



## NATIONWIDE BUILDING SOCIETY

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

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

### **Senior Preferred, Senior Non-Preferred 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 preferred, senior non-preferred 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document constitutes a base prospectus (“**Base Prospectus**”) for the purposes of Directive 2003/71/EC (as amended or superseded, including by Directive 2010/73/EU) and includes any relevant implementing measure in a relevant Member State of the European Economic Area) (the “**Prospectus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 “**U.K. 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 U.K. 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 2014/65/EU (“**MIFID II**”).

See the section entitled “*Risk Factors*” commencing on page 22 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 U.K. bail-in power (as defined below) by the relevant U.K. 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 Core Capital Deferred Shares (“**CCDS**”) or 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 U.K. resolution authority of such U.K. bail-in power, and the rights of the holders of the notes will be subject to the provisions of any U.K. 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 U.K. resolution authority of such U.K. bail-in power and/or to ensure the effectiveness and enforceability of the holders’ agreement with respect to the exercise of U.K. bail-in powers.

For purposes of the notes, a “**U.K. 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 U.K. Banking Act 2009, as the same may be amended from time to time (whether pursuant to the U.K. 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, as the same may be amended from time to time (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 U.K. resolution authority**” is to any authority with the ability to exercise a U.K. 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, London Branch, 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 U.K. bail-in power by the relevant U.K. 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, SA, and Euroclear Bank S.A./N.V.

The rating of certain series of notes to be issued under the medium-term note program described in this Base Prospectus may be specified in the applicable Final Terms. Each of Moody’s Investors Service Limited (“**Moody’s**”), S&P Global Ratings 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.

Amounts payable on Reset Notes and Floating Rate Notes will be calculated by reference to one of the Constant Maturity Treasury Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, EURIBOR, the Federal Funds Rate, LIBOR, SONIA, the Prime Rate or the Treasury Rate as

specified in the relevant Final Terms. The applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of the Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. Such transitional provisions may also apply where the U.K. withdraws from the EU without any transitional arrangements and the EU does not recognize, endorse or grant equivalence status to U.K. benchmarks. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, we do not intend to update the Final Terms to reflect any change in the registration status of the administrator.

BARCLAYS  
BOFA MERRILL LYNCH  
CITIGROUP  
CREDIT SUISSE  
DEUTSCHE BANK SECURITIES  
HSBC  
J.P. MORGAN  
MORGAN STANLEY  
NATWEST MARKETS  
UBS INVESTMENT BANK  
WELLS FARGO SECURITIES

The date of this Base Prospectus is June 25, 2019.

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## NOTICE TO INVESTORS

We are furnishing this Base Prospectus in connection with an offering exempt from registration under the Securities Act and applicable state securities laws solely for the purpose of enabling a prospective investor to consider the purchase of the notes. Delivery of this Base Prospectus to any person or any reproduction of this Base Prospectus, in whole or in part, without our consent is prohibited. The information contained in this Base Prospectus has been provided by us and other sources identified in this Base Prospectus. The source of third-party information is identified where used. Any information provided by a third-party has been accurately reproduced and as far as we are aware and are able to ascertain from information published by that third-party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Placement Agents or their respective representatives make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Base Prospectus, nor regarding the legality of any investment in the notes. 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 adviser, financial adviser or tax adviser.

**MiFID II product governance / target market** – The Final Terms in respect of any notes will include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the notes and which channels for distribution of the notes are appropriate. Any person subsequently offering, selling or recommending the notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of notes about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Placement Agent subscribing for any notes is a manufacturer in respect of such notes, but otherwise neither the Arranger nor the Placement Agents nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

**IMPORTANT – EEA RETAIL INVESTORS** – If the Final Terms in respect of any notes includes a legend entitled “*Prohibition of sales to EEA retail investors*”, the notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or

more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been or will be prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**BENCHMARKS REGULATION** - Interest and/or other amounts payable under the notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Benchmarks Regulation. If any such reference rate does constitute such a benchmark, the applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the “**Benchmarks Regulation**”). Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. Such transitional provisions may also apply where the U.K. withdraws from the EU without any transitional arrangements and the EU does not recognize, endorse or grant equivalence status to U.K. benchmarks. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the issuer does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

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 behaviour 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 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, stabilization may not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant tranche of notes is made and, if begun, may cease 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 CANADIAN INVESTORS

The notes may be sold only to purchasers in Canada purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Base Prospectus or any applicable supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("**NI 33-105**"), the Placement Agents are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

## SINGAPORE: SECTION 309B(1)(C) NOTIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), we have determined, unless otherwise specified before an offer of notes, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA), the classification of all the notes to be issued under the medium-term note program described in this Base Prospectus as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## 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 22 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, NatWest Securities Inc., UBS Securities LLC and Wells Fargo 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), the first interest payment date, the first interest accrual date, and the offering price. The period of the resale restrictions applicable to any notes previously offered and sold in reliance on Rule 144A shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional notes.

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



## **ENFORCEMENT OF CIVIL LIABILITIES**

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

## **DOCUMENTS INCORPORATED BY REFERENCE**

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

- (1) our audited consolidated financial statements as of and for the year ended April 4, 2019 and the auditors' report thereon (contained on pages 165 to 247 (inclusive) of our annual report for the year ended April 4, 2019);
- (2) our audited consolidated financial statements as of and for the year ended April 4, 2018 and the auditors' report thereon (contained on pages 159 to 231 (inclusive) of our annual report for the year ended April 4, 2018);
- (3) our audited consolidated financial statements as of and for the year ended April 4, 2017 and the auditors' report thereon (contained on pages 137 to 214 (inclusive) of our annual report for the year ended April 4, 2017);
- (4) the Terms and Conditions of the Notes (previously the Description of the Notes) contained in the previous base prospectuses dated June 25, 2009, pages 102-130 (inclusive), July 1, 2010, pages 126-154 (inclusive), December 19, 2014, pages 191-220 (inclusive), July 6, 2015, pages 164-198 (inclusive), June 23, 2016, pages 156-191, June 30, 2017, pages 170-205 (inclusive), December 20, 2017, pages 218-263 (inclusive), June 26, 2018, pages 193-242 (inclusive), and December 18, 2018, pages 216-266.

Following the publication of this Base Prospectus a supplement may be prepared by us and approved by the U.K. 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 Treasury 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 audited consolidated financial statements for the years ended April 4, 2019, 2018 and 2017 and the auditors' reports thereon.

**Audited consolidated annual financial statements as of and for the year ended April 4, 2019**

Independent Auditors' Report .....	Pages 166-174
Income statements .....	Pages 175
Statements of comprehensive income.....	Pages 176
Balance sheets .....	Pages 177
Statements of movements in members' interests and equity .....	Pages 178
Cash flow statements.....	Pages 180
Notes to the consolidated annual financial statements.....	Pages 181

**Audited consolidated annual financial statements as of and for the year ended April 4, 2018**

Independent Auditors' Report .....	Pages 159-167
Income statement.....	Page 168
Statement of comprehensive income .....	Page 169
Balance sheet.....	Page 170
Group statement of movements in members' interests and equity .....	Page 171
Society statement of movements in members' interests and equity .....	Page 172
Cash flow statement.....	Page 173
Notes to the consolidated annual financial statements.....	Pages 174-231

**Audited consolidated annual financial statements as of and for the year ended April 4, 2017**

Independent Auditors' Report .....	Pages 137-145
Income statement.....	Page 146
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Balance sheet.....	Page 148
Group statement of movements in members' interests and equity .....	Page 149
Society statement of movements in members' interests and equity .....	Page 150
Cash flow statement.....	Page 151
Notes to the consolidated annual financial statements.....	Pages 152-209

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 included in this Base Prospectus as of and for the years ended April 4, 2019, 2018 and 2017 has been extracted from our audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union (“**EU**”).

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

Certain amounts have been restated in respect of the year ended April 4, 2017. A summary of such restatements is provided in note 1 to the audited consolidated financial statements as at and for the year ended April 4, 2019. This restatement has no impact on the Group’s or Society’s net assets or members interests and equity, or cash and cash equivalents at April 4, 2017.

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.

### **Alternative performance measures and other non-IFRS financial information**

#### *Alternative performance measures*

This Base Prospectus includes certain financial information which has not been prepared in accordance with IFRS and which also constitutes Alternative Performance Measures (“**APMs**”) as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. Certain APMs are discussed below under “—*Underlying profit before tax*” and are also identified under “—*Selected ratios and other financial data*” in “*Selected Consolidated Financial and Operating Information*” and in “*Selected Statistical Information*”. None of this financial information is subject to any audit or review by independent auditors.

APMs are not a measure of financial performance under IFRS and should not be considered in isolation or as a substitute for operating profit, cash flow from operating activities or other financial measures of our results of operations or liquidity computed in accordance with IFRS. Other companies, including those in financial services industry, may calculate the APMs presented differently from Nationwide. As all companies do not calculate these APMs in the same manner, our presentation of the APMs may not be comparable to other similarly titled APMs presented by other companies.

#### *Underlying profit before tax*

Certain sections of this Base Prospectus, including “*Selected Consolidated Financial and Operating Information*” and in “*Selected Statistical Information*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, discuss underlying profit before tax, which is not a measure of financial performance under IFRS and which is an APM. In determining underlying profit before tax, Nationwide adjusts reported profit before tax for certain items which the Society regards as subject to one-off volatility or as otherwise not being reflective of our ongoing business activities. These items are the costs of the Financial Services Compensation Scheme (the “**FSCS**”), bank levy charges and transformation costs (each of which is added back to reported underlying profit before tax) and losses or gains from derivatives and hedge accounting (which are respectively added to or deducted from reported underlying profit before tax).

Accordingly, the purpose of disclosing underlying profit before tax is to present the Society's view of our underlying performance with like for like comparisons of performance across each financial year. However, underlying profit before tax is not a measure of financial performance under IFRS and should not be considered in isolation or as a substitute for operating profit, cash flow from operating activities or other financial measures of our results of operations or liquidity computed in accordance with IFRS. Other companies, including those in our industry, may also calculate underlying financial performance measures differently from Nationwide. As all companies do not calculate these financial measures in the same manner, our presentation of such financial measures may not be comparable to other similarly titled measures of other companies.

The following table sets out a reconciliation of reported profit before tax to underlying profit before tax for the three years ended April 4, 2019, 2018, and 2017.

Underlying and statutory results <sup>(1)</sup>	For the year ended April 4,		
	2019	2018	2017
		(£ millions)	
Net interest income <sup>(2)</sup> .....	2,915	3,004	2,960
Net other income <sup>(2)</sup> .....	255	128	325
<b>Total underlying income</b> .....	<b>3,170</b>	<b>3,132</b>	<b>3,285</b>
Underlying administrative expenses .....	(2,254)	(2,024)	(2,021)
Impairment losses .....	(113)	(105)	(140)
Underlying provisions for liabilities .....	(15)	(26)	(136)
<b>Underlying profit before tax</b> .....	<b>788</b>	<b>977</b>	<b>988</b>
Financial Services Compensation Scheme (FSCS) <sup>(3)</sup> .....	9	1	-
Gains/(losses) from derivatives and hedge accounting <sup>(3) (4)</sup> .....	36	(1)	66
<b>Statutory profit before tax</b> .....	<b>833</b>	<b>977</b>	<b>1,054</b>
Taxation .....	(215)	(232)	(297)
<b>Profit after tax</b> .....	<b>618</b>	<b>745</b>	<b>1,054</b>

**Notes:**

(1) Under IFRS 9, the recognition and measurement of expected credit losses differs from under IAS 39. As prior period amounts have not been restated, impairment losses on loans and advances in the comparable period remain in accordance with IAS 39 and are therefore not directly comparable with impairment losses recorded for the current period.

(2) The opportunity has been take to reclassify certain items previously included within net interest income to reflect better the nature of the transactions. As a result, gains and losses recognized on the disposal of investment securities classified as FVOCI (2018: available for sale) are now presented within net other income.

(3) Within statutory profit:

- FSCS costs arising from institutional failures are included within provisions for liabilities and charges.
- Gains from derivatives and hedge accounting are presented separately within total income.

(4) Although we only use derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not achievable.

*Net interest margin*

Net interest margin is not a measure of financial performance under IFRS. In determining net interest margin, Nationwide divides its net interest income for each financial year (as shown in its consolidated annual financial statements) by its weighted average total assets. Weighted average total assets are calculated by taking

the average of closing monthly total assets over the financial year. Nationwide believes that net interest margin is an important supplemental measure of its operating performance and believes that it may be used by securities analysts, investors and other interested parties in the evaluation of our performance in comparison with other building societies and financial institutions. However, net interest margin is not a measure of financial performance under IFRS and should not be considered in isolation or as a substitute for operating profit, cash flow from operating activities or other financial measures of our results of operations or liquidity computed in accordance with IFRS. Other financial institutions may calculate net interest margin differently from Nationwide and our presentation of net interest margin may not be comparable to other similarly titled measures of other financial institutions.

The following table sets out the calculation of our net interest margin for the three years ended April 4, 2019, 2018, and 2017.

	<b>For the year ended April 4,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(£ millions, except percentages)</i>		
Net interest income .....	2,915	3,004	2,960
Weighted average total assets .....	238,934	230,079	222,901
<b>Net interest margin .....</b>	<b>1.22%</b>	<b>1.31%</b>	<b>1.33%</b>

#### *Other APMs*

The other APMs included in this document are certain ratios set out in “*Selected Consolidated Financial and Operating Information*” under the heading “*Selected ratios and other financial data*”. Each ratio that constitutes an APM is identified as such in that section. These ratios have been included in this Base Prospectus because Nationwide considers them to be important supplemental measures of its operating performance and financial position and believes that they may be used by securities analysts, investors and other interested parties in the evaluation of our performance in comparison with other building societies and financial institutions.

#### ***Other non-IFRS financial information***

##### *Capital and leverage ratios*

This Base Prospectus includes references to capital and leverage ratios applied under the Capital Requirements Directive (2013/36/EU) (“**CRD**”), which together with the Capital Requirements Regulation (575/2013) (“**CRR**”, and together with the CRD, “**CRD IV**”), implements the Basel III reforms developed in response to the global financial crisis in the European Union, and by the Prudential Regulation Authority (the “**PRA**”). These ratios measure our capital adequacy and financial strength, respectively. The capital ratios comprise:

- the Common Equity Tier 1 capital ratio (“**CET1 ratio**”), which expresses CET1 capital as a percentage of risk weighted assets (“**RWAs**”). CET1 capital is the highest form of capital defined in the CRR and comprises accumulated reserves and qualifying instruments after regulatory deductions. RWAs represent the value of assets as adjusted in accordance with the CRR to reflect the degree of risk that they represent;
- the tier 1 capital ratio, which expresses total tier 1 capital as a percentage of RWAs. Tier 1 capital comprises CET1 capital and additional tier 1 (“**AT1**”) capital instruments (which are instruments meeting defined criteria under the CRR, including that they convert to CET1 or their principal is written down on the occurrence of a trigger event); and
- the total capital ratio, which expresses total regulatory capital (which is capital defined under applicable regulations less required adjustments and deductions) as a percentage of RWAs.

Each of these capital ratios has been reported in this document on a CRD IV end point basis.

The leverage ratios measure tier 1 capital as a proportion of exposures on a non-risk weighted basis and comprise:

- the CRR leverage ratio (which measures exposures as the sum of (i) on-balance sheet exposures, adjusted for derivatives and securities financing exposures, and (ii) off-balance sheet items); and
- the U.K. leverage ratio (which is calculated in this document as at April 4, 2017, as at April 4, 2018, and as at April 4, 2019 on the basis of measurement announced by the PRA in October 2017, which is the same as that used in the CRR leverage ratio save that the exposure measure excludes eligible central bank reserves).

Although the capital and leverage ratios and measures included in this Base Prospectus are not IFRS measures, Nationwide believes that they are important to understanding the background of, and rationale for, the offer as well as our capital and leverage position.

None of the capital and leverage ratios and measures included in this Base Prospectus are APMs.

## **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, 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 resale 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 preferred notes, senior non-preferred notes 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 preferred notes, senior non-preferred notes or subordinated 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>U.K. 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 and insurance. We operate through an integrated and diversified distribution network, including branches, automatic telling machines (the “<b>ATMs</b>”), call centres, mail and the internet. We have over 15 million members and customers.</p> <p>As a building society, we are a mutual organization managed for the benefit of our “<b>members</b>,” who are primarily retail savings customers and residential mortgage customers.</p>
Issuer Legal Entity Identifier (LEI) .....	549300XFX12G42QIKN82
Placement Agents .....	<p>Barclays Capital Inc.  BofA Securities, Inc.  Citigroup Global Markets Inc.  Credit Suisse Securities (USA) LLC  Deutsche Bank Securities Inc.  HSBC Securities (USA) Inc.  J.P. Morgan Securities LLC  Morgan Stanley &amp; Co. LLC  NatWest Markets Securities Inc.  UBS Securities LLC  Wells Fargo Securities, LLC</p>
Trustee .....	The Bank of New York Mellon, London Branch (the “ <b>Trustee</b> ”). We entered into an indenture with the Trustee relating to the notes on December 19, 2017 (as supplemented and amended from time to time, the “ <b>Indenture</b> ”).
Program Size .....	We may issue up to \$20,000,000,000, or the equivalent of that amount in one or more other currencies or composite currencies, outstanding at any time. We may increase the

	program size from time to time without the consent of the holders of the notes.
Currencies.....	Subject to any applicable legal or regulatory restrictions, we may issue notes in any currency as we may agree with the relevant Placement Agent.
Issuance in Series.....	We will issue senior preferred notes, senior non-preferred notes and subordinated notes in series under an indenture. Within each series, we may 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 Preferred Notes.....	<p>The senior preferred 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, subject to the provisions set forth in the section entitled “<i>Terms and Conditions of the Notes – Negative Pledge</i>”, equally among themselves, junior to obligations required to be preferred by law (which includes certain member share accounts which are given preferential status by law) and at least equally with all other Ordinary Non-Preferential Debts of the Issuer.</p> <p>Accordingly, subject to the Insolvency Act (and any other Ranking Legislation), the senior preferred notes will (for so long as they are not secured pursuant to the provisions set forth in the section entitled “<i>Terms and Conditions of the Notes – Negative Pledge</i>”) form part of the class of Ordinary Non-Preferential Debts of the Issuer under the Insolvency Act (and any other Ranking Legislation).</p> <p>As used herein:</p> <p>“<b>Hierarchy Order</b>” means The Banks and Building Societies (Priorities on Insolvency) Order 2018;</p> <p>“<b>Insolvency Act</b>” means the Insolvency Act 1986, as amended from time to time (including by the Hierarchy Order);</p> <p>“<b>Ordinary Non-Preferential Debts</b>” means ‘ordinary non-preferential debts’ as defined in Section 387A(3)(a) of the Insolvency Act (or, as the case may be, in the relevant section of any other Ranking Legislation); and</p> <p>“<b>Ranking Legislation</b>” means the Insolvency Act, the Hierarchy Order and, if and to the extent applicable to the Issuer, any other law or regulation which is amended by the Hierarchy Order.</p>
Ranking of Senior Non-Preferred Notes.....	<p>The senior non-preferred notes may only be issued upon terms such that they (A) have an original contractual maturity of at least one year, and (B) are not derivatives and contain no embedded derivatives for the purposes of Section 387A(3)(b)(ii) of the Insolvency Act (and the relevant section of any other Ranking Legislation).</p> <p>The senior non-preferred notes will constitute our direct and unsecured obligations and, subject to the Insolvency Act (and any other Ranking Legislation), will constitute</p>



	<p>Secondary Non-Preferential Debts under the Insolvency Act (and any other Ranking Legislation) ranking <i>pari passu</i> and without any preference among themselves.</p> <p>Accordingly, subject to the Insolvency Act (and any other Ranking Legislation), claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of our obligations) in respect of the senior non-preferred notes will, in the event of our winding up or dissolution (subject as otherwise provided in an Excluded Dissolution), rank as provided for Secondary Non-Preferential Debts in the Insolvency Act (and any other Ranking Legislation), as further described in “<i>Terms and Conditions of the Notes—Status and ranking of senior non-preferred notes</i>”.</p> <p>As used herein, “<b>Secondary Non-Preferential Debts</b>” means ‘secondary non-preferential debts’ as defined in Section 387A(3)(b) of the Insolvency Act (or, as the case may be, in the relevant section of any other Ranking Legislation).</p>
Ranking of Subordinated Notes .....	<p>The subordinated notes will constitute our direct, subordinated and unsecured obligations and will rank <i>pari passu</i> and without any preference among themselves.</p> <p>Accordingly, subject to the Insolvency Act (and any other Ranking Legislation), the subordinated notes will form part of the class of Tertiary Non-Preferential Debts under the Insolvency Act (and any other Ranking Legislation), and claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of our obligations) in respect of the subordinated notes will, in the event of our winding up or dissolution (subject as otherwise provided in an Excluded Dissolution), be subordinated in the manner provided in “<i>Terms and Conditions of the Notes—Status and subordination of subordinated notes</i>”.</p> <p>As used herein, “<b>Tertiary Non-Preferential Debts</b>” means ‘tertiary non-preferential debts’ as defined in Section 387A(3)(c) of the Insolvency Act (or, as the case may be, in the relevant section of any other Ranking Legislation).</p>
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. We are also permitted to redeem subordinated notes in the event that they cease, in full or in part (as specified in the applicable Final Terms), to qualify towards meeting our Tier 2 capital resources. If so specified in the applicable Final Terms, we are also permitted to redeem senior non-preferred notes in the event that they are excluded, in full or in part (as specified in the applicable Final Terms), from our

Substitution and Variation in respect of Senior  
Non-Preferred Notes.....

minimum requirements (whether on an individual or consolidated basis) for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments. 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.

If so specified in the applicable Final Terms, upon the occurrence of a Loss Absorption Disqualification Event we may, subject to certain conditions but without the consent of the noteholders, either substitute all (but not some only) of the relevant series of senior non-preferred notes for, or vary the terms of the relevant series of senior non-preferred notes so that they remain or, as appropriate, become, Loss Absorption Compliant Notes.

Agreement with Respect to the Exercise of U.K.  
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 U.K. bail-in power (as defined below) by the relevant U.K. 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 Core Capital Deferred Shares (the “CCDS”) or 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 U.K. resolution authority of such U.K. bail-in power, and the rights of the holders of the notes will be subject to the provisions of any U.K. 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 U.K. resolution authority of such U.K. bail-in power and/or to ensure the effectiveness and enforceability of the holders’ agreement with respect to the exercise of U.K. bail-in powers.

