated Maturity. Any repayment in part will be in increments of \$200,000 for senior notes and \$250,000 for subordinated notes, or the minimum denomination specified in the applicable Final Terms (provided that any remaining principal amount thereof shall be at least \$200,000 for senior notes and \$250,000 for subordinated notes, or such minimum denomination). Unless otherwise specified in the applicable Final Terms, the repayment price for any note to be repaid means an amount equal to the sum of the unpaid principal amount thereof or the portion thereof plus accrued interest to the date of repayment. Exercise of the repayment option is irrevocable.

#### ***Late Payment on Zero Coupon Notes***

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to this subsection or upon its becoming due and repayable as provided upon the occurrence of any Event of Default under the indenture is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided under “—*Early Redemption Amounts*” below as though the references therein to the date fixed for redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of the Zero Coupon Note have been paid; and
- (b) the date on which the full amount of the moneys payable has been received by the Paying Agent or the Trustee and notice to that effect has been given to the holders.

### *Early Redemption Amounts*

For the purposes of redemption for tax reasons and redemption upon the occurrence of any Event of Default under the indenture, each Note will be redeemed at an amount calculated as follows:

- (a) (in the case of Notes other than Zero Coupon Notes) at 100% of the principal amount (and premium, if any, thereon) together with interest, if any, to the date fixed for redemption; or
- (b) in the case of Zero Coupon Notes, at an amount (the **Amortized Face Amount**) equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Original Issue Date of the notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360 day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365).

### *Selection of Notes for Partial Redemption*

In the case of any partial redemption of notes, and subject to the terms specified in the applicable Final Terms, the notes to be redeemed shall be selected by the trustee individually by lot not more than 60 days prior to the Redemption Date from the outstanding notes not previously called for redemption, provided that partial redemption of Global Notes shall be effected in accordance with DTC's procedures.

### *Repurchase*

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased may be held or resold and, at our discretion, notes may be surrendered to the trustee for cancellation.

### *Financial Conduct Authority Consents*

Under the FCA requirements, any optional tax redemption or repurchase or any other optional redemption or purchase by us of subordinated notes of any series may be made only with the prior consent or non-objection of the FCA and subject to such conditions as the FCA may impose at the time of any consent.

### *Agreement with Respect to the Exercise of UK Bail-in Power*

By its acquisition of the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority (as defined below) that may result in (i) the cancellation, write-down or reduction of all, or a portion, of the principal amount of, or interest on, the notes (including by variation of the notes) and/or (ii) any other modification of the notes and/or (iii) the conversion of all, or a portion, of the principal amount of, or interest on, the notes into our or another person's shares or other securities or other obligations (including by variation of the notes) to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power, and the rights of the holders of the notes will be subject to the provisions of any UK bail-in power which are expressed to implement such a reduction, write-down, cancellation, modification or conversion. Each noteholder further acknowledges and agrees that the rights of the noteholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise by the relevant UK resolution authority of such UK bail-in power.

For purposes of the notes, a "UK bail-in power" is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain

banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the UK Banking Act 2009, as the same may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 or otherwise), and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the “**BRRD**”), pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power). “Group” means the Issuer together with its subsidiaries consolidated in accordance with International Financial Reporting Standards.

No repayment of the principal amount of the notes or payment of interest on the notes shall become due and payable after the exercise of any UK bail-in power by the relevant UK resolution authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us after the exercise of such UK bail-in power.

By its acquisition of the notes, each holder of the notes waives any and all claims against the trustee for, agrees not to initiate a suit against the trustee in respect of, and agrees that the trustee will not be liable for, any action that the trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes.

Upon the exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes, we will provide a written notice to DTC as soon as practicable regarding such exercise of the UK bail-in power for purposes of notifying holders of the notes of such occurrence. We will also deliver a copy of such notice to the trustee for information purposes.

The exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes and/or the guarantees will not be an Event of Default (as defined in the indenture) with respect to such notes and/or the related guarantees.

Our obligations to indemnify the trustee shall survive the exercise of the UK bail-in power by the relevant UK resolution authority with respect to any notes.

By its acquisition of the notes, each noteholder acknowledges and agrees that, upon the exercise of any UK bail-in power by the relevant UK resolution authority with respect to such notes, (a) the trustee shall not be required to take any further directions from noteholders of the affected notes and (b) the indenture shall impose no duties upon the trustee whatsoever with respect to the exercise of any UK bail-in power by the relevant UK resolution authority. Notwithstanding the foregoing, if, following the completion of the exercise of the UK bail-in power by the relevant UK resolution authority, the notes remain outstanding (for example, if the exercise of the UK bail-in power results in only a partial write-down of the principal of the notes), then the trustee's duties under the indenture shall remain applicable with respect to the notes following such completion to the extent that the issuer, the guarantor and the trustee shall agree pursuant to another supplemental indenture or an amendment to the indenture; provided, however, that notwithstanding the exercise of the UK bail-in power by the relevant UK authority, there shall at all times be a trustee for the notes in accordance with the indenture, and the resignation and/or removal of the trustee and the appointment of a successor trustee will continue to be governed by the indenture, including to the extent no additional supplemental indenture or amendment is agreed upon in the event the notes remain outstanding following the completion of the exercise of the UK bail-in power.

By its acquisition of the notes, each noteholder (a) acknowledges and agrees to be bound by and consents to the exercise of any UK bail-in power as it may be imposed without any prior notice by the relevant UK resolution authority of its decision to exercise such power with respect to such notes and (b) shall be

deemed to have authorized, directed and requested DTC and any direct participant in DTC or other intermediary through which it holds such notes to take any and all necessary action, if required, to implement the exercise of any UK bail-in power with respect to such notes as it may be imposed, without any further action or direction on the part of such holder or the trustee.

For a discussion of certain risk factors relating to the UK bail-in power, see “*Risk Factors—Risks Related to the Notes.*”

### **Negative Pledge**

The negative pledge applies to the senior notes only. So long as any of the senior notes remain outstanding, we will not, and will not suffer or permit any of our subsidiaries to, create or have outstanding any mortgage, lien (other than a lien arising by operation of law), pledge or other charge or security interest upon the whole or any part of our or its business or assets, present or future (for the purposes of this subsection, a “**Security Interest**”), to secure any of our Loan Stock or the Loan Stock of any of our subsidiaries or any of our or our subsidiaries’ obligations under any guarantee of or indemnity in respect of the Loan Stock of any other person, without at the same time or prior thereto securing the senior notes equally and ratably therewith to the satisfaction of the trustee or providing such other security for the senior notes which the trustee in its absolute discretion shall deem to be not materially less beneficial to the holders of senior notes or which shall be approved by a majority of the holders of senior notes then outstanding provided that we or any of our subsidiaries may create or have outstanding Security Interests with respect to Loan Stock (without the obligation to secure the senior notes as aforesaid) if at the date of the creation thereof we or any of our subsidiaries have and thereafter maintain free and clear of Security Interests assets the fair market value of which (calculated on a consolidated basis) is at least twice the aggregate principal amount of all Loan Stock which is not secured by any such Security Interest. As used in this subsection, “**Loan Stock**” means indebtedness for the time being outstanding which is in the form of or represented or evidenced by bonds, notes, debentures, loan stock or other similar securities.

### **Events of Default—Senior Notes**

The following shall constitute “**Events of Default**” with respect to the senior notes:

- (1) we fail to pay any principal within three days of the due date or interest within seven days of the due date in respect of the senior notes of such series; or
- (2) we default in performance or observance of or compliance with any of our other obligations set out in the senior notes of such series or the indenture which default is incapable of remedy or which, if capable of remedy, is not, in the opinion of the trustee, remedied within 30 days (or such longer period as the trustee may permit) after notice requiring remedy of such default shall have been given to us by the trustee; or
- (3)
  - (a) any other present or future indebtedness in respect of moneys borrowed or raised in an amount of £40,000,000 or more (or its equivalent in any other currency) of us or any Material Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or
  - (b) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or
  - (c) we fail or any Material Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefor any amount payable by us or it under any present or future guarantee in an amount of £40,000,000 or more (or its equivalent in any other currency) (other than any guarantee given in the ordinary course of our or its business) for any indebtedness in respect of moneys borrowed or raised; or
  - (d) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £40,000,000 or more (or its equivalent in any other currency) and created or assumed by us or any Material Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or



- (4) a distress or execution or other similar legal process in respect of a claim for £20,000,000 or more is levied or enforced or sued out upon or against any part of our property, assets or revenues or the property, assets or revenues of any Material Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or
- (5) we become, or any Material Subsidiary becomes, insolvent or unable to pay our or its debts as they mature; or we apply, or any Material Subsidiary applies, for or consents to or suffers the appointment of a liquidator or receiver or administrator or similar officer of ourselves or itself or the whole or any substantial part of our or its undertaking, property, assets or revenues; or we take, or any Material Subsidiary takes, any proceeding under any law for a readjustment or deferment of our or its obligations or any part thereof; or we make or enter, or any Material Subsidiary makes or enters, into a general assignment or an arrangement or composition with or for the benefit of our or its creditors; or we stop, or any Material Subsidiary stops or threatens to cease, to carry on our or its business or any substantial part of our or its business except in any case in connection with a substitution pursuant to the Consolidation, Merger and Sale or Lease of Assets provisions of the indenture (see the subsection entitled “—*Consolidation, Merger and Sale or Lease of Assets*”) or for the purpose of a reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the trustee, or in the case of a Material Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to us or another of our wholly-owned subsidiaries; or
- (6) an order is made or an effective resolution is passed to wind up or dissolve us or any Material Subsidiary or our authorization or registration is, or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the trustee or in the case of a voluntary solvent winding up of a wholly-owned Material Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to us or another of our wholly owned Subsidiaries or in connection with a substitution pursuant to the senior notes or the indenture).