For purposes of the notes, a “U.K. 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 U.K. Banking Act 2009, as the same may be amended from time to time (whether pursuant to the U.K. 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

	<p>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, as the same may be amended from time to time (the “<b>BRRD</b>”), 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 U.K. resolution authority” is to any authority with the ability to exercise a U.K. bail-in power).</p>
Repayment of principal and payment of interest after exercise of U.K. bail-in power .....	<p>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 U.K. bail-in power by the relevant U.K. 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 U.K. bail-in power.</p>
Interest .....	<p>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 or SONIA, as we agree with the purchaser and describe in the applicable Final Terms.</p>
Reset Notes .....	<p>Interest on reset notes will be payable in arrear on the dates specified in the Final Terms at the initial rate specified in the Final Terms, and thereafter the rate may be reset with respect to a specified time period by reference to the Reset Reference Rate as described in “<i>Terms and Conditions of the Notes–Interest–Reset Notes</i>”. The rate of interest may be reset on more than one occasion.</p>
Benchmark discontinuation .....	<p>If so specified in the applicable Final Terms, then in the event that a Benchmark Event occurs, such that any rate of interest (or any component part thereof) cannot be determined by reference to the original benchmark or screen rate (as applicable) specified in the applicable Final Terms, then we may (subject to certain conditions) be permitted to substitute such benchmark and/or screen rate (as applicable) with a successor, replacement or alternative benchmark and/or screen rate (with consequent amendment to the terms of the notes and the application of an adjustment spread (which could be positive, negative or zero)) – see “<i>Terms and Conditions of the Notes–Interest–Benchmark discontinuation</i>”.</p>
Interest Payments.....	<p>We may pay interest monthly, quarterly, semi-annually, annually or at such other intervals as we describe in the applicable Final Terms.</p>
Denominations.....	<p>We will issue the senior preferred notes and senior non-preferred 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</p>

	<p>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.</p>
Taxation.....	<p>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:</p> <ul style="list-style-type: none"> <li>(i) in the case of (A) all senior preferred notes and (B) each series of senior non-preferred notes unless the applicable Final Terms expressly specifies “<i>Senior Non-Preferred Notes: Gross-up of principal</i>” as not applicable, in respect of interest or principal; or</li> <li>(ii) in the case of (A) all subordinated notes and (B) each series of senior non-preferred notes for which the applicable Final Terms expressly specifies “<i>Senior Non-Preferred Notes: Gross-up of principal</i>” as not applicable, in respect of interest only,</li> </ul> <p>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.</p> <p>For the avoidance of doubt, in the case of subordinated notes and any senior non-preferred notes under (ii) above, we will not pay any additional amounts in respect of principal (including premium and other payments akin to principal, as more fully described herein).</p>
Events of Default.....	<p>As described in “<i>Terms and Conditions of the Notes—Events of Default—Senior Preferred Notes and Unrestricted Default Senior Non-Preferred Notes</i>” and “<i>Terms and Conditions of the Notes—Events of Default—Subordinated Notes and Restricted Default Senior Non-Preferred Notes</i>”.</p>
Rating .....	<p>The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms.</p>
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, unless specified in any applicable Final Terms, 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</p>

	and may not be transferred except in compliance with the transfer restrictions set forth therein. Transfers of interests from a U.S. Global Note to an International Global Note are subject to certification requirements.
Governing Law .....	The Indenture and the notes shall be governed by and construed in accordance with the laws of the State of New York; except that Section 11.1 of the Indenture (which contains the subordination provisions in respect of the subordinated notes) and Section 12.1 of the Indenture (which explains the priority of the senior non-preferred notes under the Insolvency Act and any other Ranking Legislation) and the corresponding subordination and ranking provisions, respectively, of each series of such notes pursuant to Section 3.1 of the Indenture and in the terms of such notes will be governed by and construed in accordance with the laws of England, with the intention that such provisions be given full effect in any insolvency proceeding relating to us in England.
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 U.K. 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 22 of this Base Prospectus.

## RISK FACTORS

*We believe that the following factors may affect our ability to fulfil 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 prospects are largely driven by the U.K. mortgage, savings and personal current account markets, which in turn are driven by the U.K. economy. Consequently, we are subject to inherent risks arising from general economic conditions in the U.K.***

Our business activities are concentrated in the U.K. and we offer a range of banking and financial products and services to U.K. retail customers. As a consequence, our operating results, financial condition and prospects are significantly affected by the general economic conditions in the U.K. economy and the economic confidence of consumers and businesses.

Nationwide has benefitted from generally positive economic conditions in each of the three years ended April 4, 2019, which have helped it grow its core lending and savings operations and also beneficially impacted its underlying impairment charges. The outlook for the U.K. economy is, however, uncertain, particularly in light of the U.K.’s decision to leave the European Union.

Adverse changes and uncertainty in U.K. economic conditions could lead to a decline in the credit quality of our borrowers and counterparties and have an adverse effect on the quality of our loan portfolio, which could result in a rise in delinquency and default rates, reduce the recoverability and value of our assets and require an increase in our level of provisions for bad and doubtful debts. Likewise, a significant reduction in the demand for our products and services could negatively impact our business and financial condition. There remains a risk that if low inflation or deflation becomes entrenched in the U.K., consumer spending and wage growth will be dampened. These pressures on households may lead to an increase in arrears in our residential mortgage and unsecured lending portfolio, and an associated increase in retail impairment. There can be no assurance that we will not have to increase our provisions for loan losses in the future as a result of increases in non-performing loans and/or for other reasons beyond our control. Material increases in our provisions for loan losses and write-offs/charge-offs could have an adverse effect on our operating results, financial condition and prospects.

The durability of the U.K. economic recovery, along with its concomitant impacts on our profitability, remains a risk. The economic outlook is particularly uncertain following the U.K. decision to leave the European Union. This uncertainty extends to the interest rate outlook, where there are plausible scenarios with rates being increased further, remaining unchanged or being lowered in the period ahead, depending on economic developments. However, our central expectation is that interest rates will rise only gradually and to a limited extent in the years ahead. There is also uncertainty about the U.K.’s future trading relationships. There is

potential for activity and asset prices to decline should the labour market deteriorate markedly or if strains in the financial system re-emerge and impair the flow of credit to the wider economy. Credit quality could be adversely affected by a renewed increase in unemployment. In addition, there may be a weakening in tenant performance in the private rental sector which could adversely impact the buy to let (“**BTL**”) market. Any related significant reduction in the demand for our products and services could have a material adverse effect on its operating results, financial condition and prospects.

Worsening economic conditions in the U.K. could also create uncertainty in relation to the cash flows of our borrowers in the commercial real estate (the “**CRE**”) market and in relation to the value of their collateral, leading to further loan loss provisions against our CRE lending. Any weakening in tenant performance and investor appetite could result in increased commercial loan losses which would adversely impact our financial and operational performance. Any further loan loss provisions recorded against our CRE lending could adversely affect our profitability in the future.

Downward pressure on profitability and growth could occur as a result of a number of external influences, such as the consequences of a more austere economic environment and the impact of global economic forces on the U.K. economy. Adverse changes in global growth may pose the risk of a further slowdown in the U.K.’s principal export markets, which would have an adverse effect on the broader U.K. economy. For further information on the risks arising from general economic conditions abroad, see “—*We are vulnerable to disruptions and volatility in the global financial markets and are subject to additional risks arising from general economic conditions in the Eurozone and elsewhere*” below.

Conversely, a strengthened U.K. economic performance, or a rise in inflation pressures, may increase the possibility of a higher interest rate environment. In such a scenario, other market participants might offer more competitive product pricing resulting in increased customer attrition. Under such conditions, we may also experience an increase in our cost of funding, as described under “—*Changes to interest rates or monetary policy, whether by the U.K., US or other central banking authorities, could affect the financial condition of our customers, clients and counterparties, which could in turn adversely affect us*” below.

Additionally, housing affordability has become more stretched in recent years in some parts of the country. There is a risk that a decline in house sales, including due to house price growth outstripping earnings, could reduce demand for new mortgages in the future. In addition, the recent increase in interest rates will increase mortgage payments, which could lead to higher retail loan losses. See further, “—*We are exposed to future changes in U.K. house prices*” below.

***We are vulnerable to disruptions and volatility in the global financial markets and are subject to additional risks arising from general economic conditions in the Eurozone and elsewhere***

We are directly and indirectly subject to inherent risks arising from general economic conditions in the U.K. and other economies, particularly the Eurozone. The dislocations in financial markets that have occurred since the global financial crisis of 2007-2008 were accompanied by recessionary conditions and trends in the U.K. and a period of significant turbulence and uncertainty for many financial institutions in the U.K. and around the world, including us and many of our counterparties. Any future disruptions could again pose systemic risks that negatively affect, among other things:

- consumer confidence;
- levels of unemployment;
- the state of the U.K. housing market and the CRE sector;
- bond and equity markets;
- counterparty risk;
- the availability and cost of credit;

- transaction volumes in wholesale and retail markets including the availability and duration of funding in wholesale markets;
- the liquidity of the global financial markets; and
- market interest rates, including interest rate rises and the associated impact on affordability,

which in turn could have a material adverse effect on our business, operating results, financial conditions and prospects.

In the Eurozone, inflation has been persistently low, which, together with high levels of private and public debt, outstanding weaknesses in the financial sector and reform fatigue, is a concern. The possibility of a renewed downturn in the Eurozone could inhibit the U.K.'s own economic recovery, given the extensive economic and financial linkages between the U.K. and the Eurozone. The U.K.'s trade and current account balances with the Eurozone would be likely to deteriorate further, negatively affecting U.K. growth. The possibility of a sovereign default and the managed or unanticipated exit of one or more member states from the European Monetary Union could also pose a threat to the stability of financial markets and could cause other risks. For further information, see “—*In connection with the withdrawal of the United Kingdom from the European Union, we face risks to our business and legal uncertainties*” below.

Although, globally and in the U.K., economic and financial market conditions have generally stabilized in recent years, there have been periods of significant volatility in financial markets around the world. This generally has led to more difficult business conditions for the financial sector. Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on us, including our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes significantly more expensive, we may be forced to raise the rates we pay on deposits to attract more customers and we may become unable to maintain certain liability maturities. Any such reduction in availability of funding or increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins, liquidity and profitability.

***Risks that reduce the availability or increase the cost of our sources of funding, such as retail deposits and wholesale money markets, may have an adverse effect on our business and profitability***

Retail depositors are a significant source of funding for us and, under current legislation, a minimum of 50.0% of our aggregate shares and borrowings (calculated in accordance with the U.K. Building Societies Act) is required to be in the form of deposits which we accept from members of the public and which are classified as “shares” in our balance sheet as they confer member status on the depositors. Our retail deposits classified as shares totalled £154 billion as at April 4, 2019, £148 billion as at April 4, 2018, and £145 billion as at April 4, 2017, equal to 71.5%, 71.4%, and 71.7%, respectively, of our total shares and borrowings (for the purposes of the U.K. Building Societies Act) at each such date.

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 us in particular;
- the impact of technology and ‘Open Banking’ as further discussed in “—*Competition in the U.K. personal financial services markets may adversely affect our operations*” below
- the financial services industry specifically; and
- the availability and extent of deposit guarantees, such as under the FSCS.



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 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.

Like all major financial institutions, we are also dependent on the short- and long-term wholesale funding markets for liquidity. Though our dependence on wholesale funding is less than other financial institutions, due to the requirements of current building society legislation, our business is subject to risks concerning liquidity, which are inherent in financial institutions' operations. If access to liquidity is constrained for a prolonged period of time, this could affect our profitability.

Under exceptional circumstances, our ability to fund our financial obligations could be negatively impacted if we are unable to access funding on commercially practicable terms, or at all. 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 as a result of the withdrawal of government and central bank funding and liquidity support, or a change in the structure, term, cost, availability or accessibility of any such funding or liquidity support) could increase our cost of funding, resulting in a material adverse effect on our profitability or results of operations, and/or could affect our ability to:

- meet our financial obligations as they fall due;
- meet our regulatory minimum liquidity requirements; or
- fulfil 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 U.K. banking system.

The U.K. government (the “**Government**”) has provided significant support to U.K. financial institutions, including the Bank of England’s (the “**BoE**”) Term Funding Scheme (the “**TFS**”) which opened on September 19, 2016 and closed on February 28, 2018. If the TFS were to be reopened or replaced with other Government schemes designed to support lending, this may increase or perpetuate competition in the retail lending market, resulting in sustained or intensifying downward pricing pressures and consequent reductions in net interest margins.

We expect to face continuing significant competition (including from National Savings and Investments, the Government-owned funding agency (the “**NSI**”) and a range of smaller lenders with largely non-mortgage loan books whose high asset yields enable them to offer attractive deposit rates) for funding, particularly retail funding on which we are reliant, in the future. These potential pressures could be exacerbated as the sector, as a whole, seeks to replace the funding it obtained from BoE funding schemes. This competition could further increase, impacting our funding costs and so adversely impact our results of operations and financial position.

***Changes to interest rates or monetary policy, whether by the U.K., US or other central banking authorities, could affect the financial condition of our customers, clients and counterparties, which could in turn adversely affect us***

The prevailing level of interest rates and the provision or withdrawal of other accommodative monetary and fiscal policies, which are impacted by factors outside of our control, including the fiscal and monetary policies of governments and central banks, as well as U.K. and international political and economic conditions, affect our results of operations, financial condition and return on capital.

Stimulus measures in the U.K. and elsewhere have been highly accommodative in recent years, including the Funding for Lending Scheme (“**FLS**”) (which closed in January 2018), the TFS (which closed in February 2018) and the Help to Buy scheme, a Government scheme introduced in 2013 designed to enable buyers to put down a 5% deposit on a home with the Government guaranteeing up to 20% of the mortgage (40% in London) funded by a commercial lender (which is expected to be closed from 30 November 2019). Although a new Lifetime Individual Savings Account (“**LISA**”) programme is being introduced, the impact of this new programme is uncertain. The relatively long period of stimulus in the U.K. and elsewhere has increased uncertainty over the impact of its reduction, which could lead to generally weaker than expected growth, or even contracting gross domestic product, reduced business confidence, higher levels of unemployment or underemployment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices in the markets in which we operate, and consequently to an increase in delinquency rates and default rates among our customers. Moreover, higher prevailing interest rates would affect our cost of funding with depositors and creditors, which could adversely affect our profitability, to the extent our margins decline.

The personal financial services sector in the U.K. 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). Since 2009, 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 and when 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.

Conversely, there are risks associated with a continuation of the sustained low interest rate environment or further reductions in interest rates in the U.K. or other major developed economies, including if the BoE were to lower its target rate to a negative rate (as other major central banks, including the European Central Bank and the Bank of Japan, have done). A prolonged period of low interest rates could further reduce incentives for our

customers to save, reducing our funding from deposits. Additionally, the low interest rate environment has and may continue to put pressure on net interest income and margins throughout the U.K. financial industry. Our business, financial performance, net interest income and margin may continue to be adversely affected by the low interest rate environment.

***We are exposed to future changes in U.K. house prices***

The value of our mortgage portfolio is influenced by U.K. house prices, and a significant portion of our revenue is derived from interest and fees paid on our mortgage portfolio. As at April 4, 2019, £151.4 billion, or 82%, of our loans and advances to customers were U.K. prime residential mortgages. A decline in house prices in the U.K. could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce our capital and our ability to engage in lending and other income-generating activities. A significant increase in house prices over a short period of time could also have a negative impact on our business by reducing the affordability of homes for buyers, which could lead to a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting our ability to grow the residential mortgage portfolio. The U.K.'s planned exit from the EU has caused considerable uncertainty about the near-term prospects for U.K. house prices and significant downwards pressure cannot be discounted.

In addition, we also have a significant portfolio of specialist mortgages, which amounted to £34.5 billion, or 18%, of our loans and advances to customers as at April 4, 2019. BTL mortgages constitute the vast majority of our specialist mortgages portfolio. The BTL market in the U.K. is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from BTL properties. In addition, the Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, which may result in lower gross yields, and even negative cashflow, on BTL property investments. This restriction has been introduced gradually, and will be fully in place on April 6, 2020. So far, the measures have had no noticeable impact on BTL market arrears. The BoE has also stated that it is considering increasing the regulatory capital requirements of banks holding BTL mortgages on their balance sheets, although no specific proposals have been made. From April 1, 2016, a higher rate of stamp duty land tax (the “SDLT”) has been applied to the purchase of additional properties (such as BTL properties). The current additional rate is 3% above the current SDLT rates. These factors could make the purchase of BTL properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages, which may also affect the resale value of relevant or similar properties.

The Government's intervention into the housing market through buyer assistance schemes, or indirectly through measures that provide liquidity to the banking sector (as was the case with FLS and TFS), may also contribute to volatility in house prices. This could occur; for example, as a result of the sudden end to buyer assistance schemes, which could lead to a decrease in house prices, or due to their continuation, which would maintain excess funding liquidity in the mortgage market which has supported a low mortgage interest rate environment, and which could lead to inflation in house prices.

In addition, following the Mortgage Market Review, the FCA published new rules in April 2014. In April 2015, the FCA began a further thematic review on responsible lending in the mortgage sector on which it reported in May 2016. In December 2016, the FCA launched a market study into first charge residential mortgages, focusing on whether competition in the mortgage market sector is healthy and working to the benefit of consumers, including whether commercial arrangements between lenders, brokers and other third parties give rise to conflicts of interest or misaligned incentives to the detriment of consumers. The FCA published its Mortgages Market Study Final Report (MS16/2) in March 2019. Whilst it found that the mortgage market is working well in many respects, the report illustrated a number of areas for improvement relating to customer choice and the ability of customers to switch mortgage providers. On March 26, 2019 the FCA published Consultation Paper CP19/14 entitled “*Mortgage customers: proposed changes to responsible lending rules and guidance*” setting out detailed proposals to remove regulatory barriers to changing mortgages for “mortgage

prisoners”. CP19/14 closes for comments on June 26, 2019. The term “mortgage prisoners” has been defined by the FCA to mean mortgage customers who would benefit from changing their mortgage product (either with their existing lender or with a new lender) but are unable to do so despite being up to date with their current mortgage payments. The changes to the FCA’s Mortgages and Home Finance: Conduct of Business sourcebook (the “**MCOB**”) proposed by CP19/14 should make it easier for a customer who is a mortgage prisoner to switch to a new lender. This could lead to an increase in redemptions of mortgages sooner than anticipated, thereby reducing the interest payable on those loans. On May 7, 2019 the FCA published Consultation Paper CP19/17 entitled “*Consultation on mortgage advice and selling standards*” which proposes changes to the FCA’s mortgage advice and selling standards to address some of the concerns identified in the Mortgages Market Study relating to mortgage advice. CP19/17 closes for comments on July 7, 2019. It is possible that further changes may be made to the MCOB as a result of these and future reviews, studies and regulatory reforms which could have a material adverse effect on our business, finances and operations. Any failure to comply with these rules may entitle a borrower to claim damages for loss suffered or set-off the amount of the claim against monies owing under a regulated mortgage contract and the new rules may also negatively affect mortgage supply and demand.

The future impact of these initiatives on the U.K. housing market and other regulatory changes or Government programs is difficult to predict. Volatility in the U.K. housing market occurring as a result of these changes, or for any other reason, could have a material adverse effect on our business, financial condition and results of operations.

Given the relatively point-in-time approach used by us for modelling residential mortgage RWAs by comparison with other large U.K. banking institutions, a reduction in U.K. house prices, or other deterioration in economic conditions, may have a material impact on our CET1 ratio. The degree to which our CET1 ratio is impacted by such events is likely to change following introduction of more through-the-cycle modelling approaches, which the PRA requires to be in place by the end of December 2020. The results of the concurrent stress testing undertaken by the BoE, available on the BoE’s website, illustrate the impact that certain economic scenarios are projected to have on our capital position.

***In connection with the withdrawal of the United Kingdom from the European Union, we face risks to our business and legal uncertainties***

On June 23, 2016, the U.K. held a referendum (the “**U.K. EU Referendum**”) on its membership of the EU, in which a majority voted for the U.K. to leave the EU (“**Brexit**”). Immediately following the result, the U.K. and global stock and foreign exchange markets commenced a period of significant volatility, including a steep devaluation of the pound sterling. There remains significant uncertainty relating to the U.K.’s exit from, and future relationship with, the EU and the basis of the U.K.’s future trading relationship with the rest of the world. On March 29, 2017, the U.K. Prime Minister gave notice under Article 50(2) of the Treaty on the European Union and officially notified the European Union of the U.K.’s intention to withdraw from the EU. The delivery of the Article 50(2) notice triggered a two year period of negotiation to determine the terms on which the U.K. will exit the EU and the framework for the U.K.’s future relationship with the EU (the “**Article 50 Withdrawal Agreement**”). On April 10, 2019, this date was extended to October 31, 2019, with a review to be held on June 30, 2019. As part of those negotiations, a transitional period has been agreed in principle which would extend the application of European Union law, and provide for continuing access to the European Union single market, until the end of 2020.

It therefore remains uncertain whether the Article 50 Withdrawal Agreement, or any other agreement relating to the U.K.’s future relationship with the EU, will be finalised and ratified by the U.K. and the EU. There are also ongoing political discussions around Brexit, including discussions on delaying the timing for the U.K.’s exit from the EU to provide more time for the U.K. and the EU to finalise negotiations on and ratify the Article 50 Withdrawal Agreement. If the Article 50 Withdrawal Agreement is not ratified and the timing is not or is not sufficiently extended, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply to the U.K. from October 31, 2019. Whilst continuing to contemplate the terms of the U.K.’s exit from the EU, the U.K. Government continues preparations for a “hard Brexit” or “no-

deal” Brexit to minimise the risks for firms and businesses associated with an exit with no transitional agreement. This has included publishing legislation under powers provided in the European Union (Withdrawal) Act 2018 to ensure that there is a functioning statute book on the U.K.’s exit from the EU. The European authorities have not provided U.K. firms and businesses with similar assurances in preparation for a “hard” Brexit although some member states have individually announced or introduced their own measures to mitigate relevant issues. Due to the ongoing political uncertainty as regards the terms of the U.K.’s withdrawal from the EU and the structure of the future relations, it is not possible to determine the precise impact on general economic conditions in the U.K. (including on the performance of the U.K. housing market) and/or on our business or that of any other party to the transaction documents. There is a possibility that the U.K.’s membership ends at such time without reaching any agreement on the terms of its relationship with the EU going forward, and currently the Article 50 Withdrawal Agreement, which provides for a transitional period whilst the future relationship between the U.K. and the EU is negotiated, has not been ratified by the U.K. Parliament. A general election in the U.K. was held on June 8, 2017 (the “**General Election**”). The General Election resulted in a hung parliament with no political party obtaining the majority required to form an outright government. On June 26, 2017 it was announced that the Conservative party had reached an agreement with the Democratic Unionist Party (the “**DUP**”) in order for the Conservative party to form a minority government with legislative support (“confidence and supply”) from the DUP. There is an ongoing possibility of an early general election ahead of 2022 and of a change of government, particularly in light of the resignation of the U.K. Prime Minister announced on May 24, 2019, effective June 7, 2019. This announcement initiated a leadership election within the ruling U.K. Conservative party and this may lead to further uncertainty as regards U.K. Government policy on Brexit.