“**Material Subsidiary**” means a Subsidiary of ours whose total assets (attributable to us) represent 10% or more of our and our subsidiaries’ consolidated total assets (all as more particularly described in the indenture).

#### **Events of Default—Subordinated Notes**

The following shall constitute “Events of Default” with respect to the subordinated notes:

- (1) if default is made for a period of seven days or more in the payment of any principal due on the subordinated notes of such series or for a period of 14 days or more in the payment of any interest due on the subordinated notes of such series; or
- (2) if, otherwise than by virtue of Section 93(5), Section 94(10), Section 97(9) or Section 97(10) of the UK Building Societies Act, (a) we are dissolved by consent of our members, (b) a special resolution of our members is passed that we be wound up voluntarily or (c) a petition to a court in England for our winding up shall have been granted; or
- (3) if our registration under the UK Building Societies Act is cancelled otherwise than under Section 103(1)(a) of the UK Building Societies Act.

#### **Collection of Indebtedness and Suits for Enforcement by Trustee**

If any Event of Default has occurred and is continuing with regard to senior notes of any series, the trustee may, at its discretion and without further notice, take such proceedings against us as it may think fit to enforce payment on such senior notes. However, the trustee will not be bound to take any action with respect to such series of senior notes unless:

- (1) it shall have been so requested in writing by holders of at least 25% of the nominal amount of the Outstanding Notes of such series of senior notes; and

- (2) it shall have been indemnified to its satisfaction.

If any Event of Default has occurred and is continuing with regard to subordinated notes of any series, the trustee may at its discretion institute proceedings for our winding up in England (but not elsewhere) to enforce our obligations in respect of the subordinated notes and the indenture insofar as it relates to the subordinated notes. However, we may not make any payment of principal in respect of the subordinated notes, nor will the trustee accept any such payment of principal from us, other than during or after our winding up or dissolution, unless a Relevant Supervisory Consent has been granted. For the purposes of the foregoing, a payment shall be deemed to be due even if we are not solvent.

### **Judgments**

Under current New York law, a state court in the State of New York rendering a judgment in respect of a note denominated in other than U.S. dollars would be required to render such judgment in the Specified Currency, and such judgment would be converted into U.S. dollars at the Market Exchange Rate prevailing on the date of entry of such judgment. Accordingly, the holder of such Note denominated in other than U.S. dollars would be subject to exchange rate fluctuations between the date of entry of a judgment in a currency other than U.S. dollars and the time the amount of such judgment is paid to such holder in U.S. dollars and converted by such holder into the Specified Currency. It is not certain, however, whether a non-New York state court would follow the same rules and procedures with respect to conversions of judgments in currency other than U.S. dollars.

We will indemnify the holder of any note against any loss incurred by such holder as a result of any judgment or order being given or made for any amount due under such note and such judgment or order requiring payment in a currency (the “**Judgment Currency**”) other than the Specified Currency, and as a result of any variation between (i) the rate of exchange at which the Specified Currency amount is converted into the Judgment Currency for the purpose of such judgment or order, and (ii) the rate of exchange at which the holder of such note, on the date of payment of such judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received by such holder, as the case may be.

### **Consolidation, Merger and Sale or Lease of Assets**

So long as any note of a series remains outstanding, we will not consolidate or amalgamate with or merge into any other Person or convey, transfer or lease our properties and assets substantially as an entirety to any Person unless:

- (1) the Person formed by such consolidation or amalgamation or into which we are merged or the Person which acquired by conveyance or transfer, or which leases, our properties and assets substantially as an entirety shall be a Person organized and validly existing under the laws of the United Kingdom which shall expressly assume, by an amendment to the indenture that is executed and delivered to the trustee and is in form reasonably satisfactory to the trustee, the due and punctual payment of the principal of (and premium, if any, on) and interest, if any, on all of the notes of such a series and the performance of every covenant of the indenture (other than a covenant included in the indenture solely for the benefit of notes of another series) and of such notes to be performed, and such assumption shall provide that such corporation or Person shall pay to the holder of any such notes such additional amounts as may be necessary in order that every net payment of the principal of (and premium, if any, on) and interest, if any, on such notes will not be less than the amounts provided for in such notes to be then due and payable and such obligations shall extend to any deduction or withholding for or on account of any present or future tax, assessment or governmental charge imposed upon such payment (it being understood that, except as aforesaid, no such corporation or Person shall be obligated to make any indemnification or payment in respect of any tax consequences to any holder as a result of such assumption of rights and obligations if such corporation or Person would not be obligated to pay an additional amount pursuant to the indenture if such corporation or Person were us);

- (2) immediately after giving effect to such transaction, no Event of Default with respect to notes of such series, and no event which, after notice or lapse of time, or both, would become an Event of Default with respect to such notes, shall have occurred and be continuing; and
- (3) we have delivered to the trustee a certificate signed by two duly authorized officers and an opinion of counsel each stating that such consolidation, amalgamation, merger, conveyance, transfer or lease and such amendment to the indenture evidencing the assumption by such corporation or Person comply with the indenture and that all conditions precedent provided for in the indenture relating to such transaction have been complied with.

Upon any such consolidation, amalgamation or merger, or any such conveyance, transfer or lease, the successor corporation or Person will succeed to, and be substituted for, and may exercise every right and power of ours, under the indenture with the same effect as if such successor corporation or Person has been named as the issuer thereunder, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under the indenture and such notes.

### **Satisfaction and Discharge**

The indenture provides that we will be discharged from our obligations under the notes of a series (with certain exceptions) at any time prior to the Stated Maturity, or redemption of such notes when (i) we have irrevocably deposited with or to the order of the trustee, in trust, (a) sufficient funds in the currency, currencies, currency unit or units in which such notes are payable (without consideration of any reinvestment thereof) to pay the principal of (and premium, if any, on) and interest, if any, on such notes to the Stated Maturity (or Redemption Date), or (b) such amount of U.S. Government Obligations (as defined below) as will, together with the predetermined and certain income to accrue thereon (without consideration of any reinvestment thereof), be sufficient to pay when due the principal of (and premium, if any, on) and interest, if any, to the Stated Maturity (or Redemption Date), on such notes, or, (c) such amount equal to the amount referred to in clause (a) or (b) in any combination of currency or currency unit of U.S. Government Obligations; (ii) we have paid all other sums payable with respect to such notes; (iii) we have delivered to the trustee an opinion of counsel to the effect that (a) we have received from, or there has been published by, the U.S. Internal Revenue Service a ruling, or (b) since the date of the indenture there has been a change in applicable U.S. federal income tax law, in either case to the effect that, and based upon which such opinion of counsel shall confirm that, the holders of such notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such discharge and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such discharge had not occurred; and (iv) certain other conditions are met. Upon such discharge, the holders of the notes of such a series shall no longer be entitled to the benefits of the terms and conditions of the indenture and notes, except for certain provisions including registration of transfer and exchange of such notes and replacement of mutilated, destroyed, lost or stolen notes of such series, and shall look for payment only to such deposited funds or obligations. In addition, any such discharge with respect to the subordinated notes of any series would require a Relevant Supervisory Consent.

**“U.S. Government Obligations”** means non-callable (i) direct obligations (or certificates representing an ownership interest in such obligations) of the United States for which its full faith and credit are pledged or (ii) obligations of a Person controlled or supervised by, and acting as an agency or instrumentality of, the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States.

### **Supplemental Indentures**

The indenture contains provisions permitting us and the trustee (i) without the consent of the holders of any notes issued under the indenture, to execute supplemental indentures for certain enumerated purposes, such as to cure any ambiguity or inconsistency or to make any change that does not have a materially adverse effect on the rights of any holder of such notes, and (ii) with the consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Notes of each series of notes issued under the indenture and affected thereby, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture or of modifying in any manner the rights of holders of any such note under the indenture; provided, that no such supplemental indenture may, without the

consent of the holder of each such Outstanding Note affected thereby (a) change the Stated Maturity or the principal of or interest on any such note, or reduce the principal amount of any such note or the rate of interest thereon, if any, or any premium or principal payable upon redemption thereof, or change any obligation of ours to pay additional amounts thereon, or change any Place of Payment where, or change the currency in which, any such note or the interest, if any, thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity, if any, thereof or the date any such payment is otherwise due and payable (or, in the case of redemption, on or after the redemption date); or (b) reduce the percentage in aggregate principal amount of such Outstanding Notes of any particular series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the indenture or certain defaults thereunder and their consequences) provided for in the indenture; or (c) change any obligation we have to maintain an office or agency in the places and for the purposes specified in the indenture; or (d) modify certain of the provisions of the indenture pertaining to the waiver by holders of such notes of past defaults, supplemental indentures with the consent of holders of such notes and the waiver by holders of such notes of certain covenants, except to increase any specified percentage in aggregate principal amount required for any actions by holders of notes or to provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holder of each such note affected thereby; or (e) in the case of the subordinated notes, change in any manner adverse to the interests of the holders of such Outstanding subordinated notes the subordination provisions of such subordinated notes.

In addition, material variations in the terms and conditions of the subordinated notes of any series, which may include modifications relating to the status, subordination, redemption, repurchase or Events of Default with respect to such subordinated notes, may require a Relevant Supervisory Consent.

#### **Waivers**

The holders of not less than a majority in aggregate principal amount of the Outstanding Notes of a series of notes affected thereby, may on behalf of the holders of all notes of such series waive compliance by us with certain restrictive provisions of the indenture as pertain to the corporate existence of us, the maintenance of certain agencies by us or, solely with respect to senior notes, as pertain to the negative pledge covenant as described under the subsection entitled “*Negative Pledge*.”

The holders of a majority in aggregate principal amount of the Outstanding Notes of a series of notes may waive on behalf of the holders of all notes of such series, any past default and its consequences under the indenture, except a default in the payment of the principal of (or premium, if any, on) or interest, if any, on any such note of that series or a default in respect of a covenant or a provision which under the indenture cannot be modified or amended without the consent of the holder of each Outstanding Note of such series.

In addition to our and the trustee's rights to modify and amend the indenture as described above, modifications of and amendments to the terms of the indenture or the notes may be made by us and the trustee, without the further consent of the noteholders, to the extent necessary to give effect to the exercise by the relevant UK resolution authority of the UK bail-in power.

#### **Notices**

Notices to holders of notes will be given by mail to addresses of such holders as they appear in the notes' register.

#### **Governing Law**

The indenture and the notes shall be governed by and construed in accordance with the laws of the State of New York; except that the subordination provisions contained in clause 1201 in the indenture and the subordinated notes will be governed by and construed in accordance with the laws of England and Wales, with the intention that such provisions be given full effect in any insolvency proceeding relating to us in England and Wales.

**Consent to Service**

We have designated and appointed CT Corporation System at 111 Eighth Avenue, in the Borough of Manhattan, New York City, New York 10011 as our authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the notes or the indenture which may be instituted in any State or Federal court located in the Borough of Manhattan, City of New York, State of New York, and have submitted (for the purposes of any such suit or proceeding) to the jurisdiction of any such court in which any such suit or proceeding is so instituted. We have agreed, to the fullest extent that we lawfully may do so, that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding upon us and may be enforced in the courts of England and Wales (or any other courts to the jurisdiction of which it is subject).

Notwithstanding the foregoing, any actions arising out of or relating to the notes or the indenture may be instituted by us, the trustee or the holder of any note in any competent court in England and Wales or such other competent jurisdiction, as the case may be.

**Concerning the Trustee**

The indenture provides that, except during the continuance of an Event of Default for a series of notes, the trustee will have no obligations other than the performance of such duties as are specifically set forth in the indenture. If an event of default has occurred and is continuing, the trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

## DESCRIPTION OF THE GLOBAL NOTES

### Global Notes

So long as DTC or its nominee is the holder of the Global Notes, any owner of a beneficial interest in the notes of a series must rely upon the procedures of DTC and institutions having accounts with DTC to exercise or be entitled to any rights of a holder of such Global Notes. See the subsection entitled “*—Book-Entry System*” for a further description of DTC’s procedures.

### Book-Entry System

DTC will act as securities depository for the Global Notes. The Global Notes will be issued as fully-registered securities registered in the name of Cede (DTC’s partnership nominee), unless otherwise specified. No Global Note may be transferred except by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or any successor thereof.

We have been advised by DTC that upon the deposit of a Global Note with DTC, DTC will immediately credit, on its book-entry registration and transfer system, the respective principal amounts of such beneficial interests in that Global Note to the accounts of the DTC Participants. The accounts to be credited shall be designated by the soliciting Placement Agent or, to the extent that the notes are offered and sold directly, by us.

We understand that DTC is a limited-purpose trust company organized under the laws of the State of New York, a “Banking Organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the clearance and settlement among Participants of transactions in such securities through electronic book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants (“**Direct Participants**”) include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Ownership of beneficial interests in a Global Note in respect of a series of notes will be limited to DTC Participants, including Clearstream and Euroclear, or persons who hold interests through DTC Participants. In addition, ownership of beneficial interests will be evidenced only by, and the transfer of that ownership interest will be effected only through, records maintained by DTC or its nominee and DTC Participants until such time, if any, as Certificated Notes are issued, as set forth above under the subsection entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*” The laws of some states require that certain purchasers of notes take physical delivery of such notes in certificated form. Such laws may impair the ability to transfer beneficial interests in a Global Note.

Interests held through Clearstream and Euroclear will be recorded on DTC’s books as being held by the U.S. depository for each of Clearstream and Euroclear, which U.S. depositories will in turn hold interests on behalf of their participants’ customers’ securities accounts.

To facilitate subsequent transfers, all Global Notes deposited with DTC are registered in the name of DTC’s partnership nominee, Cede. DTC has no knowledge of the actual owners of beneficial interests in the Global Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such beneficial interests in Global Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be

governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede and any subsequent nominee of DTC. If less than all of the notes within a series are being redeemed, DTC's current practice is to determine *pro rata* or by lot the amount of the beneficial interest of each Direct Participant in such issue to be redeemed.

Principal and interest payments on the Global Notes will be made to DTC as the registered holder of the Global Notes. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is our responsibility, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct Participants and Indirect Participants.

A beneficial owner shall give notice to elect to have its beneficial interests in the Global Notes purchased or tendered, through its Participant, to the trustee for a series of notes, and shall effect delivery of such beneficial interests in the Global Notes by causing the Direct Participant to transfer the Participant's beneficial interest in the Global Notes, on DTC's records, to the trustee.

DTC may discontinue providing its services as securities depository with respect to the Global Notes at any time by giving reasonable notice to us and the Placement Agents. Under such circumstances, in the event that a successor securities depository is not obtained, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the subsection entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*"

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the subsection entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*"

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

In no event will definitive notes in bearer form representing any series of notes be issued.

None of us, any trustee, any paying agent, any registrar for the notes or any Placement Agent will have any responsibility or liability for any aspect of DTC's records or any DTC Participant's records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any of DTC's records or any DTC Participant's records relating to such beneficial ownership interests.

The indenture and the notes require that payments in respect of the notes be made in immediately available funds. Interests in the notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in the notes will be required to be settled in immediately available funds. We do not know the effect, if any, of such settlement arrangements on trading activity in the notes or interests in the notes.

### **Issuance of Certificated Notes**

If (i) DTC notifies us and the trustee that it is unwilling or unable to continue as holder of the Global Notes or if at any time it ceases to be a clearing agency registered under the Exchange Act and, in either case, a successor holder is not appointed by us within 90 days of such notification or of our becoming aware of such ineligibility, (ii) an Event of Default occurs with respect to one or more series of notes, or (iii) we determine in our sole discretion (subject to DTC's procedures) that certificated notes of such series will be issued in registered form, then in any such case, upon the written request of the holder of the Global Note, the trustee will

issue certificated registered notes in the names and in the amounts as specified by the holder of the Global Note. The request for certificated notes may be made by the holder in the circumstances and subject to the conditions described under the subsection entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*”

The exchange of interests in the Global Note for certificated notes of a particular series shall be made free of any fees of the trustee to the holder, provided, however, that such person receiving notes in certificated form will be obligated to pay or otherwise bear the cost of any tax or other governmental charge as required by the indenture and any cost of insurance, postage, transportation and the like.