The continuing uncertainty surrounding the Brexit outcome has had an effect on the U.K. economy, particularly towards the end of 2018, and this may continue during the remainder of 2019. Consumer and business confidence indicators have continued to fall, for example the Growth from Knowledge (“**GfK**”) consumer confidence index fell to -14 in January 2019, and this has had a significant impact on consumer spending and investment, both of which are vital components of economic growth. The outcome of Brexit remains unclear, however, a U.K. exit from the EU with a no-deal continues to remain a possibility and the consensus view is that this would have a negative impact on the U.K. economy, affecting its growth prospects, based on scenarios put forward by such institutions as the BoE, HM Government and other economic forecasters.

While the longer term effects of the U.K.’s imminent departure from the EU are difficult to predict, there is short term political and economic uncertainty. The Governor of the BoE warned that the U.K. exiting the EU without a deal could lead to considerable financial instability, a very significant fall in property prices, rising unemployment, depressed economic growth, higher inflation and interest rates. The Governor also warned that the BoE would not be able to apply interest rate reductions. This could inevitably affect the U.K.’s attractiveness as a global investment centre, and would likely have a detrimental impact on U.K. economic growth.

If a “no-deal” Brexit did occur it would be likely that the U.K.’s economic growth would slow significantly, and it would be possible that there would be severely adverse economic effects.

Due to the ongoing political uncertainty as regards the terms of the U.K.’s withdrawal from the EU and the structure of the future relationship, the precise impact on our business is difficult to determine. Among other consequences, the U.K.’s withdrawal from the European Union could materially change the legal framework applicable to our operations, including in relation to its regulatory capital requirements and could result in restrictions on the movement of capital and the mobility of personnel. Any of these factors could result in higher operating costs and no assurance can be given that the U.K.’s withdrawal from the European Union will not adversely affect our business, financial condition and results of operations and/or the market value and/or the liquidity of the Notes in the secondary market.

***Rating downgrade and/or market sentiment with respect to us, the financial services sector, the U.K. and/or other sovereign issuers may have an adverse effect on our performance***

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

Our senior preferred ratings are currently “A (positive)” from S&P, “Aa3 (negative)” from Moody’s and “A+ (stable)” from Fitch (December 2018: “A (positive)”, “Aa3 (negative)” and “A+ (stable)”, respectively) and our short-term ratings are currently “A-1” from S&P, “P-1” from Moody’s and “F1” from Fitch (February 2018: “A-1”, “P-1” and “F1”, respectively). The long-term ratings assigned by each of Moody’s and S&P are senior preferred ratings (i.e. relating to obligations equivalent to senior preferred notes), whereas the long-term rating assigned by Fitch is a senior non-preferred rating (i.e. relating to obligations equivalent to senior non-preferred notes).

As at the date of this Base Prospectus, the most recent ratings actions in respect of us taken by each rating agency are as follows:

- *Fitch (March 2019)*: placed the Long Term Issuer Default Rating of Nationwide, along with eighteen other U.K. banking groups, on Ratings Watch Negative. The Senior Preferred unsecured debt rating was unchanged at “A+”. The Ratings Watch Negative reflects the heightened uncertainty over the ultimate outcome of the Brexit process and the increased risk that a disruptive “no-deal” Brexit could result in negative action on the U.K. banks, with the likelihood that negative outlooks will be assigned.
- *S&P (November 2018)*: reaffirmed their positive outlook reflecting their expectation that Nationwide’s buffer of bail-in instruments could exceed their threshold for two notches of Additional Loss Absorbing Capacity (ALAC) uplift over their 18-24 month forecast horizon.
- *Moody’s (February 2019)*: affirmed the ratings of our unsecured debt and deposits at “Aa3”/“P-1”, with a negative outlook. This outlook reflects the uncertainties embedded in Moody’s forward looking view on the loss given failure of the Society’s senior debt.

Any 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 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 downgrade to the outlook or to the credit ratings of U.K. financial institutions, including us, which could have a material adverse effect on the borrowing costs, liquidity and funding of all U.K. financial services institutions, including us. Any downgrade in our ratings 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. For example, as at April 4, 2019, we would have needed to provide additional collateral amounting to £3 billion in the event of a one notch downgrade by external credit rating agencies.

The U.K.'s long-term ratings are currently "AA (negative)" from S&P, "Aa2 (stable)" from Moody's and "AA (Rating Watch Negative)" from Fitch. Any downgrade of the U.K. sovereign credit rating or the perception that such a downgrade may occur could destabilize the markets, impact our rating, borrowing costs and ability to fund ourselves and have a material adverse effect on our operating results and financial condition. In addition, a U.K. sovereign downgrade or the perception that such a downgrade may occur would be likely to depress consumer confidence, restrict the availability, and increase the cost, of funding for individuals and companies, depress economic activity, increase unemployment and/or reduce asset prices. These risks are exacerbated by concerns over the levels of the public debt of, the risk of further sovereign downgrades of, and the weakness of the economies in, certain weaker Eurozone countries. Further instability within these countries or others within the Eurozone might lead to instability in the U.K. and in the global financial markets.

Our financial performance has been and will continue to be affected by general political and economic conditions in the U.K., the Eurozone and elsewhere, and other adverse developments in the U.K. or global financial markets would cause our earnings and profitability to decline.

#### ***Competition in the U.K. personal financial services markets may adversely affect our operations***

We are currently the fourth largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 10.1% (as calculated by us based on BoE data) and 13.1% (according to BoE data), respectively, as at April 4, 2019.

We operate in an increasingly competitive U.K. personal financial services market. We compete mainly with other providers of personal finance services, including banks, building societies and insurance companies. In addition, recent technological advances have allowed new competitors to emerge both from within the traditional financial services arena and from outside it, and continued advances in technology may lead to further new entrants from the prolific fintech sector.

Each of the main personal financial services markets in which we operate is mature and relatively slow growing, which intensifies pressure for firms to take market share from competitors if they are to expand. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. As a member-owned business, we are able to provide a financial benefit to our members through the offer of competitive savings and mortgage products. Our member financial benefit is delivered in the form of differentiated pricing and incentives, which we quantify as the sum of our interest rate differential, member reduced fees and incentives. In the years ended April 4, 2019, 2018 and 2017, we estimated that benefit at £705 million, £560 million and £505 million, respectively. If we are unable to match the efficiency of our competitors in relation to both price and service, we risk losing competitive advantages and being unable to attain our strategic growth aspirations.

In the U.K., most major retail banks see the mortgage market as an attractive and high priority focus for expansion. This applies to both the prime mortgage market and the BTL mortgage market. Additionally, smaller institutions are also seeking to build share of the mortgage market, including new ventures and businesses with a base outside the traditional financial services industry. The ending of the TFS in February 2018 may have made

it harder for those participants who have placed heaviest reliance upon it to continue rapid recent levels of loan growth. However, other participants less reliant on the TFS are likely to have retained their growth appetites. Consequently, competition for the highest quality mortgages remains intense with continued, downward pressure on the returns available for the lowest risk-weighted mortgage assets. If the TFS were to be reopened or replaced with other Government schemes designed to support lending, this may increase or perpetuate competition in the retail lending market, resulting in sustained or intensifying downward pricing pressures and consequent reductions in net interest margins.

Competition for deposits has intensified as the TFS has been withdrawn and as lenders with higher yielding non-mortgage loan books have helped bid up deposit rates. We expect to face continuing significant competition (including from the NSI and a range of smaller lenders with largely non-mortgage loan books whose high asset yields enable them to offer attractive deposit rates) for funding, particularly retail funding on which the Issuer is reliant in the future. These potential pressures could continue or be exacerbated alongside further interest rates rises particularly if the NSI were to adopt a more active stance in the market and as the sector, as a whole, seeks to replace the funding it obtained from BoE funding schemes. The personal current account market is currently the focus of intense competition. A range of institutions see the personal current account as the key to broader customer relationships and are seeking to make inroads into the large market share of the established major banking groups, often by harnessing the potential of mobile access. The major incumbents have reacted with competitive propositions designed to retain customers, and have fully embraced mobile banking.

Parallel with these developments, price comparison websites and other personal financial management tools emerging from the fintech sector have become more popular and widely used, allowing customers to compare products more easily and make buying decisions based on price. As a consequence, there is a risk that it will create downward pressure on prices, negatively impacting our ability to deliver our strategic income targets and our financial performance. Competition may also intensify in response to consumer demand, further technological changes, and the impact of consolidation amongst our competitors. We also face potential competition from newer banks in the U.K., such as TSB, from banking businesses developed by large non-financial companies, such as Tesco, from “challenger bank” entrants, such as Metro Bank, and from fundamentally new entrants into the U.K. banking sector, such as peer-to-peer lending platforms or mobile only banks such as Atom Bank, Starling and Monzo.

Regulatory action might also increase competitive pressures. For example, the Competition and Markets Authority (the “CMA”) undertook a market investigation into competition in the personal current accounts and the small and medium-sized enterprises (“SME”) retail banking markets. The CMA published its final report on August 9, 2016 which identified features of the markets for the supply of personal current accounts, business current accounts and SME lending that are having an adverse effect on competition. The CMA decided on a comprehensive package of remedial measures which included, among other things, the introduction of requirements to prompt customers to review the services that they receive from their bank at certain trigger points and to promote public awareness of account switching. The remedial measures were to be implemented by orders, undertakings to be given by banks and further work by the FCA and HM Treasury, including further work on overdraft charges by the FCA, which remains under political scrutiny. On February 2, 2017, the CMA made the Retail Banking Market Investigation Order 2017 to implement the remedial measures. On December 18, 2018 the FCA published Consultation Paper CP18/42 entitled “*High-Cost Credit Review: Overdrafts consultation paper and policy statement*” aimed at encouraging competition as well as proposing interventionist measures in relation to the high level and complex pricing structures as well as repeated overdraft use. The proposed pricing remedies include aligning the prices of unarranged overdrafts so that they are no more expensive than arranged overdrafts and simplifying overdraft pricing structures requiring firms to charge a single rate of interest for both arranged and unarranged overdrafts resulting in a ban on all other overdraft fees (other than fees for refused payments). CP18/42 also addresses feedback received on Consultation Paper CP18/13 earlier in 2018. CP18/42 closed for comments on March 18, 2019 and the FCA expects to publish final rules and guidance in June 2019. There can be no assurance that our customer base, levels of deposits, revenue or market share will not be adversely affected by the remedial measures and other regulatory actions arising out of the investigation and consultation.



The FCA launched its Strategic Review of Retail Banking Business Models in May 2017 to evaluate matters relating to competition and conduct. This review was intended to ensure that the FCA's regulatory approach remains fit for purpose as well as to protect customers and promote effective competition. The FCA's final report was published on December 18, 2018 and proposed some further work in this area, including ongoing monitoring of retail banking business models by the FCA.

On April 23, 2019 the FCA published Feedback Statement FS19/2 entitled "*A duty of care and potential alternative approaches: summary of responses and next steps*", following on from Discussion Paper DP18/5 published in July 2018. The FCA is considering introducing new duty of care requirements that could place a general obligation on firms to act in the best interests of consumers. The FCA intends to publish a further paper in autumn 2019 outlining specific options for change. It is possible that changes may be made to the FCA's rules and guidance, in particular its Principles for Businesses, as a result.

The remedies provided by the CMA, together with the implementation of the second payment services directive (the "**PSD2**") in January 2018, are commonly referred to as "open banking" ( "**Open Banking**"). The aim of Open Banking is to create more transparency and fairness in the U.K. banking and financial services market through greater competition and innovation. It has the potential to significantly disrupt traditional personal financial services models and to radically reshape the banking landscape in the U.K. Open Banking will require financial institutions such as ours to provide registered third party organizations with transactional information where the consent of the customer or member is provided, and also to make public and openly share their product information, as well as customer satisfaction scores and other service level indicators. This makes it possible for consumers to share their financial transactional data more easily with third parties online, allows third parties to initiate payments directly from a person's account as a bank transfer as an alternative to credit or debit card payments, and enables customers or such third party providers to more easily compare products offered by different institutions. This offers the prospect of an enhanced banking experience for the customer – for example, providers could offer comparison and switching services to help customers identify the best financial products for them and, over time, potentially enable customers to automate management of their finances to some degree, such as authorizing service providers to transfer their finances to more competitive products on a regular and ongoing basis.

Whilst Open Banking presents opportunities for us, there are also significant risks, including if technology is adopted more quickly than anticipated or new propositions offered by competitors attract business away from us or alter customer expectations. Further, the implementation of Open Banking could result in the emergence of new disruptors and competitors, potentially with substantially different business models, that could materially alter the banking environment. Such changes could affect our ability to attract and retain customers, which in turn could potentially adversely affect liquidity and increase our funding costs over time. Whilst we are investing in developing Open Banking solutions to support members' needs and to mitigate this risk, there can be no assurance that its efforts will be successful or that we will be able to compete effectively with existing competitors and/or new entrants to attract and retain customers.

Furthermore, increased use of technology may increase our exposure to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs. See "*If we do not control our operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services, we may be unable to manage its business successfully.*"

Additionally, the implementation of the Independent Commission on Banking's recommendation to separate retail banking activities from wholesale and investment banking activities to be carried out by large banking groups operating in the U.K. by no later than 2019 could reduce the distinctiveness of the building society model, which we consider to be a competitive advantage. 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 U.K. 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.

***Our guidelines and policies for risk management may prove inadequate for the risks faced by our business and any failure to properly manage the risks which it faces could cause harm to us and our business prospects***

The management of financial and operational risks requires, among other things, robust guidelines and policies for the accurate identification and control of a large number of transactions and events. Such guidelines and policies may not always prove to be adequate in practice. We face a wide range of risks in our business activities, including, in particular:

- liquidity and funding risk, see “—*Risks that reduce the availability or increase the cost of our sources of funding, such as retail deposits and wholesale money markets, may have an adverse effect on our business and profitability*” above;
- credit risk, which is the risk that a borrower or a counterparty fails to pay interest or to repay the principal on a loan or other financial instrument;
- market risks, in particular interest rate risk as well as foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect our 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 also cause changes in the value of our investment and liquidity portfolios. See also, “—*Changes to interest rates or monetary policy, whether by the U.K., US or other central banking authorities, could affect the financial condition of our customers, clients and counterparties, which could in turn adversely affect us*” above and “—*Market risks may adversely impact our business*” below; and
- operational risk, see “—*If we do not control our operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services, we may be unable to manage its business successfully*” below.

We have a range of tools designed to measure and manage the various risks which we face. Some of these methods, such as value-at-risk analyses, are based on historic market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical data may also not adequately allow prediction of circumstances arising due to Government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to us. Such information may not always be correct, updated or correctly evaluated. In addition, even though we constantly measure and monitor our exposures, there can be no assurance that our 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.

***If we do not control our operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services, we may be unable to manage its business successfully***

Our success as a financial institution depends on our ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from a range of internal and external factors. Internal factors include 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 and equipment failures, particularly in relation to electronic banking applications. External factors include natural disasters, war, terrorist action or the failure of external systems, for example, those of our suppliers or counterparties. These could, for example, prevent our customers from withdrawing cash from our ATMs or from having their salary credited to their accounts with us and, if customers associate their problem with us rather than with the institution causing the problem, this would have an operational and financial impact on our performance. A feature of operational risk is that financial institutions rely on systems and controls such as standard form documentation and electronic banking applications to process high volumes of transactions. As a result, any error in our standard documentation or any defect in its electronic banking applications can be replicated across a large number of transactions before the error or defect is discovered and corrected and this could significantly increase the cost to us of remediating the error or defect, could expose us to the risk of regulatory sanction, unenforceability of contracts and, in extreme cases, could result in significant damage to our reputation.

In particular, increased digital interconnectivity across the Group, its customers and suppliers, and the need for resilient IT systems, including hardware, software, cloud computing services and cyber-security, remains an evolving risk to financial institutions including us. Our implementation of new systems, infrastructures and processes, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations are rising, with a significantly lower tolerance of service disruption. Ensuring a highly reliable and widely available service requires resilient IT, business systems and processes. Furthermore, the sharing of customer data, and the enabling of direct payments by third party providers from a customer's account as a result of Open Banking, may give rise to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs and risks associated with us becoming liable for, or otherwise being required to protect customers against, the costs and/or liabilities of other third party providers and/or losses caused by the actions of such other third party providers. Any loss in the integrity and resilience of key systems and processes, data thefts, cyber-attacks, denial of service attacks or breaches of data protection requirements could significantly disrupt our operations and cause significant financial loss and reputational damage to us. This could in turn result in a loss of confidence in us, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

Meanwhile the exponential rise in data used in digital services increases the complexity and cost of managing data securely and effectively. Further, the maturity and sophistication of organized cyber-crime continue to increase and have been highlighted by a number of recent attacks in the financial and non-financial sectors, including payment services. Such attacks have also increased the public awareness of cyber-threats. As a result of the continued increasing threat from cyber-crime, security controls have needed to keep pace to prevent, detect and respond to any threats or attacks. The constant threat posed by a cyber-attack directly impacts the existing risks associated with external fraud, data loss, data integrity and availability. Although we maintain measures designed to ensure the integrity and resilience of key systems and processes, we may be the victim of cyber-attacks, including denial of service attacks which could significantly disrupt our operations and the services we provide to our customers or attacks designed to obtain an illegal financial advantage. Any such attack or any other failure in our IT systems could, amongst other things, cause significant financial loss and reputational damage to us, and could result in a loss of confidence in us, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

Over recent years there has been a dramatic increase in the demand for digital products and services due to the convenience that they can bring. This has seen an influx of innovative new offerings in the market

place and the number of challenger banks and Fintech disruptors has increased. Collectively the changes may pose a challenge to our core markets and product pricing, particularly if we are unable to introduce competitive products and services sufficient to match our traditional and challenger competitors.

Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to technology, 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.

***We may not achieve targeted profitability or efficiency savings, which could have an adverse impact on our capital planning and/or results of operations***

We seek to maintain a secure and dependable business for our members through, amongst other things, generating a level of profit sufficient to meet regulatory capital and future business investment requirements and focusing on how we spend members' money through driving a culture of efficiency.

We have used the most recent guidance from regulators regarding the maximum expected capital requirement for Nationwide to develop our financial performance framework. This framework provides parameters which will allow us to calibrate future performance and help ensure that we achieve the right balance between distributing value to members, investing in our business and maintaining our financial strength.

One of the most important of these parameters is profit, management of which is a key component in maintaining Nationwide's capital strength. We believe that a level of underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium term would meet the Board's objective for sustainable capital strength. This range is based on the goal of maintaining a U.K. leverage ratio in excess of 4.0%.

This range will vary from time to time, and whether our profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. There can be no assurance we will continue to generate profits within this range and it should not be construed as a forecast of the likely level of our underlying profit for any financial year or period within a financial year. In addition, achieving sustainable cost savings and embedding efficiencies remains a priority for the Society. We have delivered a further £103 million of new in-year sustainable saves during 2019. On a cumulative basis, including the full year benefit of sustainable saves delivered over the last two years, we have now delivered over half of our target of £500 million of sustainable saves by 2023. This has been achieved through a range of initiatives that are focused on the development of digital capabilities, organisational design, third party savings, process improvements, simplification and elimination. However, there can be no assurance that such targeted cost savings will be achieved. Any failure by us to meet our targeted profit range for capital planning purposes and/or to achieve our targeted efficiencies could adversely impact our capital ratios and the results of operations.

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

Market risk is the risk that the net value of, or net income arising from, our assets and liabilities is impacted as a result of market price or rate changes, specifically interest rates, foreign exchange rates or equity prices. 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 designed 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.

### ***Concentration risks may adversely impact our business***

Our business activities are concentrated in the U.K. and our banking and financial products and services are offered to U.K. retail customers. Our business is also concentrated on retail deposit and the residential mortgage markets. Under current building society legislation, our ability to diversify our business is limited. Accordingly, a decline in the U.K. economy or the predominantly retail markets in which we operate could have a material adverse impact in our financial performance and business operations, which could be disproportionately greater than the impact on other banking groups with more diversified businesses.

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

Our reputation is one of our most important assets and our ability to attract and retain customers and conduct business with our counterparties could be adversely affected to the extent that our reputation or the reputation of the Nationwide brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to us and our business prospects. Reputational issues include, but are not limited to:

- failing to appropriately address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices, see “*We are exposed to risks relating to the mis-selling of financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice*” below);
- 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 service and accounts or the failure of intermediaries or third parties on whom we rely;
- limiting hours of or closing branches due to changing customer behaviour;
- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and
- generally poor business performance.

Any failure to address these or any other relevant issues appropriately could make customers, depositors and investors unwilling to do business with us, which could adversely affect our business, financial condition and results of operations and could damage its relationships with its regulators. Nationwide cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

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

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 we will not incur liability for past, current or future actions, including failure to comply with applicable regulatory requirements, 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. In particular:

- certain aspects of our business may be determined by the BoE, the PRA, FCA, HM Treasury, 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 mis-selling 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 U.K. High Court or elsewhere. For example, in August 2010, the Financial Services Authority (the "FSA") published a Policy Statement (the "PS10/12") on "The Assessment and Redress of Payment Protection Insurance Complaints" (the "Statement"). The Statement applies to all types of Payment Protection Insurance (the "PPI") policies and followed Consultation Paper (CP10/06). Following publication of the Statement, the British Bankers Association (the "BBA") and others requested a judicial review of the FSA's proposed approach to the assessment and redress of complaints in respect of sales of PPI. On April 20, 2011, the High Court ruled in favour of the FSA. The BBA chose not to appeal this ruling and the obligation for firms to comply with PS10/12 resulted in very significant provisions for customer redress made by several U.K. financial services providers. We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and ongoing administration, including non-compliance with consumer credit legislation and other regulatory requirements. The net charge of £15million in the year ended April 4, 2019 compared to £26 million as at April 4, 2018 reflects our latest estimate of our customer redress liabilities. Although there have been no significant PPI product sales since 2007, we continue to see a number of PPI claims and there can be no assurance that our current estimates for potential liability are correct, and our reserves taken to date might prove inadequate.

In November 2014, the U.K. Supreme Court ruled in *Plevin v. Paragon Personal Finance Ltd* [2014] UKSC 61 ("Plevin") that a failure to disclose to a client a large commission payment on a single premium PPI policy made the relationship between a lender and the borrower unfair under section 140A of the Consumer Credit Act 1974 (the "CCA"). As a result and following an industry consultation, in March 2017 the FCA published final rules and guidance which may result in an increase in the volume of 'Plevin-based' unfair relationship claims brought against the lenders who failed to disclose significant PPI commissions when entering into credit agreements. A key aspect of the FCA's final rules is a PPI complaints deadline of August 29, 2019 for remaining PPI complaints to financial services firms or the FOS. There can be no assurance that the final rules and guidance will not result in further costs or requirements in relation to customer redress by institutions which have historically sold PPI. On January 30, 2019 the FCA published Policy Statement PS19/2 entitled "Previously rejected PPI complaints and further mailing requirements – Feedback on CP18/33 and final rules and guidance" which required firms to write to certain previously rejected PPI complainants (primarily in relation to regular premium PPI) to inform them that they can make a new complaint about non-disclosure of commission. Firms were required to complete these mailings by April 29, 2019.

No assurance can be given that we will not incur liability in connection with any past, current or future non-compliance with legislation or regulation, and any such non-compliance could be significant and materially adversely affect our results of operations and financial position or our reputation.

***We could be negatively affected by deterioration in the soundness or a perceived deterioration in the soundness of other financial institutions and counterparties***

Given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Within the financial services industry, the default of any one institution could lead

to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, as was the case after the bankruptcy of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom Nationwide interacts on a daily basis. Systemic risk could have a material adverse effect on our ability to raise new funding and on its business, financial condition, results of operations, liquidity and/or prospects.

We routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, insurance companies and other institutional clients, resulting in large daily settlement amounts and significant credit exposure. As a result, we face concentration risk with respect to specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions.

***Changes in our accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations***

From time to time, the International Accounting Standards Board (the “IASB”) and/or the European Union change the IFRS issued by the IASB, as adopted by the European Commission for use in the European Union, that govern the preparation of our financial statements. These changes could materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, IFRS 9: “*Financial Instruments*” is the new standard that replaced IAS 39: “*Financial Instruments: Recognition and Measurement*”. It changed the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 was required to be implemented in our financial statements for the year ending April 4, 2019. On April 5, 2018 we implemented IFRS 9: “*Financial Instruments*”. The total impact on members’ interests and equity, net of deferred tax, was a reduction of £162 million. There has been no restatement of comparatives following adoption of IFRS 9.

Amongst other changes, IFRS 9 replaced the incurred loss approach to impairment of IAS 39 with one based on expected credit losses (“ECL”), which resulted in earlier recognition of credit losses. This introduced a number of new concepts and changes to the approach to provisioning compared with the methodology under IAS 39.

The European authorities have recognized the risk that application of IFRS 9 may lead to a sudden significant increase in ECL provisions and consequently a sudden decrease in the capital ratios of institutions. Accordingly, Regulation (EU) 2017/2395 (the “**IFRS 9 Regulation**”) has been passed in order to introduce transitional periods for mitigating the impact of the introduction of IFRS 9 on own funds applying from January 1, 2018.

The financial reporting impact of IFRS 9 is expected to be quantified once models and systems allow us to provide reliable estimates. However, our current estimates are that IFRS 9 will lead to an increase in provisions held against loans and advances to customers, in so far as it:

- estimates credit losses on certain assets over their full life on an ECL basis, rather than the current incurred loss basis; and
- takes account of forward-looking economic scenarios and captures potential downside economic risks that are not explicitly included in the current methodology.

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of our financial statements, which we may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Society, or which we may be required to adopt. Any such change in our accounting policies or accounting standards could materially affect our reported financial condition and results of operations.

***Our accounting policies and methods are critical to how we report our financial condition and results of operations. They require us to make estimates about matters that are uncertain***

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. We must exercise judgment in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

The Society has identified certain accounting policies in the notes to the audited consolidated financial statements for the year ended April 4, 2019 incorporated by reference in this Base Prospectus in respect of which significant judgment is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. These judgments relate to the assumptions used in the determination of impairment provisions on customer loans and advances (see note 10 to the audited consolidated financial statements as at and for the year ended April 4, 2019), the estimates underlying its determination of provisions for customer redress (see note 27 to the audited consolidated financial statements as at and for the year ended April 4, 2019) and the assumptions underlying its calculations of retirement benefit obligations (see note 30 to the audited consolidated financial statements as at and for the year ended April 4, 2019).

A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or reducing a liability. We have established detailed policies and control procedures that are intended to ensure that these judgments (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding our judgments and the estimates pertaining to these matters, we cannot guarantee that we will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

***We may be required to make further contributions to our defined benefit pension schemes if the value of pension fund assets is not sufficient to cover potential obligations. The accounting deficit of our defined benefit scheme is reflected in CET1 capital***

We maintain defined benefit and defined contribution pension schemes for past and current employees. The defined benefit scheme has been closed to new entrants since 2007. The assets of pension schemes are held and managed by trustees separate from our assets. Contributions to the defined benefit scheme are assessed by independent actuaries and agreed between the trustees and us. Risk arises from the schemes because the value of their asset portfolios and returns from them may be less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities. In these circumstances, we could be obliged, or may choose, to make additional contributions to our pension schemes. In the year ended April 4, 2019, the year ended April 4, 2018 and the year ended April 4, 2017, we made additional employer deficit contributions of £61 million, £86 million, and £149 million, respectively, to our main defined benefit pension scheme. As at April 4, 2019, we had a deficit of £105 million (£345 million as at April 4, 2018) in our pension schemes. The reduction in the deficit since April 4, 2018 is largely due to improving market conditions combined with an employer deficit contribution of £61 million agreed as part of the 2016 triennial valuation. Depending on the pace and nature of any future macro-economic recovery, we may be required or may elect to make further contributions to our defined benefit pension schemes, which could be significant and have a negative impact on our results of operations.

In addition, the accounting deficit in our defined benefit pension scheme is reflected in our CET1 capital. Accordingly, an increase in the deficit can result in a reduction in our capital ratios.



***We are exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes***

Our activities are principally conducted in the U.K. and we are therefore subject to a range of U.K. taxes at various rates. Future actions by the Government to increase tax rates or to impose additional taxes would reduce our profitability. Revisions to tax legislation or to its interpretation might also affect our financial condition in the future. In addition, we are subject to periodic tax audits which could result in additional tax assessments relating to past periods of up to six years being made. Any such assessments could be material which might also affect our financial condition in the future.

***The Senior Managers and Certification Regime may have a substantial impact on our business***

The Senior Managers and Certification Regime (the “SM&CR”) came into force for U.K. banks, building societies, credit unions, PRA designated investment firms and branches of foreign banks operating in the U.K. on March 7, 2016, and is intended to govern the individual accountability and conduct of senior persons within such entities. The FCA and the PRA have now published the majority of their rules and guidance on the SM&CR. Among other things, the SM&CR introduced: (i) requirements on financial institutions to allocate and map senior management responsibilities and reporting lines across all areas of the organisation’s activities; (ii) a new senior persons regime governing the conduct of bank staff approved by the PRA and FCA to perform senior management functions (including certain non-executive directors); (iii) new rules requiring financial institutions to certify the ongoing suitability of a wide range of staff performing certain functions; (iv) the extension (from March 2017) of conduct rules (enforceable by PRA and/or FCA disciplinary action, including financial penalties and public censure) previously only applicable to Senior Managers and certified staff to all bank staff other than those undertaking purely ancillary functions; and (v) the introduction of a criminal offence for reckless misconduct by senior bank staff. Rules regarding regulatory references for Senior Managers and staff within the SM&CR also came into force from March 7, 2017. The PRA and FCA continue to publish guidance and consult on future changes to the SM&CR. The most significant and imminent change comprises the application of SM&CR to solo-regulated firms in December 2019, in respect of which the FCA published guidance on March 8, 2019. However, this change relates to FCA solo-regulated firms only, so is not applicable to us. The SM&CR will continue to have a substantial impact on banks and building societies in the U.K. generally, including us.

**Risks Related to Regulations/the Regulatory Environment**

***Very recent or 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 our prudential arrangements and the sale of financial products, including, for example, residential mortgages, commercial lending, savings, investment, consumer credit 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. The financial sector has seen an unprecedented volume and pace of regulatory change in the years following the global financial crisis, and significant resource has been required to assess and implement necessary changes. 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 continues to witness significant 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.

A range of legislative and regulatory changes have been made by regulators and other bodies in the U.K. and the EU 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:

- Directive 2004/39/EC (“**MiFID**”) and its various implementing measures have been recast as a revised directive (Directive 2014/65/EU) (“**MiFID II**”) and a new regulation (Regulation 600/2014/EU, the Markets in Financial Instruments Regulation or “**MiFIR**”), which entered into force on July 2, 2014 which together regulate the provision of investment services and activities in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. The changes to MiFID include expanded supervisory powers that include the ability to ban specific products, services or practices. The majority of the provisions of MiFID II and MiFIR and the implementing laws and regulations have applied since January 3, 2018.
- The Payment Services Regulations 2009 (“**PSRs**”) were repealed and replaced as a result of the revised directive on payment services (“**PSD2**”). PSD2 came into force on January 12, 2016 and member states, including the U.K., were required to transpose it into national law by January 13, 2018. In the U.K., PSD2 has been transposed in the Payment Services Regulations 2017. Key changes include the requirement for account information services and payment initiation services to be regulated, new security requirements, increased reporting obligations and increased focus on consumer protection. There are also changes to the scope of the conduct of business rules and the list of exemptions. In December 2018, the FCA published a policy statement (“**PS 18/24**”) on its approach to final regulatory technical standards (“**RTS**”) for strong customer authentication and common and secure open standards of communication, as well as other related EBA guidelines. PS 18/24 sets out the FCA’s approach to the RTS assessing whether bank and other online account providers are properly set up to enable Open Banking. Amended fraud reporting requirements also applied from January 1, 2019. PS 18/24 introduces new rules on reporting complaints about authorized push payment fraud, which are due to take effect from July 1, 2019. The Payment Services (Amendment) Instrument 2018 contains corresponding changes to the Payment Services Regulations 2017 and the FCA Handbook.
- The General Data Protection Regulation came into force on May 25, 2018 and applies to personal data. Its definition is more detailed than the Data Protection Act (“**DPA**”) and makes it clear that information such as an online identifier (for example, an IP address, can be personal data). It applies to both automated personal data and to manual filing systems where personal data is accessible according to specific criteria. This is wider than the DPA’s definition and could include chronologically ordered sets of manual records containing personal data. A significant program of work is in place to make the changes necessary to meet the requirements.
- In November 2016, the European Commission published two new legislative proposals to amend the current European capital regime. These proposals were referred to as “**CRDV**” and “**CRR II**” and form part of the so-called “**Banking Reform Package**”. CRDV and CRR II include, among other things, reforms to EU holding company structures, total loss absorbing capacity, the net stable funding ratio, leverage ratio and internal risk models. The framework is intended to strengthen the banking union and reduce risks in the financial system. The Banking Reform Package was finalized and published in the Official Journal of the EU on June 7, 2019 and will enter into force 20 days thereafter. CRR II and CRDV are two of the pieces of legislation included in the Financial Services (Implementation of Legislation) Bill (the “**Bill**”) which received its first reading in the House of Lords on November 22, 2018. The Bill provides the U.K. Government with the power to choose to implement only those EU files, or parts of those files, which are both appropriate and beneficial for the U.K. and adjust and improve the legislation as it is brought into U.K. law to ensure that it works better for

U.K. markets. The Bill was due to have its report stage and third reading on March 4, 2019 but this has now been postponed for a date to be announced.

- In July 2018, the BoE, PRA and FCA published a joint discussion paper on their intended approach to improve the operational resilience of firms (supervised by the FCA/PRA) and Financial Market Infrastructures (the “**FMI**s”) (supervised by the BoE). The discussion paper introduces a concept of “impact tolerance”, encouraging firms to ensure key business services are sufficiently resilient to a wide range of threats. The deadline for responses to the paper was October 5, 2018. The FCA, PRA and BoE will work to develop proposals for their respective supervisory approaches, but it is not yet clear what form any rules on operational resilience may take or what effect they may have on our operations. The BoE currently proposes to publish a consultation paper later in 2019 setting out proposed policies and explaining the approach to supervising operational resilience. The Financial Policy Committee (“**FPC**”) has also undertaken work in this area, with a particular focus on cyber risk. The FPC will ask firms to conduct cyber stress testing. At an international level, the Basel Committee established the Operational Resilience Working Group, which published a report on cyber resilience in December 2018. This report identifies areas in which further policy work is likely to be undertaken.
- The PRA has introduced Systemic Risk Buffer rates for ring-fenced banks and large building societies which will apply from August 1, 2019. The PRA has set a Systemic Risk Buffer rate of 1.0% of all RWAs for us, which applies to all exposures on a consolidated basis. This will affect the amount of regulatory capital we have to hold.

As at the date of this Base Prospectus it is difficult to predict the effect that any of these 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, the 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 will not have a material adverse effect on our operations, business, results, financial condition or prospects.

Furthermore, we cannot assure investors that any other regulatory or legislative changes or any other Governmental interventions that may have been proposed or which may materialize in the future will not have a material adverse effect on our operations, business, results, financial condition or prospects. Whilst the scope and nature of any such changes are unpredictable, any interventions or regulations designed to increase the protections for U.K. retail and other customers of banks and building societies, for example through stricter regulation on repossessions and forbearance by mortgage lenders, could materially adversely affect our business or operations.

We are also subject to a number of EU and U.K. proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). This includes the EU’s Fourth Anti-Money Laundering Directive, which was transposed into U.K. law in June 2017. The EU’s Fifth Anti-Money Laundering Directive came into force in July 2018 and aims to enhance processes to counter money laundering and terrorist financing (including illicit activities related to cryptocurrencies). The Fifth Anti-Money Laundering Directive must be transposed into law by Member States by January 2020. Although this date is after U.K.’s planned exit from the EU, it is expected that the U.K. will implement the provisions of the Fifth Anti-Money Laundering Directive. HM Treasury launched a consultation process on April 2019 on implementing of the Directive into U.K. law. The closing date for comments to be submitted was June 10, 2019. We are committed to operating a business that prevents, deters and detects money laundering and terrorist financing, and will introduce any changes required in line with the new directive and industry guidance. However, if there are breaches of these measures or existing law and regulation relating to financial crime, we could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on our operations, financial condition and prospects.

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

***We are subject to wide-ranging regulatory action in the event that our failure is considered likely and to pose a threat to the public interest***

In the EEA, 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 U.K. implemented the majority of the measures under the BRRD into English law, by way of amendment to the U.K. Banking Act 2009 on January 1, 2015.

Under the U.K. Banking Act 2009 substantial powers have been granted to HM Treasury, the BoE (including the PRA) and the FCA (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 by means of several resolution tools (the “**Stabilization Options**”) in circumstances in which the Authorities consider its failure has become highly likely and a threat is posed to the public interest. In respect of U.K. building societies, the relevant tools include:

- (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares;
- (ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society; and
- (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualization of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the Society to a company.

In each case, the U.K. Banking Act 2009 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 U.K. Banking Act 2009 to be used effectively.

The BRRD also provides that a Member State as a last resort, after having assessed and used the resolution tools set out above to the maximum extent practicable whilst maintaining financial stability, and where certain other mandatory conditions of the BRRD have been satisfied, may provide extraordinary public financial support through additional financial stabilization tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

Secondary legislation which makes provision for the Stabilization Options under the SRR to be used in respect of any “banking group company” came into force on August 1, 2014. The definition of “banking group company” encompasses certain of our subsidiaries and affiliates. The amendments to the U.K. Banking Act 2009 allow the Stabilization Options under the SRR and the bail-in stabilization power to be applied to any of our group companies that meet the definition of a “banking group company.”

In addition, the U.K. Banking Act 2009 contains a separate power, often referred to as the “capital write-down tool”, enabling the Authorities to cancel or transfer CET1 instruments away from the original owners, or write down (including to nil) an institution’s Additional Tier 1 and Tier 2 capital instruments, or to convert them into CET1 instruments, if the Authorities consider that the institution or the group is at the “point of non-viability” and certain other conditions are met. The capital write-down tool must be applied before any of

the Stabilization Options provided for in the SRR may be used in practice and may be used whether or not the institution subsequently enters into resolution. Subordinated notes issued under the programme may be Tier 2 capital instruments, and any such subordinated notes would be subject to the capital write-down tool. For more information see: *“Under the terms of the notes, investors will agree to be bound by and consent to the exercise of any U.K. bail-in power by the relevant U.K. resolution authority which gives such authority the ability to cancel, write-down the principal and/or interest, convert the notes into equity securities or make other modifications to notes”*.

The SRR may be triggered prior to our insolvency. The purpose of the Stabilization Options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the Stabilization Options may be exercised if:

- (i) the relevant Authority is satisfied that a relevant entity (such as us) is failing or is likely to fail;
- (ii) having regard to timing and other relevant circumstances, the relevant Authority determines that it is not reasonably likely that (ignoring the Stabilization Options) action will be taken that will enable the relevant entity to satisfy those conditions;
- (iii) the Authorities consider the exercise of the Stabilization Options to be necessary, having regard to certain public interest considerations (such as the stability of the U.K. financial system, public confidence in the U.K. banking system and the protection of depositors); and
- (iv) the relevant Authority considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity.

It is therefore possible that one or more of the Stabilization Options could be applied prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

The European Banking Authority (the “EBA”) has published guidelines on the circumstances in which an institution shall be deemed as “failing or likely to fail” by supervisors and resolution authorities. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

Although the U.K. Banking Act 2009 provides for conditions to the exercise of any resolution powers and the EBA guidelines set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the Authorities would assess such conditions in any particular situation. The relevant Authorities are also not required to provide any advance notice to holders of Notes of their decision to exercise any resolution power. Therefore, holders of Notes may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on us or the notes.

We refer to the “*Supervision and Regulation – European Union Legislation*” section for changes to the BRRD which are due to come into force in the near future. Such changes include the introduction of a new moratorium power for competent authorities and resolution authorities.

***We are subject to regulatory capital and liquidity requirements which may change***

We are subject to regulatory capital and liquidity requirements that could have an impact on our operations (see “*Part XVI – Capital Adequacy*” for further information). Changes to the regulatory capital and liquidity requirements under which we operate could hinder growth by prescribing more stringent requirements than those with which we currently comply. U.K. regulators and international policymakers are finalising a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include a Minimum Requirement for Own Funds and Eligible Liabilities (the “MREL”), capital requirements for residential mortgages and review of the Internal Ratings Based (“IRB”) model framework, use of the revised standardized approach for credit risk and operational risk and an RWA output floor. In particular, we note that a

number of changes will be introduced pursuant to the Banking Reform Package. For further information, please refer to the “*Supervision and Regulation – European Union Legislation*” section.

Since the global financial crisis, there has been a significant overhaul of the regulatory capital and liquidity regimes with which we must remain compliant, and there continue to be significant developments (see “*Part XVI – Capital Adequacy*” for further information). These changes have resulted, amongst other things, in significant increases in the amount and quality of capital which financial institutions such as we are required to maintain. Further substantial changes to the regime, including (without limitation) the phasing in of MREL requirements, the proposed introduction of capital floors for institutions which calculate risk exposures using IRB approaches, revisions to IRB models to reduce ‘point in time’ volatility and PRA requirements to align firms’ IRB modelling approaches for residential mortgage RWAs could result in further increases in the level of capital which we are required to hold and could cause us to incur additional costs in order to ensure implementation of, and continued compliance with, the evolving prudential regime. This could have a material adverse effect on its profitability or results of operations and could hinder growth.

The PRA’s revised expectations for IRB models for residential mortgages will be implemented during 2020. Our current estimate is that the impact of these models will be to reduce our reported CET1 ratio by approximately one third given the material increase in RWAs; however, we expect U.K. leverage requirements to continue to be the binding capital constraint.

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a lengthy transitional period from 2022 to 2027. These reforms will lead to a significant increase in our risk weights over time and we currently expect the consequential impact on our reported CET1 ratio to ultimately be a reduction of approximately a half relative to the current position. The change relates to the application of standardised floors which override IRB model outputs and should therefore not be aggregated with the impact of new hybrid IRB models noted above. We note however that organic earnings through the transition will mitigate the impact such that our reported CET1 ratio will in practice remain well in excess of the proforma levels implied by this change and leverage requirements will remain our binding constraint based on latest projections. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources we hold or the risk profile of our assets. Final impacts are subject to uncertainty for future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA’s discretion. Whilst we currently expect that the leverage ratio will continue to be our binding capital constraint in the near-term, it is possible that these changes will, over time, result in risk-weighted capital requirements becoming the binding constraint.

We monitor current and expected future capital, liquidity and MREL requirements, including having regard to both leverage and RWA-based requirements, and seek to manage and plan our prudential position accordingly and on the basis of current assumptions regarding future capital and liquidity requirements. We also continue to monitor closely and plan proactively for the possibility of a disorderly Brexit, assessing the impacts on our capital position across a range of potential scenarios. There can be no assurance that our assumptions (including current expectations that the leverage ratio will continue to be our binding capital constraint) will be accurate in all respects or that we will not be required to take additional measures to strengthen our capital or liquidity position.

If we fail, or are perceived to be likely to fail, to meet our minimum regulatory capital, liquidity or MREL requirements, this may result in administrative actions or regulatory sanctions. Furthermore, any actual or perceived weakness relative to our competitors could result in a loss of confidence, which 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 addition, since 2014, the BoE has conducted concurrent stress tests of the U.K. banking system on an annual basis. The annual cyclical scenario includes all major U.K. banks and building societies with total retail deposits equal to, or greater than, £50 billion on an individual or consolidated basis, at a firm’s financial year-end date. At present, this group also comprises us. The findings from the 2018 stress test showed that we

would remain profitable, with capital levels well above regulatory requirements despite the severity of the scenario. In particular, the BoE's 2018 Financial Stability Report noted that the new accounting standard, IFRS 9, has had minimal impact on our capital position in the stress test as regulatory expected losses remain in excess of provisions on most portfolios. The report noted the significant increase in risk weights on retail secured mortgages, but noted that this is largely due to our use of a 'point in time' based modelling approach for these portfolios. The PRA's Prudential Regulation Committee judged that we could realistically take in the stress scenario, including cost reductions, and did not require us to submit a revised capital plan. There is an ongoing risk that we may fail our annual stress test (which would have the effect of damaging our reputation and other associated adverse consequences) and be subject to future regulatory developments to the BoE's stress testing framework which could lead to, amongst others, a requirement to raise further capital. The results of the 2019 annual stress test are expected to be published in the fourth quarter of 2019, along with the BoE's 2019 Financial Stability Report. In addition, the EBA has conducted its own stress tests for certain European financial institutions. Although the Society has not to date been involved in the EBA's stress tests, if it were to be included in the future, as with the BoE's stress tests there is a risk that it would be subject to any future regulatory developments affecting the evolution of the EBA's stress testing framework.