### **Repayment**

If a note becomes repayable at the option of the holder on a date or dates specified prior to its maturity date, if any, and the trustee is so notified, the trustee will promptly notify the holder of the Global Note that such note has become repayable. In order for the repayment option on any note to be exercised, the owners of beneficial interests in the Global Note must instruct the broker or other DTC Participant through which it holds an interest in the Global Note to notify the trustee of its desire to exercise that right to repayment. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other DTC Participant through which it holds its beneficial interest in a Global Note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to the depository.

### **Record Date**

Unless we otherwise instruct the trustee in writing, the record date for the determination of the holder of Global Notes entitled to receive payment in respect of a Global Note will be the date which is 15 calendar days prior to the applicable payment date on such Global Note in respect of such Global Note, provided that interest payable at Maturity will be payable to the person to whom principal shall be payable. If such 15th day is not a Business Day, the record date for determination will be the next succeeding Business Day. Whenever we or the trustee deem it appropriate to fix a record date for the determination of the holder of Global Notes who should be entitled to receive payment or take any action in respect of Global Notes, the trustee, with our consent, will set such record date at least 15 days prior to the date on which such payment is to be made or such action is to be taken.

### **Reports**

The trustee will send promptly to the applicable holders of the Global Notes any notices, reports and other communications from us that are received by the custodian as holder of the Global Notes and that we make generally available to holders of the notes.



## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each tranche of Notes issued under the Program.*

[Date]

**Nationwide Building Society**  
**[Title of relevant Series of Notes (specifying type of Notes)]**  
**issued pursuant to its \$20,000,000,000 Senior and Subordinated Medium-Term Note Program**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated December 19, 2014 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [original date] and incorporated by reference into the Base Prospectus dated December 19, 2014. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus, dated December 19, 2014 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**), including the Terms and Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).]

### TYPE OF NOTE

- |    |                      |  |
|----|----------------------|--|
| 1. | Senior/Subordinated: | [ ]  |
| 2. | Interest Basis:      | [Fixed Rate/Floating Rate/Zero Coupon/Combination] |

### DESCRIPTION OF THE NOTES

- |    |   |   |
|----|---|---|
| 3. | (a) Series Number:  | [ ]   |
|    | (b) Tranche Number:   | [ ]   |
| 4. | (a) Nominal Amount of Notes to be issued:                                       | [ ]   |
|    | (b) Aggregate nominal amount of Series (if more than one issue for the Series): | [ ]   |
|    | (c) Specified Currency:   | [ ]   |
|    | (d) Currency Determination Agent:   | [ ] [Not Applicable]                                  |
|    | (e) Specified Denomination(s):  | [ ] [and integral multiples of [ ] in excess thereof] |
| 5. | Issue Price:  | [ ]   |

6. Issue Date: [ ]
7. Original Issue Date: [ ]
8. Interest Commencement Date: [ ] [Issue Date] [Not Applicable]
9. Automatic/optional conversion from one Interest Basis to another: [ ] [Not Applicable]
10. Additional Business Center(s): [ ] [Not Applicable]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

**Fixed Rate Note Provisions**

[Applicable/Not Applicable]

11. (a) Fixed Rate(s) of Interest: [ ] % per annum payable in arrear on each Fixed Interest Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date
- (c) Day Count Fraction: Actual/Actual (ICMA)] [30/360]
- (d) Determination Date(s): [ ] [Not Applicable]

**Zero Coupon Note Provisions**

[Applicable/Not Applicable]

12. (a) Accrual Yield: [ ]
- (b) Reference Price: [ ]
- (c) Calculation Agent (if any): [ ]

**Floating Rate Note Provisions**

[Applicable/Not Applicable]

13. (a) Calculation Agent responsible for calculating the Interest Rate and Interest Amount (if not the Agent): [ ]
- (b) Interest Period(s) or specified Interest Payment Date(s): [ ]
- (c) Business Day Convention: [Floating Rate/Following Business Day/Modified Following Business Day/Preceding Business Day]
- (d) First Interest Payment Date: [ ]
- (e) Calculation Date: [ ]
- (f) Interest Rate Basis/Bases: [CD Rate/CMT Rate/Commercial Paper Rate/Eleventh District Cost of Funds Rate/EURIBOR/Federal Funds Rate/LIBOR/Prime Rate/Treasury Rate]
- (g) Designated CMT Reuters Page: [Not Applicable] [Reuters 7051 Page/Reuters Page T7052]
- (h) Designated EURIBOR Page: [Not Applicable] [EURIBOR 01/[ ]]
- (i) Designated LIBOR Currency: [Not Applicable] [USD/[ ]]
- (j) Designated LIBOR Page: [Not Applicable] [LIBOR 01/[ ]]
- (k) Initial Interest Rate: [ ]
- (l) Initial Interest Reset Date: [ ]
- (m) Interest Reset Period: [ ]
- (n) Interest Reset Dates: [ ]

- (o) Index Maturity: [Not Applicable] [ ]
- (p) Designated CMT Maturity Index: [Not Applicable] [ ]
- (q) Margin(s): [plus/minus] [ ]% per annum
- (r) Minimum Interest Rate (if any): [ ]% per annum
- (s) Maximum Interest Rate (if any): [ ]% per annum
- (t) Day Count Fraction: [[Actual/Actual (ISDA)] [Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360] [360/360] [Bond Basis]  
[30E/360] [Eurobond Basis]  
[30E/360 (ISDA)]]

#### PROVISIONS REGARDING REDEMPTION/MATURITY

- 14. Maturity Date: [ ]
- 15. Redemption at Issuer's option: [Applicable/Not Applicable]
  - (a) Initial Redemption Date(s): [ ]
  - (b) Redemption Price of each Note: [[ ] per Note of [ ] Specified Denomination]
- 16. Repayment at holder's option: [Applicable/Not Applicable]
  - (a) Optional Repayment Date(s): [ ]
  - (b) Repayment price of each note: [ ] per Note of [ ] Specified Denomination]
- 17. Minimum Denomination for early redemption/repayment: [ ]

#### THIRD PARTY INFORMATION

[[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of **NATIONWIDE BUILDING SOCIETY**

By: ..... By: .....  
*Duly Authorized* *Duly Authorized*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (a) Listing and Admission to trading: London Stock Exchange plc
- (b) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

- Ratings: The [Program/Notes to be issued] [has/have] been rated:
- [Moody's Investors Service Limited: [ ]]
- [Standard & Poor's Credit Market Services Europe Limited: [ ]]
- [Fitch Ratings Ltd.: [ ]]
- [DBRS: [ ]]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Placement Agent(s), so far as the Issuer is aware, no person involved in the issue of the notes has an interest material to the offer. The [Manager(s)/Dealer(s)] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

### 4. YIELD (*Fixed Rate Notes only*)

- Indication of yield: [ ]

### 5. OPERATIONAL INFORMATION

- (a) CUSIP: [ ]
- (b) ISIN Code: [ ]
- (c) Common Code: [ ]
- (d) Any clearing system(s) other than The Depository Trust Company and the relevant identification number(s): [ ][Not Applicable]
- (e) Names and addresses of additional Paying Agent(s) (if any): [ ]

## TAXATION

### U.S. Federal Income Taxation

The following summary describes certain U.S. federal income tax consequences of the purchase, ownership and disposition of notes. Except where noted, this discussion deals only with U.S. Holders (as defined below) that acquire the notes at their original issuance and that will hold the notes as capital assets and does not deal with investors subject to special tax rules, such as those of dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, partnerships or pass-through entities for U.S. federal income tax purposes, traders in securities that elect to use mark-to-market method of accounting for their securities holdings, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, or holders of notes whose “functional currency” is not the U.S. dollar. The discussion below is based upon the provisions of the U.S. Internal Revenue Code of 1986 (the “Code”), final, temporary and proposed Treasury regulations promulgated thereunder, rulings and judicial decisions as of the date hereof, all of which are subject to change possibly with retroactive effect or possible differing interpretations so as to result in U.S. federal income tax consequences different from those discussed below. This summary assumes that there will be no substitution of another entity in the place of the Issuer as principal debtor in respect of the notes. If an entity treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. An entity treated as a partnership for U.S. federal income tax purposes considering holding notes should consult its tax advisors concerning the U.S. federal income tax consequences to it and its partners of the acquisition, ownership and disposition of the notes by the partnership.