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 RWAs (which may be 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. Such adverse impacts could require us to raise more capital, could result in a negative credit rating change which would make it more expensive for us to borrow, could reduce our profitability and could negatively affect our ability to service our debt. If we fail, or are perceived to be likely to fail, to meet our minimum regulatory requirements, this may result in administrative actions or regulatory sanctions.

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

The Financial Services and Markets Act 2000 (the "FSMA") 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 "*Supervision and Regulation — Financial Services Compensation Scheme*". Based on our share of protected deposits, Nationwide paid levies to the FSCS to enable the scheme to meet claims against it.

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 administration of the Dunfermline Building Society resulted in levies on the industry, in addition to levies due to the banking failures of 2008 and 2009, amounting to £365 million, of which £42 million was paid by Nationwide during the years ended April 4, 2015 and April 4, 2016.

There can be no assurance that there will be no further actions taken under the U.K. Banking Act 2009 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 may also arise from discussions at governmental levels around the future design of financial services compensation schemes, such as increasing the scope and level of protection and moving to pre-funding of compensation schemes.

In April 2014, the EU directive on deposit guarantee schemes (the "DGSD") was adopted and member states were required to implement it into national law on or before July 3, 2015. The DGSD requires EU Member States to ensure that by July 3, 2024 the available financial means of the deposit guarantee schemes regulated by it 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 U.K. has previously operated 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 immediately after the event (ex-post) contributions from the banking sector and, as a last resort, it will have access to alternative funding arrangements such as loans from public or private third parties. HM Treasury and the PRA have brought into force final requirements on the U.K. implementation of the DGSD. These requirements provide, among other things, that the ex-ante contributions are met by funds already collected under the U.K. bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the FSCS including the introduction of temporary high balance deposit protection, up to £1 million, for up to six months from when the amount was deposited for certain limited types of deposits and changes to the types of depositors that are eligible for compensation. It is possible, as a result of the DGSD and U.K. requirements, that future FSCS levies on us may differ from those it has incurred historically, and that such reforms could result in us incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

### **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 U.K. bail-in power by the relevant U.K. resolution authority which gives such authority the ability to cancel, write-down the principal and/or interest, convert the notes into equity securities 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 U.K. bail-in power by the relevant U.K. resolution authority. Each noteholder (including each beneficial owner) also acknowledges, agrees to be bound by and consents to any amendment to the terms of the Indenture and any notes made in order to ensure the effectiveness and enforceability of such contractual acceptance of the exercise of any U.K. bail-in powers.

For purposes of the notes, a “U.K. 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 U.K. Banking Act 2009, as the same may be amended from time to time, 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 U.K. resolution authority” is to any authority with the ability to exercise a U.K. bail-in power).

Exercise of these powers could involve taking various actions in relation to any securities issued by us (including any notes issued under the medium-term note program described in this Base Prospectus) without the consent of the noteholders, including (among other things):

- transferring the notes out of the hands of the holders;
- delisting the notes;
- writing down (which may be to nil) the notes or converting the notes into another form or class of securities; and/or
- modifying or disapplying certain terms of the notes, which could include modifications to (without limitation) the maturity date (which may be to extend the maturity date), the interest provisions (including reducing the amount of interest payable, the manner in which interest is calculated and/or the scheduled interest payment dates), and/or the redemption provisions



(including the timing of any redemption options and/or the amount payable upon redemption), and may result in the disapplication of acceleration rights or events of default under the terms of the notes or the effect thereof.

The relevant Authorities may exercise the bail-in tool under the U.K. Banking Act 2009 to recapitalize a relevant entity in resolution by allocating losses to (amongst others) its capital providers and unsecured creditors (which would include noteholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the “no creditor worse off” safeguard). Accordingly, the ranking of notes in insolvency can be expected to have a direct impact on the relative losses imposed on noteholders in a resolution.

The bail-in tool includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant entity under resolution and the power to convert a liability from one form or class to another. The exercise of such powers may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the notes and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on, the notes into equity securities (which, in our case, could be core capital deferred shares) or other securities or other obligations of the Issuer or another person, including by means of a variation to the terms of the notes.

The taking of any such actions could materially adversely affect the rights of noteholders, the price or value of their investment in the notes, the liquidity and/or volatility of any market in the notes and/or our ability to satisfy our obligations under the notes. In such circumstances, noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the U.K. Banking Act 2009. However, such compensation will be limited to the return the holders might otherwise have received on an insolvency of the Issuer (less the value already received through resolution), and there can be no assurance that noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

In addition, if the market perceives or anticipates that any action may be taken under the U.K. Banking Act 2009 in respect of the Issuer or any of its securities (including any notes issued under the medium-term note program described in this Base Prospectus), this may have a significant adverse effect on the market price of the notes and/or the liquidity and/or volatility of any market in the notes, whether or not such powers are ultimately exercised. In such case, investors may experience difficulty in selling their notes, or may only be able to sell their notes at a loss.

Mandatory write-down and conversion of capital instruments may affect the subordinated notes. As noted above, in addition to the stabilization options which may be used in a resolution of an institution, the U.K. Banking Act 2009 contains a capital write-down tool which enables (and, if the institution enters into resolution, requires) the relevant Authorities permanently to write-down, or convert into CET1 instruments (which, in our case could be core capital deferred shares), any AT1 capital instruments and Tier 2 capital instruments at the point of non-viability of the Issuer or the Group and before or together with the exercise of any stabilization power.

For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which (i) the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken), (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or its group will no longer be viable unless the relevant capital instruments are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the economy of an EEA member state and to preserve financial stability.

Subordinated notes issued under the medium-term note program described in this Base Prospectus may therefore be subject to write-down or conversion into equity on application of such powers (without requiring the consent of the holders thereof), which may result in the holders losing some or all of their investment. The

“no creditor worse off” safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised.

The exercise of such mandatory write-down and conversion power under the U.K. Banking Act 2009 could, therefore, materially adversely affect the rights of holders of subordinated notes, and such exercise (or the perception that such exercise may occur) could materially adversely affect the price or value of their investment in subordinated notes and/or the ability of the Issuer to satisfy its obligations under the notes, and/or may adversely affect liquidity and/or volatility in any market for such subordinated notes.

***The relevant U.K. resolution authority could exercise the bail-in power in the U.K. Banking Act 2009 which could impose losses on an investment in the notes.***

The conditions for use of the U.K. bail-in power are generally that (i) the regulator determines the relevant U.K. bank is failing or likely to fail, (ii) it is not reasonably likely that any other action can be taken to avoid such a U.K. bank's failure and (iii) the relevant U.K. resolution authority determines that it is in the public interest to exercise the bail-in power.

Pursuant to the U.K. Banking Act 2009, the relevant U.K. resolution authority should have regard to the insolvency treatment principles when exercising the U.K. bail-in power in respect of the notes. The insolvency treatment principles are that (i) the exercise of the U.K. 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 U.K. Treasury may, by order, specify further matters or principles to which the relevant U.K. resolution authority must have regard when exercising the U.K. bail-in power. These principles may be specified in addition to, or instead of, the insolvency treatment principles. If the relevant U.K. resolution authority departs from the insolvency treatment principles when exercising the U.K. bail-in power, it must report to the Chancellor of the Exchequer stating the reasons for its departure.

The U.K. bail-in power under the U.K. Banking Act 2009 could be used to impose losses on holders of the notes.

Moreover, to the extent the U.K. bail-in power is exercised pursuant to the U.K. Banking Act 2009 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 U.K. bail-in power. As a result, there may not be an active market for any securities held after the exercise of the U.K. bail-in power.

***The circumstances under which the relevant U.K. resolution authority would exercise its U.K. 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 U.K. resolution authority would consider in deciding whether to exercise the U.K. bail-in power with respect to the relevant financial institution and/or securities, such as the notes, issued by that institution. While the U.K. Banking Act 2009 provides some guidance as to how and when the bail-in option may be utilized by the relevant U.K. resolution authority, the U.K. Banking Act 2009 and the BRRD (which, as discussed above, has been transposed by amendments to the U.K. Banking Act 2009) allow for discretion and there is no certainty as to how the relevant U.K. 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. 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 U.K. bail-in power.

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

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

Under the U.K. Banking Act 2009, 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 favourable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the U.K. bail-in power. The holders of the notes otherwise have limited rights to challenge any decision of the relevant U.K. resolution authority to exercise the U.K. bail-in power.

***Limitation on gross-up obligation under the subordinated notes and certain senior non-preferred notes.***

Our obligation to pay additional amounts in respect of any withholding or deduction in respect of United Kingdom taxes under the terms of (i) each series of subordinated notes and (ii) any series of senior non-preferred notes for which the applicable Final Terms specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as not applicable, applies only to payments of interest due and payable under such notes and not to payments of principal (which term, for these purposes, includes any premium or final redemption amount, early redemption amount, if any, or other amount payable in respect thereof). As such, we would not be required to pay any additional amounts under the terms of the subordinated notes or any such senior non-preferred notes to the extent any withholding or deduction for or on account of United Kingdom tax applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under any subordinated notes or any such senior non-preferred notes, holders of such notes would, upon repayment or redemption of such notes, be entitled to receive only the net amount of such redemption or repayment proceeds after deduction of the amount required to be withheld. Therefore, holders may receive less than the full amount due under such notes, and the market value of such notes may be adversely affected.

***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 senior non-preferred notes and subordinated notes rank junior to most of our liabilities.***

Whilst our senior non-preferred notes and senior preferred notes both share the ‘senior’ designation under our medium-term note program described in this Base Prospectus, our senior non-preferred notes rank junior to our senior preferred notes (which, in turn, rank junior to our obligations which are by law given priority over our senior preferred notes, including our U.K. retail member deposits – see “*Certain liabilities of ours will by law rank in priority to our senior preferred notes in the event of our winding-up*” below) and other unsecured and unsubordinated liabilities. Accordingly, prospective investors in notes issued under our medium-term note program described in this Base Prospectus should note that, in the event of our insolvency or resolution, we would generally expect investors in our senior non-preferred notes to lose their entire investment before losses are imposed on holders of our senior preferred notes. Our subordinated notes rank junior to our senior non-preferred notes, and we may also issue other securities which rank junior to our senior non-preferred notes and in priority to our subordinated notes. Further, investors in our subordinated notes and (if so specified in the applicable Final Terms) senior non-preferred notes will not be entitled to exercise any rights of set-off against us in respect of such notes.

If we are declared insolvent and a winding up is initiated, we will be required to meet our obligations to all of our creditors (including all our U.K. retail member deposits) that are afforded higher-priority status under the U.K. insolvency rules in full before we can make any payments on our senior preferred notes, and thereafter to pay the holders of our senior preferred notes and other senior debt (including unsecured creditors but excluding any obligations that we may have with respect to our senior non-preferred notes, other Senior Non-Preferred Claims and Subordinated Claims including subordinated debt and deferred shares, including CCDS) before we can make any payments on the senior non-preferred notes. In turn, we would be required to pay the holders of our senior non-preferred notes, all other Senior Non-Preferred Claims and any more senior-ranking Subordinated Claims (if any) in full before we can make any payments on our subordinated notes. Accordingly, in the event of our winding-up or dissolution, we may not have enough assets remaining after paying higher-priority creditors to pay amounts due under the relevant notes.

Furthermore, any resolution action taken in respect of us would generally be expected to respect the relative ranking of our obligations as described above, with losses imposed on lower-ranking obligations before losses are imposed on higher-ranking obligations.

On December 28, 2017, Directive (EU) 2017/2399 (the “**Article 108 Amending Directive**”) entered into force, amending Article 108 of BRRD designed to create a new category of unsecured debt for banks and other credit institutions. Whilst the Commission considers this new category as “*still being part of the senior unsecured debt category (only as an un-preferred tier senior debt)*”, it nevertheless ranks junior to ordinary unsecured creditors and other senior unsecured and preferred debts.

The Article 108 Amending Directive was implemented into United Kingdom insolvency law under The Banks and Building Societies (Priorities on Insolvency) Order 2018 (the “**Hierarchy Order**”). With effect from December 19, 2018, and in relation to insolvency proceedings which are commenced on or after such date, the Hierarchy Order amended the Insolvency Act (and certain other legislation) as the same applies to relevant institutions (including us) to provide for three distinct classes of ‘non-preferential’ debts (i.e. those debts which are not given priority over ordinary unsecured claims under U.K. insolvency law), which are defined at Section 387A of the Insolvency Act:

(a) ‘ordinary non-preferential debts’, meaning non-preferential debts which are neither secondary non-preferential debts nor tertiary non-preferential debts;

(b) ‘secondary non-preferential debts’, meaning non-preferential debts issued under an instrument where (i) the original contractual maturity of the instrument is of at least one year, (ii) the instrument is not a derivative and contains no embedded derivative, and (iii) the relevant contractual documentation and where applicable the prospectus related to the issue of the debts explain the priority of the debts under the Insolvency Act; and

(c) ‘tertiary non-preferential debts’, meaning all subordinated debts, including (but not limited to) debts under Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments (all within the meaning of Part 1 of the Banking Act 2009).

With respect to (b) above, Section 387A further provides that the term ‘derivative’ has the same meaning as in Article 2(5) of Regulation (EU) No 648/2012 and that an instrument does not contain an embedded derivative merely because (a) it provides for a variable interest rate derived from a broadly used reference rate, or (b) it is not denominated in the domestic currency of the person issuing the debt (provided that the principal, repayment and interest are denominated in the same currency).

Senior preferred notes issued under the program are intended to constitute ‘ordinary non-preferential debts’ under the Insolvency Act (and any other Ranking Legislation).

Senior non-preferred notes issued under the program are intended to be issued on terms such that the original contractual maturity is of at least one year and such notes are not derivatives and contain no embedded derivatives, and accordingly are intended to constitute ‘secondary non-preferential debts’ under the Insolvency Act (and any other Ranking Legislation).

Subordinated notes issued under the program are intended to constitute ‘tertiary non-preferential debts’ under the Insolvency Act (and any other Ranking Legislation) (and may rank junior to, *pari passu* with or in priority to other tertiary non-preferential debts, as further provided in “*Terms and Conditions of the Notes—Status and ranking of subordinated notes*”).

In a winding-up or dissolution of the Issuer (subject as otherwise provided in an Excluded Dissolution), claims in respect of ‘ordinary non-preferential debts’ rank junior to all debts which are preferential debts under the Insolvency Act (and any other Ranking Legislation) (including as provided under “*Certain liabilities of ours will by law rank in priority to our senior preferred notes in the event of our winding-up*” below) and in priority

to all claims in respect of ‘secondary non-preferential debts’, which in turn rank in priority to all claims in respect of ‘tertiary non-preferential debts’.

It should be noted that the features which may or may not be considered to constitute a derivative or an embedded derivative from time to time for the purposes of Section 387A of the Insolvency Act (or, as the case may be, in the relevant section of any other Ranking Legislation) may not always be entirely clear, and may evolve over time. Whilst we will only issue senior non-preferred notes on terms which we consider do not contain an embedded derivative, if it subsequently transpires that any feature of such notes is deemed to be an embedded derivative, or if for any other reason any senior non-preferred notes issued under the program do not, in fact, qualify as Secondary Non-Preferential Debts, we expect that such notes would then, for the purposes of the Insolvency Act (and any other Ranking Legislation), form part of the class of ordinary non-preferential debts and would rank accordingly under the Insolvency Act (and any other Ranking Legislation). In the event that any of the senior non-preferred notes cease to be Secondary Non-Preferential Debts in circumstances which constitute a Loss Absorption Disqualification Event, then subject as provided in the terms and conditions of such notes and to obtaining regulatory approval (if then required) and to compliance with the Loss Absorption Regulations at such time, we may be entitled to redeem such senior non-preferred notes, or substitute such notes or vary the terms thereof so that they become or remain Loss Absorption Compliant Note, including ensuring that such notes remain or are restored to being Secondary Non-Preferential Debts.

The class of ‘secondary non-preferential debts’ is designed to contribute towards institutions’ ‘eligible liabilities’ for the purposes of their MREL. MREL is designed to be available to resolution authorities for write down, write off or conversion to equity in order to absorb losses and recapitalize a failing institution in the event of resolution action being taken, and before more senior-ranking creditors suffer losses. The amount of MREL we are required to maintain over time will be based on the expected required capacity to resolve and, if appropriate, recapitalize us in the event of our failure. Accordingly, if such calibration is accurate, it may be the case that, in a resolution, investors in our senior non-preferred notes may lose all or substantially all of their investment whilst investors in our senior preferred notes suffer lower (or no) losses (although there can be no assurance that investors in our senior preferred notes will not also suffer substantial losses). The market value of our senior non-preferred notes may therefore be more severely adversely affected and/or more volatile if our financial condition deteriorates than the market value of our senior preferred notes. Accordingly, holders of our senior non-preferred notes may bear significantly more risk than holders of our senior preferred notes (notwithstanding that both share the ‘senior’ designation under our medium-term note program described in this Base Prospectus). Investors should ensure they understand the relative ranking of notes issued under our medium-term note program described in this Base Prospectus – including as between our senior preferred notes, our senior non-preferred notes and our subordinated notes - and the risks consequent thereon, before investing in any notes.

***Certain liabilities of ours will by law rank in priority to our senior preferred notes in the event of our winding-up.***

As a result of changes to the United Kingdom building societies legislation (as described briefly below), from January 1, 2015 holders of senior preferred notes and other unsubordinated creditors of the Issuer rank in an insolvency of the Issuer junior to member share accounts which are given preferential status (as described below). Our senior non-preferred notes and subordinated notes will continue to rank junior to all such members and creditors (as well as ranking junior to senior preferred notes).

Section 90B of the Building Societies Act 1986, as amended (the “**Act**”) (which was inserted by the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007) was brought into force with effect from November 20, 2014. HM Treasury exercised the power which was granted to it under Section 90B and powers conferred on it by section 2(2) of the European Communities Act 1972 by making the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the “**Depositor Preference Order**”), which entered into force on January 1, 2015. As a result of these changes, provision has been made by HM Treasury for the purpose of ensuring that, on the winding-up, or dissolution by consent, of a building society, any assets available for satisfying the Society’s liabilities to creditors (other than liabilities in respect of

subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to member share account holders (other than liabilities in respect of preferential debts and deferred shares) are applied in satisfying those liabilities *pari passu*.

The Depositor Preference Order (i) extended the scope of preferential debts in respect of deposits and (ii) further aligned creditor hierarchy in United Kingdom building societies with the depositor preference requirements introduced in consequence of the BRRD to ensure that any sums due to building society members in relation to their shareholding in respect of deposits that do not benefit from the depositor preference requirements will nevertheless rank *pari passu* with all other senior unsecured creditors that are not afforded preferential status.

These changes also 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 Financial Services Compensation Scheme (the “FSCS”) (i.e. are eligible for protection and do not exceed the FSCS coverage limit (which currently stands at £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.

The claims of the holders of senior preferred notes (as well as claims in respect of senior non-preferred notes and subordinated notes) therefore rank junior to the claims in respect of liabilities afforded preferential status under (i) or (ii) above and, accordingly, in the event of insolvency or resolution of the Issuer, senior preferred notes would all be available to absorb losses ahead of liabilities which benefit from such first-ranking or second-ranking preference (and subordinated notes would be available to absorb losses ahead of senior non-preferred notes which, in turn, would be available to absorb losses ahead of senior preferred notes).

As a result, in the event of insolvency or winding up of the Issuer, and subject to the Insolvency Act (and any other Ranking Legislation):

- (a) our assets would be applied first to satisfying in full all claims in respect of those deposits and share accounts which enjoy preferential status (as described above) before any recovery would be made on claims in respect of senior preferred notes (and the claims in respect of senior preferred notes would rank *pari passu* with those deposits and share accounts which are not afforded preferential status);
- (b) no recovery would be made on claims in respect of senior non-preferred notes unless and until the claims in respect of all deposit and share accounts, as well as claims in respect of our senior preferred notes and other Ordinary Non-Preferential Debts, have first been satisfied in full; and
- (c) no recovery would be made on claims in respect of subordinated notes unless and until the claims in respect of all senior non-preferred notes, any other Senior Non-Preferred Claims and any more senior-ranking Subordinated Claims (if any) have first been satisfied in full.

It is further expected that this ranking would be respected in the event that resolution action were to be taken in respect of us pursuant to the U.K. Banking Act 2009.

Therefore, in the event of an insolvency, winding up or resolution, there is a real risk that investors in our senior preferred notes, senior non-preferred notes and/or subordinated notes would lose some or the entire amount of their investment. Furthermore, the market price of senior preferred notes, senior non-preferred notes and subordinated notes can be expected to be materially adversely affected if our financial condition deteriorates such that the market anticipates our insolvency, winding-up or resolution.

***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 U.K. 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 will be held by DTC or its nominee and/or another clearing system in book-entry form, you will have to rely on their and/or such other clearing system’s 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 and/or in another clearing system. Except in limited circumstances, holders will not be entitled to receive certificated notes. DTC and/or any other relevant clearing system will maintain records of the beneficial interests in the Global Notes. Holders will be able to trade their beneficial interests only through DTC or such other clearing system, as applicable, or a participant of DTC such as Euroclear or Clearstream, or such other clearing system, as applicable. 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 and/or any other relevant clearing system or a participant of DTC and/or any such other clearing system 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 and/or any other relevant clearing system or their 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 or, in the case of any other relevant clearing system, in accordance with the relevant procedures of such clearing system. 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 and/or any other relevant clearing system or, if applicable, their participants or indirect participants. We cannot assure holders that the procedures of DTC and/or any other relevant clearing system or their 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 (including any optional redemption right at our discretion on specified dates or in specified periods, any optional redemption right following certain changes in the taxation of any notes, any optional redemption right in respect of subordinated notes following the occurrence of a Regulatory Event, any optional redemption right in respect of senior non-preferred notes following the occurrence of a Loss Absorption Disqualification Event, or otherwise) 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. During any period when we may elect to redeem notes, the market value of such notes will generally not rise substantially above the price at which they may be redeemed. That may also be true prior to any redemption period. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### ***Redemption of subordinated notes for regulatory reasons***

In certain circumstances where we are unable to achieve the Tier 2 capital recognition of the subordinated notes including as a result of a change in the regulatory classification of the subordinated notes that was not reasonably foreseeable as at the issue date of the subordinated notes, the relevant subordinated notes may be redeemed prior to the stated Maturity Date. The exercise of these rights by the Issuer may have an adverse effect on the position of holders of the subordinated notes. If such subordinated notes are to be so redeemed or there is a perception that such may be so redeemed, this may impact the market price of such notes.