The discussion set forth below assumes that all notes issued pursuant to the medium-term note program constitute debt for U.S. federal income tax purposes. If any note did not constitute debt for U.S. federal income tax purposes, the tax consequences of the ownership of such note could differ materially from the tax consequences described herein. This summary does not address the U.S. federal income tax consequences of every type of note which may be issued under the program, such as notes with an original maturity of more than 30 years or with certain contingent payment features, and additional or modified disclosure concerning certain U.S. federal income tax consequences relevant to such type of note will be provided as appropriate. Moreover, this summary does not address U.S. federal estate, gift, or alternative minimum tax considerations, the Medicare tax on net investment income or non-U.S., state or local tax considerations.

As used herein, a “**U.S. Holder**” of a note means a beneficial owner that is, for U.S. federal income tax purposes, (i) a citizen or individual resident alien of the United States, (ii) a corporation created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (X) that is subject to the supervision of a court within the United States and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust or (Y) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY AND DOES NOT ADDRESS EVERY TYPE OF NOTE THAT CAN BE ISSUED UNDER THE PROGRAM. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

### *Payments of Interest*

Except as set forth below, interest (including the payment of any additional amounts) on a note generally will be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder’s method of tax accounting, reduced by the allocable amount of amortisable bond premium, if any. Interest income (including original issue discount (“OID”), if any, as discussed below) on the notes will generally be treated as foreign source income.

### **Original Issue Discount**

U.S. Holders of notes issued with OID will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of such notes should be aware that they generally must include OID in gross income as ordinary income in advance of the receipt of cash attributable to that income. However, U.S. Holders of such notes generally will not be required to include separately in income cash payments received on the notes, even if denominated as interest, to the extent such payments do not constitute “qualified stated interest” (as defined below). Notes issued with OID will be referred to as “**Original Issue Discount Notes**.”

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described under “*Foreign Currency Notes*” below.

For U.S. federal income tax purposes, a note, other than a note with a term of one year or less (a “**Short-Term Note**”) with an “issue price” (as defined below) that is less than its stated redemption price at maturity (the sum of all payments to be made on the note other than qualified stated interest) will be issued with OID unless such difference is *de minimis* (i.e., less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of a note that provides for the payment of amounts other than qualified stated interest before maturity, the weighted average maturity). A note's weighted average maturity is the sum of the following amounts determined for each payment on a note (other than a payment of “qualified stated interest”): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the note's stated redemption price at maturity. The “**issue price**” of each note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The term “**qualified stated interest**” means stated interest that is unconditionally payable over the entire term of the note in cash or in property (other than debt instruments of the Issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments.

In the case of a note issued with *de minimis* OID, the U.S. Holder generally must include such *de minimis* OID in income at the time principal payments on the note are made in proportion to the amount paid for the note. Any amount of *de minimis* OID that has been included in income will be treated as capital gain.

Certain notes may be redeemed prior to their Maturity at the option of the Issuer and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. In the case of notes that provide for alternative payment schedules, OID is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder's yield and (ii) the Issuer will exercise or not exercise options in a manner that minimizes the holder's yield.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the Original Issue Discount Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Original Issue Discount Note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Original Issue Discount Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Original Issue Discount Note's “adjusted issue price” at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the

adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of an Original Issue Discount Note at the beginning of any accrual period is equal to its issue price increased by the amount of accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is treated as a “variable rate debt instrument” under U.S. Treasury regulations (a “**Floating Rate Note**”), both the “yield to maturity” and “qualified stated interest” generally will be determined solely for purposes of calculating the accrual of OID as though the Floating Rate Note will bear interest in all periods at a fixed rate generally equal to the value of the rate that would be applicable to interest payments on the note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Floating Rate Note is indexed in any manner. Different rules may apply if a Floating Rate Note is treated as a “contingent payment debt instrument” under U.S. Treasury regulations.

Certain notes may be treated as contingent payment debt instruments for U.S. federal income tax purposes. Under applicable U.S. Treasury regulations, interest on contingent payment debt instruments is treated as OID and must be accrued on a constant-yield basis based on a yield to maturity that reflects the rate at which the Issuer would issue a comparable fixed-rate instrument with no contingent payments but with terms and conditions otherwise similar to the contingent payment debt instruments (the “**comparable yield**”), based on a projected payment schedule determined by the Issuer (the “**projected payment schedule**”). This projected payment schedule must include each non-contingent payment on the note and an estimated amount for each contingent payment, and must produce the comparable yield.

The Issuer will be required to provide to holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments on such notes that are treated as contingent payment debt instruments for U.S. federal income tax purposes. The applicable Final Terms will either contain the comparable yield and projected payment schedule, or will provide an address to which a U.S. Holder of a contingent payment debt instrument can submit a written request for this information. A U.S. Holder generally will be bound by the comparable yield and the projected payment schedule determined by the Issuer unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly and timely justifies and discloses such schedule to the U.S. Internal Revenue Service (“**IRS**”). The Issuer’s determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

Gain from the sale or other disposition of a contingent payment debt instrument will be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the U.S. Holder’s total interest inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be capital loss. Prospective purchasers should consult their tax advisers as to the U.S. federal income tax consequences of purchasing contingent payment debt instruments.

U.S. Holders may elect to treat all interest on any note as OID and calculate the amount includible in gross income under the constant yield method described above with certain modifications. For the purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. The election is to be made for the taxable year in which the U.S. Holder acquired the note, and may not be revoked without the consent of the IRS.

### ***Notes Subject to Redemption***

Certain of the notes: (i) may be redeemable at the option of the Issuer prior to their maturity, (ii) may be repayable at the option of the holder prior to their stated maturity, or (iii) may be otherwise subject to

mandatory redemption. Notes containing such features may be subject to rules that are different from the general rules discussed above, which will depend, in part, on the particular terms and features of such notes.

### ***Short-Term Notes***

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or other disposition. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### ***Market Discount***

If a U.S. Holder purchases a note (other than a Short-Term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its revised issue price, the amount of the difference will be treated as "market discount" for U.S. federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a U.S. Holder will be required to treat any principal payment on, or any gain on the sale, exchange, or retirement of, a note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such note at the time of such payment or disposition. In addition, the U.S. Holder generally will be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such note.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note on a straight-line basis, unless the U.S. Holder elects to accrue on a constant yield method. This election to accrue market discount on a constant yield method is to be made for the taxable year in which the U.S. Holder acquired the note, applies only to that note, and may not be revoked without the consent of the IRS. A U.S. Holder of a note may elect to include market discount in income currently as it accrues (on either a ratable or constant-yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

### ***Acquisition Premium; Amortizable Bond Premium***

A U.S. Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest will be considered to have purchased such note at an "acquisition premium." Under the acquisition premium rules, if the U.S. Holder does not make the election to treat all interest as OID (as described above) then the amount of OID which such U.S. Holder must include in its gross income with respect to such note for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.



A U.S. Holder that purchases a note (including an Original Issue Discount Note), for an amount in excess of the sum of all amounts payable on the note after the purchase date other than qualified stated interest will be considered to have purchased the note at a “bond premium.” A U.S. Holder generally may elect to amortize bond premium over the remaining term of the note on a constant yield method as an offset to interest when includible in income under the U.S. Holder’s regular accounting method. In the case of instruments that provide for alternative payment schedules, bond premium is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder’s yield and (ii) the Issuer will exercise or not exercise options in a manner that minimizes the holder’s yield. Bond premium on a note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the note. The election to amortize premium on a constant yield method once made applies to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

### ***Sale, Exchange and Retirement of Notes***

Upon the sale, exchange, retirement or other disposition of a note, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid qualified stated interest, which will be treated as a payment of interest for U.S. federal income tax purposes) and the adjusted tax basis of the note. A U.S. Holder’s adjusted tax basis in a note will, in general, be the U.S. Holder’s cost therefor, increased by the amount of any OID, market discount or any income attributable to *de minimis* OID or *de minimis* market discount previously included in income by the U.S. Holder and reduced by any amortizable bond premium applied to reduce interest on the note and any payments on the note other than qualified stated interest. Except as with respect to certain Short-Term Notes or market discount as described above, with respect to gain or loss attributable to changes in exchange rates, with respect to certain Foreign Currency Notes as described below, and with respect to contingent payment debt instruments as described above, such gain or loss will be capital gain or loss. Gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a note generally will be treated as U.S. source gain or loss. Capital gains of individuals derived from capital assets held for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### ***Foreign Currency Notes***

The following is a summary of the principal U.S. federal income tax consequences to a U.S. Holder of the ownership of a note denominated in a currency other than the U.S. dollar (a “**Foreign Currency Note**”).

#### ***Qualified Stated Interest Payments***

Cash basis U.S. Holders are required to include in income the U.S. dollar value of the amount of interest received, based on the “spot rate” for such foreign currency in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. No exchange gain or loss is recognized with respect to the receipt of such payment.

Accrual basis U.S. Holders may determine the amount of income recognized with respect to such interest payment in accordance with either of two methods. Under the first method, the U.S. Holder will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued. Under the second method, an accrual basis holder may elect to translate interest income at the spot rate on the last day of the accrual period (or last day of the taxable year in the case of a portion of an accrual period that straddles the holder’s taxable year) or on the date the interest payment is received if such date is within five days of the end of the accrual period. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by such holder and will be irrevocable without the consent of the IRS. Upon receipt of an interest payment on such Foreign Currency Note (including, upon the sale of such Foreign Currency Note, the receipt of proceeds that include amounts attributable to accrued interest previously included in income), such U.S. Holder will recognize U.S. source ordinary income or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for

such foreign currency on the date received) and the U.S. dollar value of the interest income that such U.S. Holder has previously included in income with respect to such payment.

#### *Original Issue Discount*

OID on a Foreign Currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars in the same manner as interest income accrued by a holder on the accrual basis, as described above. Additionally, a U.S. Holder will recognize exchange gain or loss when the OID is paid (including, upon the sale of such Foreign Currency Note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date of payment) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Foreign Currency Note will be viewed: first, as the receipt of any stated interest payments called for under the terms of the Foreign Currency Note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

#### *Market Discount*

The amount of market discount on Foreign Currency Notes includible in income will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the Foreign Currency Note is retired or otherwise disposed of. If the U.S. Holder has elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period (or portion thereof within the U.S. Holder's taxable year), and the U.S. Holder will recognize exchange gain or loss with respect to market discount determined using the approach applicable to the accrual of interest income described above.

#### *Amortizable Bond Premium*

Bond premium on a Foreign Currency Note will be computed in the applicable foreign currency. With respect to a U.S. Holder that elects to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss (which is generally ordinary income or loss) will be realized based on the difference between spot rates at such time and at the time of acquisition of the Foreign Currency Note. A U.S. Holder that does not elect to amortize bond premium will translate the bond premium, computed in the applicable foreign currency, into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

#### *Sale, Exchange and Retirement of Foreign Currency Notes*

Upon the sale, exchange or retirement of a Foreign Currency Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid interest, which will be treated as a payment of interest for U.S. federal income tax purposes) and the U.S. Holder's adjusted tax basis in the Foreign Currency Note.

If a U.S. Holder receives foreign currency on the sale, exchange or retirement of a Foreign Currency Note, then the amount realized generally will be based on the spot rate of the foreign currency on the date of sale, exchange or retirement. For purchases and sales of Foreign Currency Notes traded on an established securities market as defined in applicable Treasury regulations by a cash method taxpayer, however, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of Foreign Currency Notes traded on an established securities market, provided that the election is applied consistently from year to year. This election cannot be changed without the consent of the IRS.

A U.S. Holder's adjusted tax basis in a Foreign Currency Note generally will be the U.S. Holder's cost therefore, which, in the case of a U.S. Holder that purchases a Foreign Currency Note with foreign currency, will be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note determined at

the time of such purchase. If the Foreign Currency Notes are traded on an established securities market, as defined in applicable Treasury regulations, cash method taxpayers (and electing accrual method taxpayers) will determine the U.S. dollar cost of the Foreign Currency Note on the settlement date. A U.S. Holder that purchases a Foreign Currency Note with previously owned foreign currency will recognize U.S. source exchange gain or loss at the time of purchase attributable to the difference at the time of purchase, if any, between the U.S. Holder's tax basis in such foreign currency and the fair market value of the Foreign Currency Note in U.S. dollars on the date of purchase. Such gain or loss will be ordinary income or loss.

Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other disposition of a Foreign Currency Note will generally be treated as U.S. source gain or loss. Subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other disposition, the Foreign Currency Note has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

A U.S. Holder will recognize exchange gain or loss attributable to the movement in exchange rates between the time of purchase and the time of disposition (including the sale, exchange, retirement or other disposition) of a Foreign Currency Note. Such gain or loss will be treated as ordinary income or loss (and will not be treated as interest income or expense, except to the extent provided in U.S. Treasury regulations or administrative pronouncements of the IRS) and generally will be U.S. source gain or loss. The realization of such gain or loss will be limited to the amount of overall gain or loss realized on the disposition of a Foreign Currency Note.

#### *Exchange Gain or Loss With Respect to Foreign Currency*

A U.S. Holder's tax basis in foreign currency received as interest on (or OID with respect to), or received on the sale, exchange, retirement or other disposition of, a Foreign Currency Note will be the U.S. dollar value thereof at the spot rate at the time the holder received such foreign currency. As discussed above, if the Foreign Currency Notes are traded on an established securities market, a cash basis U.S. Holder (or, upon election, an accrual basis U.S. Holder) will determine the U.S. dollar value of the foreign currency by translating the foreign currency received at the spot rate of exchange on the settlement date of the sale, exchange or retirement. Accordingly, no foreign currency gain or loss will result from currency fluctuations between the trade date and settlement date of a sale, exchange or retirement. Any gain or loss recognized by a U.S. Holder on a sale, exchange, retirement or other disposition of foreign currency will be ordinary gain or loss and generally will be U.S. source gain or loss.

#### *Information Reporting and Backup Withholding*

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain U.S. Holders are not subject to backup withholding. Individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the notes if such notes are not held through an account with a U.S. financial institution. Investors who fail to report required information could be subject to substantial penalties. U.S. Holders should consult their tax advisors regarding the application of the rules pertaining to backup withholding and foreign financial asset reporting.

#### *Tax Return Disclosure Requirements*

Treasury regulations requiring the reporting of certain tax shelter transactions ("**Reportable Transactions**") could be interpreted to cover and require reporting of transactions that are generally not regarded as tax shelters, including certain foreign currency transactions. Under these regulations, certain transactions may be characterized as Reportable Transactions based upon any of several indicia, including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Note or foreign currency received in respect of a Foreign Currency Note to the extent that such sale, exchange,

retirement or other taxable disposition results in a tax loss in excess of a threshold amount. Persons considering the purchase of Foreign Currency Notes should consult with their tax advisers to determine the tax return obligations, if any, with respect to an investment in such notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

### **Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (“**FATCA**”) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a “foreign financial institution,” or “**FFI**” (as defined by FATCA)) that does not become a “**Participating FFI**” by entering into an agreement with the IRS to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States account” of the Issuer (a “**Recalcitrant Holder**”). The Issuer is classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply payments of gross proceeds (including principal repayments) from the disposition of property that can produce U.S. source interest or dividends beginning January 1, 2017 and to “**foreign passthru payments**” (a term not yet defined) no earlier than January 1, 2017. This withholding would potentially apply to payments in respect of (i) any notes characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued or materially modified after the “**grandfathering date**,” which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register and (ii) any notes characterized as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If notes are issued on or before the grandfathering date, and additional Notes of the same series are issued after that date, the additional notes if the additional notes are not otherwise distinguishable from the original notes may not be treated as grandfathered, which may have negative consequences for the existing notes if the additional notes are not otherwise distinguishable from the original notes, including a negative impact on market price.

The United States and a number of other jurisdictions have entered into, or have agreed in substance to, 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, it is expected that an FFI in an IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being “**FATCA Withholding**”) from payments it makes. 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, as applicable. The United States and the United Kingdom have entered into an agreement (the “**U.S.-UK IGA**”) based largely on the Model 1 IGA.

The issuer expects to be treated as a Reporting FI pursuant to the U.S.-UK IGA and does not anticipate being obliged to deduct any FATCA Withholding from payments it makes. There can be no assurance, however, that the issuer will be treated as a Reporting FI, or that in the future it would not be required to deduct FATCA Withholding from payments it makes. Accordingly, the issuer and any financial institutions through which payments on the notes are made may be required to deduct FATCA Withholding if (i) any FFI through or to which payment on such notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

While the notes are in global form and held within the clearing system, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the notes by the issuer, any paying agent and the clearing system, given that each of the entities in the payment chain between the issuer and the participants 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 notes. The documentation expressly contemplates the possibility that the notes may go into definitive form and therefore

that they may be taken out of the clearing system. If this were to happen, a non-FATCA-compliant holder could be subject to FATCA Withholding. However, definitive notes will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form.**

## **UK Taxation**

The following is a summary of Nationwide's understanding of current United Kingdom ("UK") law and HM Revenue and Customs ("HMRC") published practice relating to the UK withholding taxation treatment as at the date of this Base Prospectus in relation to payments of principal and interest in respect of the notes issued by Nationwide and does not deal with other UK tax aspects of acquiring, holding or disposing of the notes. This summary relates only to the position of persons who are absolute beneficial owners of the notes. Prospective holders should be aware that the particular terms of issue of any series of the notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of notes. This summary is a general guide and does not purport to be a complete analysis of all tax considerations relating to the notes, and you should treat it with appropriate caution.