#### ***Redemption of senior non-preferred notes following a Loss Absorption Disqualification Event***

If so specified in the applicable Final Terms, we may redeem our senior non-preferred notes upon the occurrence of a Loss Absorption Disqualification Event. If such senior non-preferred notes are to be so redeemed or there is a perception that such may be so redeemed, this may impact the market price of such notes.

A Loss Absorption Disqualification Event shall be deemed to have occurred in respect of senior non-preferred notes if, as a result of any amendment to, or change in, any Loss Absorption Regulations, or any change in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective on or after the issue date of such senior non-preferred notes, such senior non-preferred notes are or (in the opinion of the Issuer or the relevant Supervisory Authority) are likely to become fully or (if so specified in the applicable Final Terms) partially excluded from our minimum requirements (whether on an individual or consolidated basis) for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to us (whether on an individual or consolidated basis) and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the senior non-preferred notes from our minimum requirement(s) is due to the remaining maturity of such senior non-preferred notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to us on the issue date of such senior non-preferred notes.

As the implementation of the minimum requirements for eligible liabilities under the BRRD is subject to the adoption of further legislation and implementation, including further legislative proposals in the EU with respect to (amongst other things) the necessary features of eligible liabilities, we are unable to predict whether our senior non-preferred notes will be fully or partially excluded from our minimum requirements referred to above. If any of our senior non-preferred notes are to be redeemed as a result of a Loss Absorption Disqualification Event or there is a perception that such notes may be so redeemed, this may impact the market price of such notes. In addition, there can be no assurance that noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in our senior non-preferred notes.

***Substitution and variation of senior non-preferred notes following a Loss Absorption Disqualification Event***

If so specified in the applicable Final Terms, we may, following a Loss Absorption Disqualification Event in respect of any senior non-preferred notes, without the need for any consent of the noteholders, substitute all (but not some only) of such senior non-preferred notes for, or vary the terms of such notes so that they remain or become, Loss Absorption Compliant Notes. The Loss Absorption Compliant Notes are required to have terms such that they rank as part of the class of Secondary Non-Preferential Debts; this is the case whether or not the senior non-preferred notes had become a part of the class of Ordinary Non-Preferential Debts as a result of the relevant Loss Absorption Disqualification Event. While (subject to such ranking requirement) Loss Absorption Compliant Notes are otherwise required to have terms which are not materially less favourable to noteholders than the terms of the relevant senior non-preferred notes (as we reasonably determine in consultation with an independent adviser of recognized standing), no assurance can be given that any such substitution or variation will not adversely affect any particular holder. In addition, the tax and stamp duty consequences of holding such substituted or varied notes could be different for some categories of noteholders from the tax and stamp duty consequences for them of holding the senior non-preferred notes prior to such substitution or variation.

***Reset Notes***

In the case of any series of Reset Notes, the rate of interest on such Reset Notes will be reset by reference to the Reset Reference Rate, as adjusted for any applicable margin, on the reset dates specified in the relevant Final Terms. This is more particularly described in “*Terms and Conditions of the Notes—Interest—Interest on Reset Notes*”. The reset of the rate of interest in accordance with such provisions may affect the secondary market for and the market value of such Reset Notes. Following any such reset of the rate of interest applicable to the notes, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Reset Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or any previous Subsequent Reset Rate of Interest.

***U.S. tax consequences of substitution or variation in terms pursuant to a Loss Absorption Disqualification Event***

If upon the occurrence of a Loss Absorption Disqualification Event the Issuer substitutes all of the relevant series of senior non-preferred notes for, or varies the terms of such senior non-preferred notes so that they remain or, as appropriate, become, Loss Absorption Compliant Notes, such substitution or variation in terms might be treated for U.S. federal income tax purposes as a deemed disposition of such senior non-preferred notes by a U.S. Holder (as defined below under “*Taxation—U.S. Federal Income Taxation*”) in exchange for new notes. As a result of this deemed disposition, a U.S. Holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes) and the U.S. Holder’s tax basis in the relevant senior non-preferred notes.

***The regulation and reform of “benchmarks” may adversely affect the value of notes linked to or referencing such benchmarks.***

Interest rates and indices which are deemed to be “benchmarks” (including the London interbank offered rate (“**LIBOR**”) and the euro interbank offered rate (“**EURIBOR**”)), are the subject of national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any notes linked to such a benchmark.

Regulation (EU) 2016/1011 (the “**Benchmarks Regulation**”) was published in the Official Journal of the EU on June 29, 2016 and has mostly applied, subject to certain transitional provisions, since January 1, 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorized or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognized or endorsed) and (ii) prevents certain uses by EU supervised entities (such as us) of benchmarks of administrators that are not authorized or registered (or, if non-EU based, not deemed equivalent or recognized or endorsed).

The Benchmarks Regulation could have a material impact on any notes linked to or referencing a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On July 27, 2017, and in a subsequent speech by its Chief Executive on July 12, 2018, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “**FCA Announcement**”). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On November 24, 2017 the FCA confirmed that all 20 of the panel banks have agreed to support the LIBOR benchmark until 2021, although Société Générale would cease submissions to the US Dollar panel and Crédit Agricole Corporate and Investment Bank would cease submissions to the Japanese Yen panel. Both banks will continue to submit to all other panels to which they currently contribute. The FCA has stated that it does not expect to see any further changes to the LIBOR panels until the end of 2021. Since January 2018, the BoE’s and FCA’s Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (“**SONIA**”) over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021 (as further described under “*The market continues to develop in relation to SONIA as a reference rate for Floating Rate Notes*” below). The Working Group has established a series of milestones to be met during 2019, with transition and fallback plans being developed during 2020 to 2021. Separate work streams are also underway in Europe to reform or replace EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). The urgency for reforming EURIBOR has been diminished by a statement published by the European Commission on February 25, 2019. EU institutions have reached political agreement to grant providers of critical benchmarks (such as EURIBOR) until December 31, 2021 to comply with the new benchmark requirements. The extension also applies to third country benchmarks, so that EU regulators have time to work with their non-EU counterparts on how these benchmarks can be recognized as equivalent or endorsed for use in the EU. On September 13, 2018, the working group on euro risk-free rates recommended the

Euro Short-term Rate (“€STR”) as the new risk-free rate. €STR is expected to be published by the ECB from October 2, 2019.

On May 31, 2019 the European Money Markets Institute (“EMMI”) announced its adoption of the recommendations made by the working group on euro risk-free rates for transitioning from EONIA to €STR. Accordingly, from October 2, 2019, EONIA will be calculated as €STR plus a spread. The ECB provided the market with a one-off calculation of the spread between €STR and EONIA that will be used for the calculation of EONIA until the final discontinuation of EONIA. In addition, on January 21, 2019, the euro risk-free rate working group published a set of guiding principles for fallback provisions in new euro-denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

We also refer to the section entitled “*In connection with the withdrawal of the United Kingdom from the European Union, we face risks to our business and legal uncertainties*” above. There is a risk that LIBOR may lose its status as an authorized benchmark in the EU if: (i) the U.K. leaves the EU without transitional arrangements under a withdrawal agreement; and (ii) the EU does not recognize, endorse or grant equivalence to the use of U.K. benchmarks following the expiry of the transitional period for third country benchmarks described above. It is not possible to predict with certainty whether, and to what extent, LIBOR and/or EURIBOR will continue to be supported going forwards. This may cause LIBOR and/or EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. The potential transition from LIBOR to SONIA or the elimination of LIBOR, EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions of the notes, or result in other consequences, in respect of any notes linked to such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to the benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any notes linked to, referencing or otherwise dependent (in whole or in part) upon a benchmark.

If “*Benchmark Replacement*” is specified to be applicable in the applicable Final Terms the Conditions of the notes provide for certain fallback arrangements in the event that a Benchmark Event occurs, including (without limitation) if an inter-bank offered rate (such as LIBOR or EURIBOR) or other relevant reference rate (which could include, without limitation, any mid-swap rate), and/or any page on which such benchmark may be published, becomes unavailable, is the subject of a public announcement by the supervisor of the relevant administrator as no longer being representative, or if we or the Calculation Agent or any Paying Agent are no longer permitted lawfully to calculate interest on any notes by reference to such benchmark under the Benchmarks Regulation or otherwise. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Rate (both as defined below), with (in either case) application of an Adjustment Spread (which could be positive, negative or zero), and may include amendments to the terms of the notes to ensure the proper operation of the Successor Rate or Alternative Rate, as applicable, and (in either case) the applicable Adjustment Spread, all as determined by us (acting in good faith and in consultation with an Independent Adviser). However, we will not determine or implement a Successor Rate, an Alternative Rate, the applicable Adjustment Spread or any Benchmark Amendments if and to the extent that, in our determination, the same could reasonably be expected to impact adversely the treatment of the notes under the prudential or loss-absorption regulations in certain respects, as more fully described in the terms of the notes. It is possible that the adoption of a Successor Rate or an Alternative Rate and (in either case) the applicable Adjustment Spread may result in a rate of interest less favourable to noteholders than the Original Reference Rate.

In certain circumstances, the ultimate fallback for the purposes of calculation of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page or, in the case of reset notes, the application of the previous reset Rate of Interest for a

preceding Reset Period, the application of the Initial Rate of Interest applicable to such notes on the Interest Commencement Date or a rate based on the Mid-Swap Fallback Rate. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser, the potential for further regulatory developments and the fact that the provisions of “*Terms and Conditions of the Notes — Benchmark discontinuation*” will not be applied if and to the extent that, in our determination, the same could reasonably be expected to prejudice the qualification of the relevant notes as Tier 2 capital (in the case of subordinated notes) or eligible liabilities or loss absorbing capacity instruments (in the case of senior non-preferred notes), there is a risk that the relevant fallback provisions may not operate as expected or as intended at the relevant time.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms and the possible application of the benchmark replacement provisions of the notes in making any investment decision with respect to any notes linked to or referencing a benchmark.

***The market continues to develop in relation to SONIA as a reference rate***

Where the applicable Final Terms for a Series of Floating Rate Notes identifies that the Rate of Interest for such notes will be determined by reference to SONIA, the Rate of Interest will be determined on the basis of Compounded Daily SONIA (as defined in the terms and conditions of the notes). Compounded Daily SONIA differs from LIBOR in a number of material respects, including (without limitation) that Compounded Daily SONIA is a backwards-looking, compounded, risk-free overnight rate, whereas LIBOR is expressed on the basis of a forward-looking term and includes a risk-element based on inter-bank lending. As such, investors should be aware that LIBOR and SONIA may behave materially differently as interest reference rates for notes issued under the medium-term note program described in this Base Prospectus. The use of Compounded Daily SONIA as a reference rate for Eurobonds is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing Compounded Daily SONIA.

Accordingly, prospective investors in any notes referencing Compounded Daily SONIA should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. For example, in the context of backwards-looking SONIA rates, market participants and relevant working groups are currently assessing the differences between compounded rates and weighted average rates, and such groups are also exploring forward-looking ‘term’ SONIA reference rates (which seek to measure the market’s forward expectation of an average SONIA rate over a designated term). The adoption of SONIA may also see component inputs into swap rates or other composite rates transferring from LIBOR or another reference rate to SONIA.

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in “*Terms and Conditions of the Notes*” as applicable to notes referencing a SONIA rate that are issued under this Base Prospectus. Furthermore, we may in future issue notes referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA-referenced notes that we issue under the medium-term note program described in this Base Prospectus. The nascent development of Compounded Daily SONIA as an interest reference rate for the Eurobond markets, as well as continued development of SONIA-based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced notes issued under the medium term note program described in this Base Prospectus from time to time.

Furthermore, the Rate of Interest on notes which reference Compounded Daily SONIA is only capable of being determined at the end of the relevant Observation Period and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in notes which reference Compounded Daily SONIA to estimate reliably the amount of interest which will be payable on such notes, and some investors may be unable or unwilling to trade such notes without changes to their IT systems, both of which factors could adversely impact the liquidity of such notes. Further, in contrast to LIBOR-based notes, if notes referencing Compounded Daily

SONIA become due and payable as a result of an Event of Default under “*Terms and Conditions of the Notes – Events of Default—Senior Preferred Notes and Unrestricted Default Senior Non-Preferred Notes*” and “*Terms and Conditions of the Notes – Events of Default—Subordinated Notes and Restricted Default Senior Non-Preferred Notes*” (as applicable), or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such notes shall only be determined immediately prior to the date on which the notes become due and payable.

In addition, the manner of adoption or application of SONIA reference rates in the bond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of notes referencing Compounded Daily SONIA.

Investors should carefully consider these matters when making their investment decision with respect to any such notes.

***If the notes include a feature to convert the interest basis 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 may convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market and the market value of such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the notes convert from a fixed rate to a floating rate, the spread on the floating rate/fixed rate notes may be less favourable 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. Where the notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on our notes and could affect the market value of an investment in such 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 and ranking provisions in each of the Indenture, the subordinated notes and the senior non-preferred notes are based on the laws of England in effect as at the relevant issue date. 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.

## CAPITALIZATION AND INDEBTEDNESS

The following is a summary of our consolidated capitalization and indebtedness extracted from our unaudited consolidated financial statements as at April 4, 2019:

	<b>April 4, 2019</b>
	<i>(£ million)</i>
<b>Consolidated Indebtedness<sup>(1)</sup></b>	
Deposits from banks .....	20,149
Amounts due to customers and other deposits.....	5,074
Debt securities in issue .....	35,942
<b>Total Senior Debt.....</b>	<b>61,165</b>
<b>Subordinated Debt<sup>(1)(2)</sup></b>	
Comprising one issue maturing in 2020, two issues maturing 2024, three issues maturing 2026, two issues maturing 2029 and one issue maturing in 2032, a number of which are callable ahead of maturity .....	6,706
<b>Total Subordinated Debt.....</b>	<b>6,706</b>
<b>Permanent Interest Bearing Shares<sup>(1)(3)(4)</sup></b>	<b>250</b>
<b>Total Permanent Interest Bearing Shares .....</b>	<b>250</b>
<b>Members' Funds .....</b>	
CCDS <sup>(1)</sup> .....	1,325
Other equity instruments <sup>(1)</sup> .....	992
General reserve .....	10,418
Revaluation reserve .....	64
Cash flow hedge reserve.....	320
Fair value through other comprehensive income reserve .....	50
U.K. retail member deposits <sup>(1)(4)</sup> .....	153,969
<b>Total members' funds .....</b>	<b>167,138</b>
<b>Total capitalization .....</b>	<b>235,259</b>

### Notes:

- (1) If we were to go into liquidation the claims of non-member depositors and other unsubordinated creditors, to the extent they are afforded preferred status under the Depositor Preference Order, would rank before those holders of U.K. retail member deposits, and the claims of holders of U.K. 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 and additional tier 1 instruments. The claims of holders of additional tier 1 instruments rank pari passu with those of holders of PIBS.
- (2) For consistency with other indebtedness, accrued interest of £77million is included.
- (3) For consistency with other indebtedness, accrued interest of £3 million is included.
- (4) The fixed rate PIBS are repayable, at the option of the Society, in whole on the initial call date or every fifth anniversary thereafter. If not repaid on a call date then the interest rate is reset at a margin to the yield on the then prevailing five year benchmark gilt rate. Initial call dates are in 2019, 2021, 2024, 2026 and 2030, respectively. The floating rate PIBS payable at 2.4% above 6 month LIBOR are only repayable in the event of winding up the Society.
- (5) Our rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. Our board of directors (the "Board") has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalization, indebtedness, guarantees or contingent liabilities since April 4, 2019.



## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been extracted from our audited consolidated financial statements as at and for the years ended April 4, 2019, 2018 and 2017.

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 year ended April 4,			
	2019 <sup>(1)</sup>	2019	2018	2017
	(\$ million)	(£ million)	(£ million)	(£ million)
<b>Income Statement Data:</b>				
Interest receivable and similar income .....	6,703	5,118	4,811	5,050
Interest expense and similar charges .....	(2,885)	(2,203)	(1,807)	(2,090)
<b>Net interest income .....</b>	<b>3,818</b>	<b>2,915</b>	<b>3,004</b>	<b>2,960</b>
Fee and commission income.....	588	449	449	446
Fee and commission expense.....	(325)	(248)	(244)	(221)
Other operating income .....	71	54	(77)	100
Gains/(losses) from derivatives and hedge accounting....	47	36	(1)	66
<b>Total income.....</b>	<b>4,199</b>	<b>3,206</b>	<b>3,131</b>	<b>3,351</b>
Administrative expenses.....	(2,952)	(2,254)	(2,024)	(2,021)
Depreciation and amortization expenses .....	(719)	(549)	(397)	(396)
Impairment losses on loans and advances to customers ..	(148)	(113)	(107)	(131)
Provisions for liabilities and charges .....	(8)	(6)	(25)	(136)
Impairment recoveries/(losses) on investment securities.	-	-	2	(9)
<b>Profit before tax .....</b>	<b>1,091</b>	<b>833</b>	<b>977</b>	<b>757</b>
Analysed as:				
Underlying profit before tax .....	1,032	788	977	988
Financial Sector Compensation Scheme .....	12	9	1	-
Gains/(losses) from derivatives and hedge accounting	47	36	(1)	66
<b>Statutory profit before tax .....</b>	<b>1091</b>	<b>833</b>	<b>977</b>	<b>1,054</b>
Taxation.....	(282)	(215)	(232)	(297)
<b>Profit .....</b>	<b>809</b>	<b>618</b>	<b>745</b>	<b>757</b>

Note:

- (1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements as of and for the year ended April 4, 2019 using the exchange rate of \$1.3097 to £1.00.

	As at April 4, 2019 <sup>(1)</sup>	As at April 4, 2019 <sup>(2)</sup>	As at April 5, 2018	As at April 4, 2017
	(\$ million)	(£ million)	(£ million)	(£ million)
<b>Balance Sheet Data</b>				
<b>Assets:</b>				
Cash .....	16,362	12,493	14,361	13,017
Loans and advances to banks and similar institutions .....	5,251	4,009	3,493	2,587
Investment securities .....	21,262	16,234	13,046	9,831
Derivative financial instruments .....	4,665	3,562	4,121	5,043
Fair value adjustment for portfolio hedged risk .....	538	411	(144)	746
Loans and advances to customers .....	260,697	199,051	191,421	187,371
Investments in equity shares .....	-	-	-	-
Intangible assets .....	1,734	1,324	1,342	1,230
Property, plant and equipment .....	1,164	889	887	859
Investment properties .....	-	-	-	-
Accrued income and expenses prepaid .....	241	184	164	191
Deferred tax assets .....	69	53	144	103
Other assets .....	119	91	102	692
<b>Total assets .....</b>	<b>312,102</b>	<b>238,301</b>	<b>228,937</b>	<b>221,670</b>
<b>Liabilities:</b>				
U.K. retail member deposits .....	201,653	153,969	148,003	144,542
Deposits from banks and similar institutions .....	26,389	20,149	20,436	8,734
Other deposits .....	6,645	5,074	4,693	6,459
Due to customer .....	-	-	-	2,376
Fair value adjustment for portfolio hedged risk .....	(22)	(17)	(53)	8
Debt securities in issue .....	47,073	35,942	34,118	40,339
Derivative financial instruments .....	2,086	1,593	2,337	3,182
Other liabilities .....	764	583	345	391
Provisions for liabilities and charges ..	261	199	274	387
Accruals and deferred income .....	453	346	336	295
Subordinated liabilities .....	8,783	6,706	5,497	2,940
Subscribed capital .....	327	250	263	279
Deferred tax liabilities .....	189	144	49	100
Current tax liabilities .....	117	89	53	82
Retirement benefit obligations .....	138	105	345	423
Core capital deferred shares (CCDS) ..	1,735	1,325	1,325	531
Other equity instrument .....	1,299	992	992	992
General reserve .....	13,644	10,418	9,802	9,316
Revaluation reserve .....	84	64	68	67
Cash flow hedge reserve .....	419	320	(8)	183
Fair value through other comprehensive income reserve .....	65	50	62	-
Available-for-sale reserve .....	-	--	-	44

	<b>As at April 4,</b>	<b>As at April 4,</b>	<b>As at April 5,</b>	<b>As at April 4,</b>
	<b>2019<sup>(1)</sup></b>	<b>2019<sup>(2)</sup></b>	<b>2018</b>	<b>2017</b>
	<i>(\$ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>
<b>Total reserves and liabilities .....</b>	<b>312,102</b>	<b>238,301</b>	<b>228,937</b>	<b>221,670</b>

Notes:

- (1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements as of and for the year ended April 4, 2019 using the exchange rate of \$1.3097 to £1.
- (2) Comparatives have been restated as a result of adopting IFRS 9. For further information, please see Note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

	As at and for the year ended April 4,		
	2019	2018	2017
<b>Other Financial Data</b>			
Return on average total assets <sup>(1)</sup> .....	0.26%	0.32%	0.35%
Net interest margin <sup>(2)</sup> .....	0.22%	1.31%	1.33%
Cost income ratio (underlying) <sup>(3)</sup> .....	71.1%	64.6%	60.2%
Cost income ratio (statutory) <sup>(3)</sup> .....	70.3%	64.6%	60.3%
Ratio of administrative expenses to mean total assets <sup>(4)</sup> .....	0.96%	0.90%	0.94%
<b>Capital ratios<sup>(5)</sup></b>			
CET1 .....	32.4%	30.4%	25.4%
<b>Total Tier 1</b> .....	35.4%	33.5%	28.4%
<b>Total regulatory capital</b> .....	44.6%	42.8%	36.1%
CRR leverage ratio .....	4.6%	4.6%	4.2%
U.K. leverage ratio .....	4.9%	4.9%	4.4%

Notes:

- (1) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets. Average balances are based on the balance as at the end of each month during the financial year.
- (2) Net interest margin represents net interest income as a percentage of weighted average total assets.
- (3) These ratios, which are APMs, are measures of efficiency and present administrative expenses as a proportion of total income.
- (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.
- (5) See “*Presentation of Financial Information--Alternative performance measures and other non-IFRS financial information*”.