You should seek independent professional advice should you have any doubt as to your tax position. If you may be liable to taxation in jurisdictions other than the UK in respect of your acquisition, ownership, holding and disposition of notes, you are particularly advised to consult your professional advisers as to whether you are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the notes. In particular, you should be aware that you may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the notes, even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

The references to "interest" in this UK Taxation summary mean "interest" as understood in UK tax law. The statements in this summary do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation. This description of the UK withholding tax position assumes that there will be no substitution of the Issuer of the notes pursuant to the terms and conditions of the notes and does not consider the tax consequences of any such substitution.

### ***UK Withholding Tax on Interest***

#### ***Notes Listed on a Recognized Stock Exchange***

Notes issued by Nationwide which carry a right to interest will constitute "**quoted Eurobonds**" provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for those purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided that the notes are and continue to be quoted Eurobonds, payments of interest on the notes may be made without withholding or deduction for or on account of UK income tax.

#### ***Other Cases***

If the notes do not qualify as quoted Eurobonds, as described in "**—Notes Listed on a Recognized Stock Exchange,**" interest on the notes that has a UK source will generally (subject to certain other exemptions which may be available in certain circumstances) be paid under deduction of UK income tax at the rate of (currently) 20%, subject to such relief as may be available under the provisions of any applicable double taxation treaty.

#### ***Other Rules Relating to UK Withholding Tax***

Where notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount for tax purposes, then any such element of premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined above.

In addition to the above, in relation to UK withholding tax, where interest has been paid under deduction of UK income tax, holders of notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

### ***Provision of Information***

HMRC has powers to obtain information and documents relating to the notes, including in relation to issues of and other transactions in the notes, interest, payments treated as interest and other payments derived from the notes. This may include details of the beneficial owners of the notes, of the persons for whom the notes are held and of the persons to whom payments derived from the notes are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, the registered holders of the notes, persons who make, receive or are entitled to receive payments derived from the notes and persons by or through whom interest and payments treated as interest are paid or credited. Information obtained by HMRC may be provided to tax authorities in other jurisdictions.

### **The Proposed Financial Transactions Tax**

On February 14, 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**Participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in notes (including secondary market transactions) in certain circumstances. The issuance and subscription of notes should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, “established” in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

A joint statement issued in May 2014 by ten of the eleven Participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by January 1, 2016.

The FTT proposal remains subject to negotiation between the Participating Member States. It may therefore be altered prior to any implementation. Additional EU member states may decide to participate. Prospective holders of notes are advised to seek their own professional advice in relation to the FTT.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC (the “**Savings Directive**”) on the taxation of savings income, each member state is required to provide to the tax authorities of other member states details of certain payments of interest or similar income paid or secured by a person established in a member state to, or for the benefit of, an individual resident in that other member state or to certain limited types of entities established in another member state. On March 24, 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member states are required to apply these new requirements from January 1, 2017. The changes will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. The amending Directive may also expand the circumstances in which payments that indirectly benefit an individual resident in a member state must be reported, which will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those member states which still operate a withholding system when they are implemented. In accordance with the law of November 25, 2014, Luxembourg elect out of the withholding system, in favor of an automatic information exchange under the Savings Directive with effect as of from January 1, 2015.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

## TRANSFER RESTRICTIONS

We have not registered the notes under the Securities Act or any other applicable securities laws, and they may not be offered or sold except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States, to qualified institutional buyers, commonly referred to as “QIBs,” in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or
- outside of the United States, to certain persons, other than U.S. persons within the meaning of Regulation S, in offshore transactions meeting the requirements of Rule 903 of Regulation S.

### *Purchasers’ Representations and Restrictions on Resale*

Each purchaser of notes (other than a Placement Agent in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein, will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States within the meaning of Regulation S;
- (2) It is not an “affiliate” (as defined in Rule 144 under the Securities Act (“**Rule 144**”)) of the Issuer and is not acting on the Issuer’s behalf;
- (3) It acknowledges that the notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (4) It understands and agrees that notes initially offered in the United States to QIBs will be represented by U.S. Global Notes and that notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by International Global Notes;
- (5) If the purchaser is in the United States or is a U.S. person, it shall not resell or otherwise transfer any of such notes except (a) to Nationwide or a Placement Agent or by, through, or in a transaction approved by a Placement Agent, (b) within the United States to a QIB in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States, in compliance with Rule 903 or 904 of Regulation S under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- (6) If the purchaser is outside the United States and is not a U.S. person, if it should resell or otherwise transfer the notes prior to the expiration of the Distribution Compliance Period (as defined in Regulation S) applicable to such notes, it will do so only (a) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act or (b) to a QIB in compliance with Rule 144A;
- (7) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- (8) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;



- (9) It acknowledges that the trustee for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to Nationwide and such trustee that the restrictions set forth herein have been complied with; and
- (10) It acknowledges that Nationwide, the Placement Agents and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify Nationwide and the Placement Agents. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

A legend to the following effect will appear on the face of notes, other than International Global Notes, and which will be used to notify transferees of the foregoing restrictions on transfer. Additional copies of this notice may be obtained from the trustee.

“THE SECURITIES EVIDENCED HEREBY (THE “**NOTES**”) HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR ANY OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THE NOTES, (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT (“**RULE 144A**”)), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE U.S. SECURITIES ACT (“**RULE 144**”) OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF THE NOTES (OR OF ANY PREDECESSOR THEREOF) OR THE LAST DAY ON WHICH THE NATIONWIDE BUILDING SOCIETY (THE “**ISSUER**”) OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THE NOTES (OR ANY PREDECESSOR THEREOF) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “**RESALE RESTRICTION TERMINATION DATE**”), OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THE NOTES EXCEPT (I) TO THE ISSUER OR ONE OR MORE PLACEMENT AGENTS FOR THE NOTES (EACH, A “**PLACEMENT AGENT**” AND COLLECTIVELY, THE “**PLACEMENT AGENTS**”) OR BY, THROUGH OR IN A TRANSACTION APPROVED BY A PLACEMENT AGENT, (II) SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (III) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 (IF AVAILABLE), (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT OR (VI) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION. THE HOLDER OF THE NOTES, BY PURCHASING THE NOTES, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THE NOTES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (VI) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.”

“THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN.”

A legend to the following effect will appear on the face of the International Global Notes.

“THE SECURITIES EVIDENCED HEREBY (THE “**NOTES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see the subsection entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*”

## PLAN OF DISTRIBUTION

The notes are being offered on a continuous basis for sale by us to or through Barclays Capital Inc., Deutsche Bank Securities Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and UBS Securities LLC together with such other Placement Agent as may be appointed by us with respect to a particular tranche of notes. We refer collectively to these entities as the “Placement Agents.” One or more Placement Agents may purchase notes, as principal, from us from time to time for resale to investors and other purchasers at varying prices relating to prevailing market prices at the time of resale as determined by any Placement Agent, or, if so specified in the applicable Final Terms, for resale at a fixed offering price. If we and a Placement Agent agree, a Placement Agent may also utilize its reasonable efforts on an agency basis to solicit offers to purchase the notes. Any Placement Agents of the notes that are not U.S. registered broker-dealers will agree that they will offer and sell the notes within the United States only through U.S. registered broker-dealers. Unless otherwise described in the applicable Final Terms, we will pay a commission to a Placement Agent, ranging from 0.125% to 0.750% of the principal amount of each note depending upon its stated maturity for notes sold through such Placement Agent as agent. Commissions with respect to notes with stated maturities in excess of 30 years that are sold through a Placement Agent as an agent of ours will be negotiated between us and that Placement Agent at the time of such sale.

Unless otherwise specified in the applicable Final Terms, any note sold to one or more Placement Agents as principal will be purchased by such Placement Agents at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. A Placement Agent may sell notes it has purchased from us as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with such purchase. The Placement Agent may allow, and such dealers may reallow, a discount to certain other dealers. After the initial offering of notes, the offering price (in the case of notes to be resold at a fixed offering price), the concession and the reallowance may be changed.

We may withdraw, cancel or modify the offering contemplated hereby without notice and may reject offers to purchase notes in whole or in part. Each Placement Agent shall have the right to reject in whole or in part any offer to purchase notes received by it on an agency basis.

In connection with an offering of notes purchased by one or more Placement Agents as principal on a fixed offering price basis, such Placement Agent(s) will be permitted to engage in transactions that stabilize the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If the Placement Agent creates or the Placement Agents create, as the case may be, a short position in notes, that is, if it sells or they sell notes in an aggregate principal amount exceeding that set forth in the applicable Final Terms, such Placement Agent(s) may reduce that short position by purchasing notes in the open market. In general, purchase of notes for the purpose of stabilization or to reduce a short position could cause the price of notes to be higher than it might be in the absence of such purchases.

Neither we nor any of the Placement Agents makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of notes. In addition, neither we nor the Placement Agents makes any representation that the Placement Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

We have agreed to indemnify the Placement Agents against some liabilities (including liabilities under the Securities Act) or to contribute to payments the Placement Agents may be required to make in respect thereof. We have also agreed to reimburse the Placement Agents for some other expenses.

The Placement Agents may from time to time purchase and sell notes in the secondary market, but they are not obligated to do so and may discontinue any such activities at any time and there can be no assurance that there will be a secondary market for the notes or liquidity in the secondary market if one develops. From time to time, the Placement Agents may make a market in the notes.

Certain of the Placement Agents and/or their affiliates have, directly or indirectly, performed investment and commercial banking or financial advisory services for us, for which they have received customary fees and commissions, and they expect to provide these services to us and our affiliates in the future, for which they also expect to receive customary fees and commissions.

Each Placement Agent subscribing for or purchasing notes will be required to represent and agree (i) that it will not offer or sell notes (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Placement Agent or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all notes of the tranche of which such notes are a part (such period, the “**Distribution Compliance Period**”), within the United States or to, or for the account or benefit of, U.S. persons other than in accordance with Rule 144A and (ii) that it will send to each dealer to which it sells any notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Placement Agent subscribing for or purchasing notes agrees and each further purchasing agent appointed under the medium-term note program described in this Base Prospectus that subscribes for or purchases notes will be required to represent and agree that:

- (1) It has complied and will comply with all applicable provisions of the UK Financial Services and Markets Act 2000 with respect to anything done by it in relation to any notes in, from or otherwise, involving the United Kingdom; and
- (2) It has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the UK Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the UK Financial Services and Markets Act 2000 would not, if Nationwide was not an authorized person, apply to Nationwide.

## **SETTLEMENT**

Unless otherwise agreed between the relevant Dealers and Nationwide, you must pay the purchase price of the notes in immediately available funds in the applicable specified currency in New York City three business days after the trade date.

## **INDEPENDENT AUDITORS**

The financial statements as at April 4, 2014, 2013 and 2012, and for the years then ended, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports incorporated by reference herein.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for us by Allen & Overy LLP, our United States and English counsel, with respect to matters of New York law, U.S. federal law and English law and for the Placement Agents by Linklaters LLP, London, England with respect to matters of New York law, U.S. federal law and English law.

## GENERAL INFORMATION

1. Nationwide's principal office is Nationwide House, Pipers Way, Swindon SN38 1NW, England.
2. The admission of the program to trading on the regulated market of the London Stock Exchange is expected to take effect on or around December 24, 2014. The price of the notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any series of notes will be admitted to trading on the regulated market of the London Stock Exchange upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in New York after the day of the transaction, unless otherwise agreed between the relevant Dealers and Nationwide.
3. The Global Notes have been accepted for clearance through DTC or its nominees. If the Global Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.
4. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
5. There are no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened) of which Nationwide or its subsidiaries is aware in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of Nationwide or its subsidiaries.
6. Since April 4, 2014, being the date to which our most recent audited consolidated financial statements have been prepared, there has been no material adverse change in the financial position or prospects of Nationwide and its subsidiaries and since September 30, 2014, being the date of our most recent unaudited condensed consolidated financial statements, there has been no significant change in the financial or trading position of Nationwide and its subsidiaries.
7. For so long as the medium-term note program described in this Base Prospectus remains in effect or any notes shall be outstanding, copies and, where appropriate, the following documents may be inspected during normal business hours at the specified office of the paying agent and from our Treasury Division, at Nationwide Building Society, One Threadneedle Street, London EC2R 8AW, England, including:
  - (a) our constitutive documents;
  - (b) this Base Prospectus in relation to the senior and subordinated medium-term note program, together with any amendments;
  - (c) the Private Placement Agency Agreement;
  - (d) the Indenture;
  - (e) our most recent publicly available audited consolidated financial statements beginning with such financial statements for the years ended April 4, 2014, 2013 and 2012 and our unaudited condensed consolidated financial statements for the six month periods ended September 30, 2014 and 2013 and the Independent Review Report of our Half-Yearly Financial Report for the period ended September 30, 2014;
  - (f) the report of PricewaterhouseCoopers LLP in respect of our audited consolidated financial statements for the financial year ended April 4, 2014; and
  - (g) any Final Terms relating to notes issued under the medium-term note program described in this Base Prospectus.

8. There are no material contracts having been entered into outside the ordinary course of our business, and which could result in any group member being under an obligation or entitlement that is material to our ability to meet our obligation to noteholders in respect of the notes being issued.
9. Issue of notes under the Program have been authorized by resolutions of our Board of Directors passed on March 16, 2005 and minutes of delegation of our Group Finance Director dated October 28, 2008.

## GLOSSARY OF FINANCIAL TERMS

Certain financial terminology used by building societies in the United Kingdom differs from that used by financial institutions in the United States. The following is a summary of such differences as they relate to our consolidated financial statements. We have used some of the following U.S. terms and descriptions throughout this Base Prospectus.

<b>UK Term used in financial statements</b>	<b>U.S. equivalent or brief description</b>
Accounts	Financial statements
Allotted	Issued
Amounts written off	Amounts charged off, or written-off
Cash in hand	Cash
Debt securities in issue	Debt
Fees and commissions payable	Fees and commissions expense
Fees and commissions receivable	Fees and commissions income
Freehold	Ownership with absolute rights in perpetuity
General reserve	Retained earnings
Income and Expenditure Account	Income Statement
Interest payable	Interest expense
Interest receivable	Interest income
Life assurance	Life insurance
Loans and advances	Loans or Lendings
Loans fully secured on residential property	Residential mortgage loans
Loans in arrears	Past due loans
Loans in repossession	Acquired property, foreclosed assets or Other Real Estate Owned (“OREO”)
Loans with interest suspended	Loans in non-accrual status
Permanent interest bearing shares and subscribed capital	No direct U.S. equivalent
Profit	Income
Provisions for bad and doubtful debts (in the balance sheet)	Allowance for loan losses
Provisions for bad and doubtful debts (in the income statement)	Provisions for loan losses
Revaluation reserve	No direct U.S. equivalent
Shares (UK retail member deposits)	No direct U.S. equivalent
Tangible fixed assets	Property, Plant & Equipment or Fixed Assets



## **PRINCIPAL OFFICE OF THE ISSUER**

Nationwide House  
Pipers Way  
Swindon SN38 1NW  
England

## **PLACEMENT AGENTS**

Barclays Capital Inc  
745 Seventh Avenue  
New York, New York 10019  
U.S.A.

**Citigroup Global Markets Inc.**  
388 Greenwich Street  
New York, New York 10013  
U.S.A.

**Credit Suisse Securities (USA) LLC**  
Eleven Madison Avenue  
New York, New York 10010  
U.S.A.

**Deutsche Bank Securities Inc.**  
60 Wall Street  
New York, New York 10005  
U.S.A.

**HSBC Securities (USA) Inc.**  
452 Fifth Avenue  
New York, New York 10018  
U.S.A.

**J. P. Morgan Securities LLC**  
383 Madison Avenue  
New York, New York 10179  
U.S.A.

**Merrill Lynch, Pierce, Fenner & Smith Incorporated**  
One Bryant Park  
New York, New York 10036  
U.S.A.

**Morgan Stanley & Co. LLC**  
1585 Broadway, 29th Floor  
New York, New York 10036  
U.S.A.

**UBS Securities LLC**  
1285 Avenue of the Americas  
New York, New York 10019  
U.S.A.

## **TRUSTEE**

**The Bank of New York Mellon**  
Corporate Finance  
101 Barclay Street, 8W  
New York, New York 10286  
U.S.A.

## **PRINCIPAL PAYING AGENT**

**The Bank of New York Mellon**  
101 Barclay Street  
New York, New York 10286  
U.S.A.

## **PAYING AGENT**

**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL  
England

## **PAYING AGENT**

**Credit Agricole Indosuez Luxembourg, S.A.**  
39, Allee Scheffer  
L-2520 Luxembourg  
Grand Duchy of Luxembourg

## LEGAL ADVISERS

*To Nationwide  
as to New York, U.S. federal and English law:*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
England

*To the Placement Agents  
as to New York, U.S. federal law and English law:*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
England

## AUDITORS TO NATIONWIDE

**PricewaterhouseCoopers LLP**  
1 Embankment Place  
London WC2N 6RH  
England