## 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, other than in respect of a relatively small amount of funding provided by investors in its deferred shares (including its PIBS, additional tier 1 instruments and CCDS), we are not funded by shareholders, which means that we are managed for the benefit of our members, who are our current account, retail savings and residential mortgage customers (as well as the holders of our deferred shares), 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 (although we pay periodic investment returns on our CCDS at our discretion and interest on our additional tier 1 and tier 2 capital securities), and our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements. For information regarding U.K. capital adequacy requirements, see the subsection entitled “—Financial Condition of Nationwide—Capital Resources” below.

### Financial Performance

Financial performance for the year ended April 4, 2019 was in line with the expectations indicated when announcing our financial results for the year ended April 4, 2018. Statutory profit before tax was £833 million (April 4, 2018: £977 million) and underlying profit was £788 million (April 4, 2018: £977 million), reflecting our continued focus on offering value on our products and better service for our members, whilst maintaining capital strength.

An advantage of being a building society is that we can choose how we utilise our resources in order to deliver more long-term value and better services to our members. During the year we have continued to be guided by our Financial Performance Framework on how we distribute value to members, invest in the Society and retain profits. As signalled by our technology investment announcement in September 2018, a programme of investment has been initiated which will target the simplification of our IT estate, together with enhancement of our digital service and data capabilities, over the next five years. During the year we have recognized a charge of £227 million from asset write-offs and additional technology investment. Our underlying cost income ratio deteriorated to 71.1% in the year ended April 4, 2019 (from 64.6% in the year ended April 4, 2018) primarily due to increased costs against relatively stable total underlying income. See below for a detailed discussion of costs trends over the three-year period up to April 4, 2019.

Impairment provisions increased in the year ended April 4, 2019 as impairment provisions are calculated on a different basis under IFRS 9 from IAS 39. As a result, the provisions shown above are not comparable between 2018 and 2019. Total assets grew by £9 billion to £238 billion as at April 4, 2019, largely due to increases in mortgage balances and liquidity, and investment assets held by our Treasury function.

We reported CET1 and U.K. leverage ratios of 32.4% and 4.9% respectively as at April 4, 2019 (compared to 30.5% and 4.9% respectively as at April 4, 2018, and 25.4% and 4.4% respectively as at April 4, 2017). The UK leverage ratio remained broadly unchanged in comparison to the prior year. An increase in Tier 1 capital, driven by profits after tax of £0.6 billion, was largely offset by an increase in UK leverage exposure of

£13 billion, resulting from an increase in net retail lending of £9 billion, treasury assets of £6 billion and offset by a run-off in the commercial book of £2 billion.

### Impact of Economic Conditions in the U.K. Generally And Outlook

While the UK economy has slowed over the last few years, it has proved more resilient than many expected, with continued healthy gains in employment and a gradual rise in earnings contributing to solid rates of household spending.

We expect economic activity to continue to rise at a modest pace in the near term, which may mean a small rise in the unemployment rate from recent 43-year lows, with interest rates remaining close to current levels over the next few years. We anticipate that economic activity will then pick up once Brexit uncertainties fade and the UK's trading relationship with the EU becomes clearer.

We expect demand in the housing market to remain fairly subdued, close to recent levels, before strengthening once the wider economy gains momentum. Deposit growth is likely to rise by around 4% per year, a little stronger than that recorded over the past two years.

In our own business, we will continue to make balanced decisions in the long-term interests of members and the Society as a whole. We expect our core mortgage and savings markets to remain competitive, with a continued narrowing of our net interest margin, and will continue our focus on delivering good long-term value for borrowers and savers. Our financial strength has enabled us to commit to ongoing investment in technology with the confidence that we can continue to support our members now and in the future as we have done for the last 135 years.

### Net Interest Income

Net interest income decreased by £89 million, or 3%, in the year ended April 4, 2019 to £2,915 million from £3,004 million in the year ended April 4, 2018. The decrease in net interest income in the year ended April 4, 2019 was primarily driven by declining mortgage margins, as partially offset by low savings rates. We have continued to manage savings pricing in line with our commitment to provide good long-term value for members. During the year depositors have continued to earn average rates more than 50% higher than the market average.

We have continued to make conscious choices to deliver value to our borrowing members through attractive rates, with the average rate paid by our prime mortgage members reducing during the year to 2.34% (2018: 2.45%). The affordability of low rates on new mortgages has encouraged product switching and refinancing with £26.5 billion of prime mortgage customer balances having switched to a new Nationwide product in the year (2018: £24 billion). Our legacy base mortgage rate ("BMR") balances have continued to run off during the period and as at April 4, 2019 were £18.1 billion (April 4, 2018: £22.7 billion).

The table below shows the calculation of net interest margin for the years ended April 4, 2019, 2018 and 2017.

	For the year ended April 4,		
	2019	2018	2017
	<i>(£ millions, except percentages)</i>		
Net interest income .....	2,915	3,004	2,960
Weighted average total assets .....	238,934	230,079	222,901
<b>Net interest margin .....</b>	<b>1.22%</b>	<b>1.31%</b>	<b>1.33%</b>

The impact on the U.K. economy of the decision to leave the European Union remains highly uncertain. This uncertainty extends to the interest rate outlook, where there are plausible scenarios with rates being increased, remaining unchanged or being lowered further in the period ahead, depending on economic developments. However, our central expectation is that interest rates will remain at historically low levels for a

prolonged period with marginal increases, such as the 25 basis point base rate increase announced by the BoE on August 2, 2018.

Competition in retail lending markets remains intense and the ongoing refinancing of our existing mortgage stock, including BMR balances continues in line with both recent experience and the Society's expectations. We currently expect our net interest margin to remain relatively stable in the year ending April 4, 2020, but with the potential for limited downward pressure, particularly if current levels of competition are sustained or intensify.

Increased competition for new mortgage lending has led to a reduction in mortgage rates offered which, in turn, resulted in less interest income with which to pay interest on savings deposits, so driving a reduction in offered saving rates across the industry. In line with our mutual principles we have chosen to forgo an element of profitability through resisting lowering savings rates where possible and offering competitive products.

### 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 re-price the interest rate that we offer, subject to market and competitive pressures.

The table below shows the daily average three-month sterling LIBOR rates (11:00 a.m. British Bankers' Association fixing) and average BoE base rates for the years ended April 4, 2019, 2018 and 2017.

	For the year ended April 4,		
	2019	2018	2017
		(%)	
Daily average three-month sterling LIBOR.....	0.80	0.41	0.44
Average BoE base rate .....	0.66	0.36	0.34

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.

Interest rates have started to rise as global economic growth picks up. Market conditions in the U.K. continue to be characterised by low interest rates, with uncertainty around the impact of future arrangements between the U.K. and EU on the economic landscape leading to volatility in these rates. The BoE base rate was reduced from 0.5% to 0.25% in August 2016. As at April 4, 2017 the BoE base rate remained at 0.25%. The BoE announced a base rate increase from 0.25% to 0.50% in November 2017 and a further increase to 0.75% in August 2018 and as at April 4, 2019 the rate remained at 0.75%. Underlying rates in longer-term debt securities markets have also risen.

The BMR is guaranteed to be no more than 2% above the BoE base rate. This rate is significantly lower than the equivalent standard variable rate charged by our peers and the SMR onto which our mortgages advanced since April 2009 revert. 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 arrears rates and low possession rates, which partly compensates for the low margin it yields.

## **Results of Operations for the Year Ended April 4, 2019 Compared with the Year Ended April 4, 2018**

### ***Introduction***

We believe that our results indicate a strong performance for the year ended April 4, 2019 with an underlying profit before tax of £788 million, and a statutory profit before tax of £833 million.

Underlying profit before tax for the year ended April 4, 2019 is down 19% at £788 million from £977 million for the year ended April 4, 2018. Total underlying income increased by 1% to £3,170 million in the year ended April 4, 2019, as compared to the year ended April 4, 2018.

Our financial performance for the year ended April 4, 2019 has statutory profit before tax down 15% year on year, although net interest income decreased by 3%. The decrease in net interest income was largely offset by a decrease in mortgage income, reflecting sustained competition in retail lending markets.

Nationwide experienced low cost growth in the year ended April 4, 2019, as a result of conscious decisions to focus on efficiency. Underlying administrative expenses increased by 11.4% to £2,254 million. The underlying cost income ratio has increased to 71.1% (April 4, 2018: 64.6%). Our cost trajectory reflects significant business growth and investment over recent years. Mortgage balances have grown 4.9% over the last year and we have 794,000 new current accounts opened this year.

During the year ended April 4, 2019 employee costs increased by £2 million, reflecting an annual pay award averaging 8.7% and higher full year costs from enhancements made in the year ended April 4, 2018 to the defined contribution pension scheme in line with our commitment to provide a 'Living Pension'. Average employee numbers decreased by 0.04% year on year due to process and organisational simplification including the closure of operations that are not aligned to our core markets.

Notwithstanding the fact that cost growth in recent years is the result of conscious decisions to support the Society's strategy and the service provided to members, we recognize the need to improve efficiency, and that cost increases significantly ahead of inflation are not sustainable in the continuing low interest rate environment we face. We will continue our focus on operational efficiency, exploiting the benefits of past and ongoing investment while continuing to prioritize the needs of our members. We have launched an efficiency program which targets £300 million of sustainable cost savings to be delivered by 2022.

During the year we have made good progress with our efficiency program successfully delivering over £100 million in sustainable savings, meaning that we are on course to achieve our target of realising £500 million of sustainable savings by 2023. As the program develops we will evolve our target of cost savings with a current expectation that this will increase.

During the period, investment has focused on service improvements for members, both in branch and through digital channels, including updating our savings point of sale systems to allow real time online account opening, delivery of in-house credit risk assessments for prime mortgages, upgrades to our Banking App for smartphones and tablets, and the roll out of further video links in branches which allow members greater flexibility to speak face to face with advisers in another location. We have also invested in IT resilience and ensuring compliance with U.K. and EU regulatory requirements.

Following a review of amounts capitalized for assets in use or in the course of development, asset write downs and depreciation charges of £141 million (April 4, 2018: £141 million) were recognized in the year due to adjustments to asset lives, reflecting the pace of change of technology and changing member needs. 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.



The following discussion considers our results for the year ended April 4, 2019 compared to our results for the year ended April 4, 2018:

### **Total income**

Our total income decreased to £3,206 million in the year ended April 4, 2019 compared to £3,131 million in the year ended April 4, 2018. The following table sets forth the components of income for the years ended April 4, 2019 and 2018, respectively:

	<b>For the year ended April 4, 2019</b>	<b>For the year ended April 4, 2018</b>
	<i>(£ million)</i>	
Net interest income .....	2,915	3,004
Net fees and commissions .....	201	205
Income from investments .....	-	-
Other operating income .....	54	(77)
Gains/(losses) from derivatives and hedge accounting .....	36	(1)
<b>Total .....</b>	<b>3,206</b>	<b>3,131</b>

### **Net interest income**

Net interest income decreased by 3% to £2,915 million for the year ended April 4, 2019 compared with £3,011 million for the year ended April 4, 2018 due to lower funding costs, which were offset by a decrease in mortgage income as a result of sustained competition in retail lending markets.

The following table sets forth the components of net interest income for the years ended April 4, 2019 and 2018, respectively:

	<b>For the year ended April 4, 2019</b>	<b>For the year ended April 4, 2018</b>
	<i>(£ million)</i>	
<b>Interest and similar income:</b>		
On residential mortgages .....	4,469	4,532
On other loans .....	633	626
On investment securities .....	194	129
On other liquid assets .....	137	67
Net expense on financial instruments hedging assets .....	(315)	(543)
<b>Total interest and similar income .....</b>	<b>5,118</b>	<b>4,811</b>
<b>Interest expense and similar charges:</b>		
On U.K. retail member deposits .....	(1,335)	(1,140)
On subscribed capital .....	(14)	(15)
<b>On deposits and other borrowings:</b>		
Subordinated liabilities .....	(238)	(175)
Other .....	(207)	(320)
Debt securities in issue .....	(673)	(712)
Net income on financial instruments hedging liabilities .....	270	563
Pension interest cost .....	(6)	(8)
<b>Total interest expense and similar charges .....</b>	<b>(2,203)</b>	<b>(1,807)</b>
<b>Net interest income .....</b>	<b>2,915</b>	<b>3,004</b>

### *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 50% to £194 million for the year ended April 4, 2019, compared with £129 million for the year ended April 4, 2018.

### *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, 2019, we incurred a net expense of £315 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £543 million in the year ended April 4, 2018.

### *Interest expense and similar charges*

The average interest rate that we paid to depositors increased to 0.87% for the year ended April 4, 2019 compared with 0.76% for the year ended April 4, 2018, which accounted for the majority of the increase in interest paid. There was also an increase of 4.5% in the average balance of U.K. retail member deposits held to £152,926 million in the year ended April 4, 2018 from £146,297 million in the year ended April 4, 2018.

Thanks to a combination of strong growth and good retention, our market share of main standard and packaged current accounts rose to 8.0% as at April 4, 2019, an increase from 7.9% as at April 4, 2018. A record 794,000 (year ended April 4, 2018: 816,000) Nationwide current accounts were opened during the year ended April 4, 2019, which accounts for 16.2% of all new current accounts in the U.K. opened during the year ended April 4, 2019.

### *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, 2019, interest on subordinated liabilities increased to £238 million from £175 million in the year ended April 4, 2018. Average balances increased to £6,469 million in the year ended April 4, 2019 from £4,108 million in the year ended April 4, 2018.

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, 2019, other interest expense on deposits and other borrowings decreased by 35% to £207 million from £320 million in the year ended April 4, 2018. This decrease includes an expense of £210 million (April 4, 2018: £210 million) in relation to the redemption and maturity of protected equity bonds (“**PEB**”) deposits which have returns linked to the performance of specified stock market indices. The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities includes income of £206 million (April 4, 2018: £206 million) in relation to the associated derivatives.

### *Debt securities in issue*

Debt securities in issue include interest that we pay on certificates of deposit, time deposits, commercial paper, covered bonds, medium-term notes and securitizations. In the year ended April 4, 2019, interest expense on debt securities in issue decreased by 5% to £673 million from £712 million in the year ended April 4, 2018.

### *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, 2019, net income on financial instruments used to hedge our fixed rate liabilities was £270 million, compared with a net income of £563 million in the year ended April 4, 2018.

### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the years ended April 4, 2019 and 2018 respectively:

	For the year ended April 4, 2019			For the year ended April 4, 2018		
	Income	Expense	Net	Income	Expense	Net
	<i>(£ million)</i>					
Current account and savings .....	261/	(202)	59	246	(187)	59
General insurance .....	65	-	65	76	-	76
Protection and investments .....	63	-	63	65	-	65
Mortgage.....	13	(1)	12	16	(2)	14
Credit card .....	43	(39)	4	42	(45)	(3)
Other fees and commissions .....	4	(6)	(2)	4	(10)	(6)
<b>Fee and commission.....</b>	<b>449</b>	<b>(248)</b>	<b>201</b>	<b>449</b>	<b>(244)</b>	<b>205</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, 2019, net fees and commissions decreased by 2% to £201 million compared with £205 million in the year ended April 4, 2018, principally reflecting movements in General Insurance fees and commissions (£11 million lower in the year ended April 4, 2019) and Credit Card fees and commissions (£7 million higher in the year ended April 4, 2019).

### *Other operating income*

In the year ended April 4, 2019, other operating income was £54 million compared with £77 million expense in the year ended April 4, 2018.

### *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 U.K. 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 £36 million in the year ended April 4, 2019 compared to losses of £1 million in the year ended April 4, 2018. 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 of £36 million (April 4, 2017: loss of £1 million) was the impact of the following:

Gains of £24 million (April 4, 2018: losses of £86 million) from fair value hedge accounting. This includes losses of £9 million (April 4, 2018: losses of £42 million) from macro hedges, due to hedge ineffectiveness and the amortization of existing balance sheet amounts. In addition, gains of £33 million relate to micro hedges (April 4, 2018: losses of £44 million) due to a combination of hedge ineffectiveness, maturities and disposals.

There was no impact relating to the mortgage pipeline (April 4, 2018: gains of £50 million). The income statement includes the full fair value movement of forward starting interest rate swaps economically hedging the pipeline; however Nationwide only elects to fair value certain underlying mortgage business within the pipeline.

Losses of £18 million (April 4, 2018: gains of £5 million) from valuation adjustments and volatility on other derivatives which are not currently in an IAS 39 hedge accounting relationship.

Gains of £7 million (April 4, 2017: £13 million) from the retranslation of foreign currency monetary items not subject to effective hedge accounting, against a backdrop of significant sterling depreciation.

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

Operating expenses and similar charges decreased in the year ended April 4, 2019 to £2,373 million compared to £2,154 million in the year ended April 4, 2018. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2019 and 2018, respectively:

	<b>For the year ended April 4, 2019</b>	<b>For the year ended April 4, 2018</b>
	<i>(£ million)</i>	
Administrative expenses.....	1,705	1,627
Depreciation and amortization.....	549	397
Impairment losses on loans and advances to customers .....	113	107
Provisions for liabilities and charges .....	6	25
Impairment (recoveries)/losses on investment securities.....	-	(2)
<b>Total</b> .....	<b>2,373</b>	<b>2,154</b>

### ***Administrative expenses***

Administrative expenses increased by 5% in the year ended April 4, 2019 to £1,705 million from £1,627 million in the year ended April 4, 2018 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 years ended April 4, 2019 and 2018, respectively:

	<b>For the year ended April 4, 2019</b>	<b>For the year ended April 4, 2018</b>
	<i>(£ million)</i>	

	<b>For the year ended April 4, 2019</b>	<b>For the year ended April 4, 2018</b>
	<i>(£ million)</i>	
Employee costs:		
Salaries, bonuses and social security costs .....	645	651
Pension costs .....	181	173
Other administrative expenses.....	879	803
<b>Total</b> .....	<b>1,705</b>	<b>1,627</b>

Employee costs are made up of salaries, bonuses social security costs (which consist entirely of mandatory U.K. 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, 2019, salaries, bonuses and social security costs decreased by 1% to £645 million from £651 million in the year ended April 4, 2018. Within employee costs, the pension charge increased by 5% to £181 million for the year ended April 4, 2019 from £173 million in the year ended April 4, 2018, primarily due to an increase in defined benefit scheme costs as a result of market conditions.

Other administrative costs increased by 9% to £879 million for the year ended April 4, 2019 from £803 million for the year ended April 4, 2018.

The cost income ratio has deteriorated on an underlying basis to 71.1% (April 4, 2018: 64.6%) and on a statutory basis to 70.3% (April 4, 2018: 64.6%) as a result of the growth in administrative expenses described above, which reflects our focus on improving product propositions and services for members whilst remaining strong, safe and secure.

#### *Depreciation and amortization*

For the year ended April 4, 2019 depreciation and amortization expenses increased by 38% to £549 million from £397 million for the year ended April 4, 2018.

#### *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, 2019 increased by 6% to £113 million from £107 million for the year ended April 4, 2018.

The following table analyses the impairment losses on loans and advances to customers for the years ended April 4, 2019 and 2018, respectively:

	<b>For the year ended April 4, 2019</b>	<b>For the year ended April 4, 2018</b>
	<i>(£ million)</i>	
Residential lending .....	(17)	11
Consumer banking .....	114	97

	For the year ended April 4, 2019	For the year ended April 4, 2018
	<i>(£ million)</i>	
<b>Retail lending</b>	<b>97</b>	<b>108</b>
Commercial and other lending.....	16	(1)
<b>Impairment losses on loans and advances</b>	<b>113</b>	<b>107</b>
Impairment (reversals)/losses on investment securities.....	-	(2)
<b>Total</b> .....	<b>113</b>	<b>105</b>

Impairment losses have increased by £8 million to £113 million (2018: £105 million). Despite this increase in impairments the underlying portfolio performance remains strong. Retail lending impairment losses remain at historically low levels with the £17 million release (2018: £11 million charge) for the residential lending book resulting from the continued run-off of legacy, higher risk portfolios. The increase in consumer banking impairment charge to £114 million (2018: £97 million) primarily reflects updates to provisions to reflect emerging regulatory requirements for customers in persistent debt. Notwithstanding this increase, delinquency levels on the consumer finance portfolio have remained low during the year. During the year commercial loan impairments were £16 million (2018: £1 million release) due to increased credit risk associated with two individual loans, with the overall portfolio performance remaining robust.

#### *Provisions for liabilities and charges*

	For the year ended April 4, 2019	For the year ended April 4, 2018
	<i>(£ million)</i>	
FSCS.....	(9)	(1)
Customer redress provision .....	15	26
<b>Total</b> .....	<b>6</b>	<b>25</b>

The income statement charge for provisions for liabilities and charges of £6 million (2018: £25 million) includes the customer redress net income statement charge of £15 million (2018: £26 million), and the FSCS release of £9 million (2018: £1 million).

We hold provisions for customer redress to cover the 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 requirements. The charge for the year primarily relates to customer redress provisions recognized in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of our PPI provision we have considered the implications of the guidance published by the Financial Conduct Authority (“FCA”) in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

#### *Taxes*

The statutory reported tax charge for the year of £215 million in the year ended April 4, 2019 (April 4, 2017: £232 million charge) represents an effective tax rate of 25.8% which is higher than the statutory rate in the U.K. of 20.0%. The higher effective rate is due principally to the banking surcharge of 8.0% effective from January 1, 2016, equivalent to £37 million (April 4, 2018: £43 million charge), together with the tax effect of disallowable bank levy and customer redress costs of £8 million and £8 million (April 4, 2018: £8 million and nil) respectively.

This resulted in an overall statutory tax charge for the year ended April 4, 2019 of £215 million (April 4, 2018: £232 million) as set out in the table below:

For the year ended April 4, 2019	For the year ended April 4, 2018
-------------------------------------	-------------------------------------

	(£ million)	
Charge on profits for the year .....	197	234
Adjustment in respect of prior years .....	15	2
Effect of corporation tax rate change .....	-	-
Effect of banking surcharge on deferred tax balances .....	3	(4)
<b>Statutory tax charge .....</b>	<b>215</b>	<b>232</b>

### Balance Sheet Review

Weighted average total assets grew by 4%, from £238 billion as of April 4, 2019 to £230 billion as of April 4, 2018, with growth in retail lending and treasury balances, offset by a small reduction in commercial lending balances.

#### Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 93.8% of our total loans and advances to customers at April 4, 2019. This is an increase from 93.0% as at April 4, 2018, reflecting our strategy of exiting non-core commercial lending:

	As at April 4, 2019		As at April 4, 2018	
	<i>(£ million, except percentages)</i>			
Prime residential mortgages .....	151,473	76.4%	144,011	75.6%
Specialist residential mortgages .....	34,333	17.3%	33,057	17.4%
<b>Total residential mortgages .....</b>	<b>185,806</b>	<b>93.8%</b>	<b>177,068</b>	<b>93.0%</b>
Commercial lending .....	8,194	4.1%	9,569	5.0%
Consumer banking .....	4,168	2.1%	3,742	2.0%
<b>Gross balances .....</b>	<b>198,168</b>	<b>100.0%</b>	<b>190,379</b>	<b>100.0%</b>
Fair value adjustments for micro hedged risk.....	883	-	1,042	-
<b>Total.....</b>	<b>199,051</b>	<b>-</b>	<b>191,421</b>	<b>-</b>

### Residential mortgage portfolio

Residential mortgages include prime and specialist loans, with new lending in the specialist portfolio comprised entirely of BTL lending. Gross mortgage lending in the period was £36.4 billion (April 4, 2018: £33.0 billion), representing a market share of 13.4% (April 4, 2018: 12.8%).

Mortgage balances grew by £7 billion in the year ended April 4, 2019, most of which was related to prime lending.

The average LTV of new lending in the period, weighted by value, remained at 71% (April 4, 2018: 71%) primarily due to our strategy to increase lending to the first time buyer market as we recognize the importance of helping people take their initial steps onto the housing ladder. Modest house price growth has resulted in the average LTV of our portfolio increasing to 58% (April 4, 2018: 56%). Residential mortgage arrears have remained constant at 0.4% (April 4, 2018: 0.4%).

Non-performing balances have increased by £52 million to £2,773 million (April 4, 2018: £2,721 million). The impairment provision balance has decreased to £206 million (April 4, 2017: £235 million). This decrease in provisions is largely due to continued run-off of legacy, higher risk portfolios combined with refinements to our provisioning methodology. Impairment provisions as a percentage of non-performing balances decreased to 7.4% (April 4, 2018: 8.6%).

The growth of the BTL portfolio has slowed following a decision taken in May 2016 to increase the minimum interest cover ratio for new lending from 125% to 145% and reduce the maximum LTV from 80% to 75%. Despite the anticipated impact of this decision on BTL portfolio growth, these steps were taken in response to forthcoming income tax changes which will materially affect cash flow and affordability for some landlords.

	As at April 4, 2019	As at April 4, 2018
	<i>(percentages)</i>	
<b>LTV distribution of residential mortgages:</b>		
0% - 60% .....	25	26
60% - 75% .....	33	30
75% - 80% .....	7	9
80% - 85% .....	10	14
85% - 90% .....	22	18
90% - 95% .....	3	3
>95% .....	-	-
<b>Total</b> .....	<b>100</b>	<b>100</b>
 Average loan to value of stock .....	 58	 56
Average loan to value of new business .....	71	71
<b>New business profile:</b>		
First-time buyers .....	35	38
Home movers .....	25	29
Remortgagers .....	25	21
BTL .....	14	11
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 April 4, 2019 were £206 million, compared with £235 million at April 4, 2018.

	As at April 4, 2019	As at April 4, 2018
<b>Cases three months or more in arrears as% of total book of residential mortgages</b>	<i>(percentages)</i>	
Prime .....	0.35	0.34
Specialist .....	0.82	0.83
<b>Total Group residential mortgages</b> .....	<b>0.43</b>	<b>0.43</b>
 <b>CML industry average</b> .....	 <b>0.79</b>	 <b>0.81</b>

Reflecting our low risk profile, performance of the mortgage books has remained strong with the total group residential mortgages more than three months in arrears staying constant. Our overall arrears percentage of 0.43% compares favourably with the CML industry average of 0.79% (April 4, 2018: 0.81% as reported by CML).

The table below shows possessions as a percentage of our total residential mortgages as at April 4, 2019 and April 4, 2018:



	As at April 4, 2019	As at April 4, 2018
<b>Possessions as% of total residential mortgages (number of properties)</b>	<i>(percentages)</i>	
Prime .....	0.01	0.01
Specialist.....	0.05	0.05
<b>Total Group residential mortgages .....</b>	<b>0.01</b>	<b>0.02</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, 2019, the properties taken into possession decreased to 231, representing only 0.01% of our book compared to the industry average of 0.02% (source: CML).

The table below provides further information on the residential mortgage portfolio by payment due status as at April 4, 2019 and April 4, 2018:

	As at April 4, 2019				As at April 4, 2018			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
	<i>(£ billion, except percentages)</i>							
<b>Not impaired:</b>								
Neither past due nor impaired.....	149.8	33.5	183.3	98.5	142.4	32.2	174.6	98.5
Past due up to 3 months but not impaired.....	1.3	0.6	1.9	1.0	1.3	0.7	2.0	1.1
Impaired.....	0.4	0.4	0.8	0.4	0.3	0.4	0.7	0.4
<b>Total.....</b>	<b>151.5</b>	<b>34.5</b>	<b>186.0</b>	<b>100.0</b>	<b>144.0</b>	<b>33.3</b>	<b>177.3</b>	<b>100.0</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, 2019				As at April 4, 2018			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
	<i>(£ million, except percentages)</i>							
<b>Impaired status:</b>								
Past due 3 to 6 months .....	177	159	336	44	162	159	321	44
Past due 6 to 12 months .....	122	121	243	32	113	110	223	30
Past due over 12 months .....	84	69	153	20	89	76	165	22
Litigation (past term interest only) .	-	-	-	-	1	1	2	

	As at April 4, 2019				As at April 4, 2018			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
	<i>(£ million, except percentages)</i>							
Possessions .....	7	21	28	4	8	23	31	4
<b>Total .....</b>	<b>390</b>	<b>370</b>	<b>760</b>	<b>100</b>	<b>373</b>	<b>369</b>	<b>742</b>	<b>100</b>

#### For residential mortgage loans

Residential mortgages subject to forbearance at April 4, 2019 were £1,017 million compared to £1,043 million at April 4, 2018.

Balances subject to forbearance 2019	Prime	Specialist	Total
	<i>(£ millions)</i>		
Past term interest only concessions .....	122	134	256
Interest only concessions .....	525	59	584
Capitalization .....	42	51	93
Term extensions (within term) .....	35	13	48
Permanent interest only conversions .....	3	33	36
<b>Total forbearance .....</b>	<b>727</b>	<b>290</b>	<b>1,017</b>
<b>Impairment provision on forborne loans .....</b>	<b>5</b>	<b>11</b>	<b>16</b>

Balances subject to forbearance 2018	Prime	Specialist	Total
	<i>(£ millions)</i>		
Past term interest only concessions .....	130	136	266
Interest only concessions .....	511	66	577
Capitalization .....	45	59	104
Term extensions (within term) .....	35	14	49
Permanent interest only conversions .....	5	24	29
<b>Total forbearance .....</b>	<b>726</b>	<b>299</b>	<b>1,025</b>
<b>Impairment provision on forborne loans .....</b>	<b>5</b>	<b>11</b>	<b>16</b>

Note: Loans where more than one concession event has occurred are reported under the latest event.

The balances outlined above apply to the prime residential mortgage portfolio. The table below show outstanding loans as at April 4, in each of 2019 and 2018 that are subject to forbearance in alignment with European Banking Authority definitions.

	As at April 4,			
	2019		2018	
	<i>(% of total prime loans and advances)</i>		<i>(% of total prime loans and advances)</i>	
	<i>(£ millions)</i>		<i>(£ millions)</i>	
Past term interest only concessions .....	256	25.2%	266	26.0%

	As at April 4,			
	2019		2018	
	(£ millions)	(% of total prime loans and advances)	(£ millions)	(% of total prime loans and advances)
Interest only concessions .....	584	57.4%	577	56.3%
Capitalization.....	93	9.1%	104	10.1%
Term extensions (within term).....	48	4.7%	49	4.8%
Permanent interest only conversions .....	36	3.5%	29	2.8%
<b>Total forbearance .....</b>	<b>1,017</b>	<b>100.0%</b>	<b>1,025</b>	<b>100.0%</b>

The following table presents negative equity on residential mortgages:

	As at April 4, 2019	As at April 4, 2018
	(£ millions)	
Stage 1 and 2 .....	26	33
Stage 3 .....	4	5
<b>Total .....</b>	<b>30</b>	<b>38</b>

#### For commercial loans

Forbearance in the commercial portfolios is recorded and reported at borrower level and applies to all commercial lending including impaired exposures and customers subject to enforcement and recovery action. Impairment provisions on forborne loans are calculated on an individual borrower basis.

The table below provides details of the commercial loans which are subject to forbearance as at April 4, 2019 and 2018.

	As at April 4,	
	2019	2018
	(£ millions)	
Refinance .....	44	78
Modifications:		
Interest concession.....		
Capital concession .....	2	8
Security amendment .....	6	9
Extension at maturity.....	12	42
Breach of covenant .....	122	139
<b>Total .....</b>	<b>186</b>	<b>276</b>
Impairment provision on forborne loans .....	23	19

Note:

Loans where more than one concession event has occurred are reported under the latest event.

Consistent with the European Banking Authority reporting definitions, loans that meet the forbearance exit criteria are not reported as forborne.

Overall, the CRE exposures currently subject to forbearance have reduced to £186 million as at April 4, 2019, from £318 million as at April 4, 2018, principally as a result of the controlled exit from non-core, higher risk loans, and represented 13% of CRE loan balances as at April 4, 2019 (compared to 17% as at April 4, 2018).

## For consumer loans

The table below provides details of the consumer banking exposures which are subject to forbearance as at April 4, 2019 and April 4, 2018.

	Overdrawn current accounts	Personal loans	Credit cards	Total
<b>2019</b>	<i>(£ millions)</i>			
Payment concession.....	16		2	18
Interest suppressed payment arrangement .....	6	34	15	55
Balances re-aged/re-written .....	-	1	3	4
<b>Total forbearance .....</b>	<b>22</b>	<b>35</b>	<b>20</b>	<b>77</b>
Impairment provision on forborne loans .....	12	29	14	55
<b>2018</b>				
Payment concession.....	18	-	2	20
Interest suppressed payment arrangement .....	6	32	16	54
Balances re-aged/re-written .....	-	-	4	4
<b>Total forbearance .....</b>	<b>24</b>	<b>32</b>	<b>22</b>	<b>78</b>
Impairment provision on forborne loans .....	13	27	16	56

Note:

Where more than one concession event has occurred, exposures are reported under the latest event.

## Commercial loan portfolio

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, commercial real estate investors and project finance initiatives. Whilst the project finance and real estate portfolios are closed to new business, the registered social landlord portfolio was reopened in September 2018.

## Commercial and other lending gross balances

	As at April 4, 2019	As at April 5, 2018	As at April 4, 2018
	<i>(£ million)</i>	<i>(£ millions)</i>	<i>(£ millions)</i>
Registered social landlords <sup>(1)</sup> .....	5,980	6,816	6,820
Commercial real estate (CRE) .....	1,383	1,810	1,868
Project finance <sup>(2)</sup> .....	807	906	906
Other lending <sup>(3)</sup> .....	8	8	8
<b>Commercial and other lending balances at amortized cost .....</b>	<b>8,178</b>	<b>9,540</b>	<b>9,602</b>
Fair value adjustment for micro hedged risk <sup>(4)</sup> ..	883	1,042	1,043
Commercial lending balances <sup>(5)</sup> .....	57	58	-
<b>Total .....</b>	<b>9,118</b>	<b>10,640</b>	<b>10,645</b>

Notes:

- (1) Loans to registered landlords are secured on residential property.
- (2) Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts under the Private Finance Initiative.
- (3) Other lending previously included balances held with counterparties which are institutions similar to banks. These are now reported in loans and advances to banks and similar institutions, and comparatives for the prior period have been restated to

disclose information on the same basis. Further details are included to note 1 to the audited consolidated financial statements as of and for the year ended April 4, 2019.

(4) Micro hedged risk relates to loans hedged on an individual basis.

(5) As a result of their contractual cash flow characteristics, certain commercial loans were reclassified from amortized cost to Fair value through profit or loss ("FVTPL") on transition to IFRS 9 on April 5, 2018 and remeasured at fair value.

Over the year ended April 4, 2019, total balances across the commercial portfolios have reduced, reflecting run-off of the closed CRE and project finance books, with borrowers repaying loans at or before loan maturity. In the registered social landlord portfolio, reductions are due to early repayments and a managed reduction in the concentration risk to loans above £200 million. As the portfolio balances have reduced the quality and performance of the portfolios has remained stable.

#### **Impairment losses/ (reversals) for the year for commercial and other lending**

	<b>For the year ended April 4, 2019 (IFRS basis) (£ million)</b>	<b>For the year ended April 4, 2018 (IAS 39 basis) (£ million)</b>
<b>Total.....</b>	<b>16</b>	<b>(1)</b>

Note:

(1) Impairment losses represent the total amount charged through the profit and loss account, rather than amounts written off during the year.

The above £16 million impairment loss for the year relates to two loans which are not representative of risks in the wider portfolio. As impairment provisions are calculated on a different basis under IFRS 9 from IAS 39, the losses shown above are not comparable between the year ended April 4, 2018 and the year ended April 4, 2019.

Our commercial lending portfolio of £8.2 billion as at April 4, 2019 (April 4, 2018: £9.6 billion) comprises £1.4 billion secured on CRE (April 4, 2018: £1.9 billion), £6.0 billion advanced to RSL (April 4, 2018: £6.8 billion) and £0.8 billion advanced under Project Finance, principally via the PFI (April 4, 2018: £0.9 billion). Our CRE 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 CRE loans amounted to £48 million as at April 4, 2019 (April 4, 2018: £30 million) and provisions held against the portfolio amounted to £22 million (April 4, 2018: £15 million) representing a coverage ratio of 46% (April 4, 2018: 50%).

The following table shows commercial and other lending balances carried at amortized cost on the balance sheet, with the stage allocation of the exposures, impairment provisions and resulting provision coverage ratio:

Commercial and other lending product and staging analysis	For the year ended							
	April 4, 2019				April 5, 2018			
	Stage 1 (£ million)	Stage 2 (£ million)	Stage 3 (£ million)	Total (£ million)	Stage 1 (£ million)	Stage 2 (£ million)	Stage 3 (£ million)	Total (£ million)
<b>Gross balances</b>								
Registered social landlords .....	5,923	57	-	5,980	6,725	91	-	6,816
CRE .....	1,122	213	48	1,383	1,587	186	37	1,810
Project finance.....	754	29	24	807	818	88	-	906
Other lending.....	8	-	-	8	8	-	-	8
<b>Total.....</b>	<b>7,807</b>	<b>299</b>	<b>72</b>	<b>8,178</b>	<b>9,138</b>	<b>365</b>	<b>37</b>	<b>9,540</b>

Commercial and other lending product and staging analysis	For the year ended							
	April 4, 2019				April 5, 2018			
	Stage 1 (£ million)	Stage 2 (£ million)	Stage 3 (£ million)	Total (£ million)	Stage 1 (£ million)	Stage 2 (£ million)	Stage 3 (£ million)	Total (£ million)
<b>Provisions</b>								
Registered social landlords .....	1	-	-	1	1	-	-	1
CRE .....	2	2	18	22	5	3	13	21
Project finance .....	1	-	17	18	-	7	-	7
Other lending .....	-	-	-	-	-	-	-	-
<b>Total .....</b>	<b>4</b>	<b>2</b>	<b>35</b>	<b>41</b>	<b>6</b>	<b>10</b>	<b>13</b>	<b>29</b>
	%	%	%	%	%	%	%	%
<b>Provisions as a % of total balance</b>								
Registered social landlords .....	0.02	0.18	-	0.02	0.01	0.15	-	0.01
CRE .....	0.19	0.96	37.11	1.58	0.32	1.19	36.99	1.15
Project finance .....	0.15	0.97	71.54	2.20	0.02	8.37	-	0.83
Other lending .....	-	-	-	-	1.25	-	-	1.25
<b>Total .....</b>	<b>0.05</b>	<b>0.81</b>	<b>48.74</b>	<b>0.50</b>	<b>0.07</b>	<b>2.74</b>	<b>35.55</b>	<b>0.30</b>

Over the year, the performance of the commercial and other lending portfolios has remained stable, with 95% (April 5, 2018: 96%) of balances remaining in stage 1. Of the £299 million stage 2 loans (April 5, 2018: £365 million), £1 million (April 5, 2018: £2 million) is in arrears by 30 days or more, with the remainder in stage 2 due to non-arrears factors such as a deterioration in risk rating or placement on a watchlist.

The increase in CRE stage 2 and 3 balances is in respect of a small number of loans that are subject to increased loan maturity risk, with stage 3 (credit-impaired) loans, at £48 million (April 5, 2018: £37 million), equating to 3% (April 5, 2018: 2%) of the total CRE exposure.

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (April 5, 2018: 1%) of the exposure is in stage 2. Against a backdrop of a long history of zero defaults, the risk profile of this portfolio remains low.

Loans in the project finance portfolio benefit from long-term cash flows, which typically emanate from the provision of assets such as schools, hospitals, police stations, government buildings and roads, procured under the Private Finance Initiative. 97% of balances are in respect of fully developed assets.

There is no significant exposure to credit risk on the other lending balances.

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

The total other lending portfolio of £8 million as at April 4, 2019 (April 5, 2018: £8 million) represents 0% (April 5, 2018: 0%) of the Group's loans and advances to customers. The portfolio primarily consists of secured loans relating to a European commercial loan facility which is held by one of the Group's subsidiaries, Cromarty CLO Ltd ("Cromarty"). The portfolio has reduced during the year through ongoing loan maturities and amortization and remains in run-off.

#### ***Credit quality***

Nationwide adopts robust credit management policies and processes to recognize and manage the risks arising from the portfolio,

The following table shows the CRE portfolio by risk grade and the provision coverage for each category. The table includes balances held at amortized cost only.

#### **CRE gross balances by risk grade and provision coverage**

For the year ended,										
April 4, 2019					April 5, 2018					
Stage 1	Stage 2	Stage 3	Total	Provision Coverage	Stage 1	Stage 2	Stage 3	Total	Provision Coverage	
(£ million)	(£ million)	(£ million)	(£ million)	%	(£ million)	(£ million)	(£ million)	(£ million)	%	
Strong .....	676	57	-	733	0.3	912	91	-	932	0.5
Good .....	381	76	-	457	0.1	614	186	-	693	0.1
Satisfactory .....	65	8	-	73	0.4	61	88	-	93	1.2
Weak .....	-	72	-	72	1.4	-	88	-	55	2.0
Impaired .....	-	-	48	48	37.1	-	-	37	37	36.0
<b>Total .....</b>	<b>1,122</b>	<b>213</b>	<b>48</b>	<b>1,383</b>	<b>1.6</b>	<b>9,138</b>	<b>1,587</b>	<b>37</b>	<b>1,810</b>	<b>1.1</b>

The risk grades in the table above are based upon supervisory slotting criteria, under which exposures are classified into categories depending on the underlying credit risk, with assessment based upon financial strength, asset characteristics, the strength of the sponsor and the security. As CRE balances reduce, the credit quality of the portfolio remains strong, with 91% (April 5, 2018: 95%) of the portfolio rated as satisfactory or better, as at April 4, 2019.

Risk grades for the project finance portfolio are also based upon supervisory slotting criteria with 97% of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model with major drivers being financial strength, independent visibility assessment ratings provided by the Regulator of Social Housing, and the type and size of registered social landlord. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults, the credit quality remains high, with an average 12-month PD of 0.05% across the portfolio.

In addition to the above, £57 million (April 5, 2018: £58 million) of commercial lending balances were classified as FVTPL, of which £53 million (April 5, 2018: £52 million) related to CRE loans with a risk grade of satisfactory.

### **CRE Balances by LTV and region**

The following table includes both amortized cost and FVTPL CRE balances:

#### **CRE Lending gross balances by LTV and region**

(1)	As at April 4, 2019			As at April 5, 2018		
	London	Rest of UK	Total	London	Rest of UK	Total
	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)

#### **Fully collateralised**

LTV ratio <sup>(2)</sup>

Less than 25% .....	89	70	159	189	124	313
25% to 50% .....	559	298	857	596	374	943
51% to 75% .....	181	175	356	241	291	532
76% to 90% .....	1	20	21	4	51	55
91% to 100% .....	1	6	7	1	4	5
	<b>831</b>	<b>569</b>	<b>1,400</b>	<b>1,004</b>	<b>844</b>	<b>1,848</b>

#### **Not fully collateralized**

Over 100% LTV .....	-	36	36	-	16	16
Collateral value .....	-	19	19	-	7	7
Negative equity .....	-	17	17	-	9	9

<b>Total CRE Loans</b>	<b>831</b>	<b>605</b>	<b>1,436</b>	<b>1,004</b>	<b>860</b>	<b>1,864</b>
<b>Geographical concentration</b>	<b>58%</b>	<b>42%</b>	<b>100%</b>	<b>54%</b>	<b>46%</b>	<b>100%</b>

Notes:

- (1) A CRE loan may be secured on assets located in different regions. The calculation for regional allocation has been changed in the year to reflect a more refined approach, with comparatives presented on a consistent basis.
- (2) The LTV ratio is calculated on the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The Investment Property (IPD) monthly index is used.

Changes to the regional distribution of the CRE portfolio reflect the managed reduction of the portfolio, with 58% (April 5, 2018: 54%) of the CRE exposure now being secured against assets located in London. Over the year, the LTV distribution of the CRE portfolio remained stable, with 96% (April 5, 2018: 96%) of the portfolio having an LTV of 75% or less, and 71% (April 5, 2018: 67%) of the portfolio having an LTV of 50% or less.

The distribution of the CRE balances by geography and LTV ratios at April 4, 2018 is the same as that disclosed above as at April 5, 2018.

#### ***Credit risk concentration by industry sector***

Credit risk exposure by industry sector is unchanged from the prior year, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, including FVTPL balances, the highest concentration is to the residential investment sector at 44% (April 5, 2018: 44%). Over the year, our exposure to retail assets has reduced from £367 million to £286 million.

#### ***CRE balances by payment due status***

Of the £1,436 million (April 5, 2018: £1,864 million) CRE exposure, including FVTPL balances, £24 million (April 5, 2018: £52 million) relates to balances with arrears, of which £2 million (April 5, 2018: £24 million) have arrears greater than 3 months.

#### **Gross balances subject to forbearance**

	<b>As at April 4, 2019</b>	<b>As at April 5, 2018</b>
(1)	<i>(£ million)</i>	<i>(£ million)</i>
Refinance	44	78
Modifications:		
Capital concession	2	8
Security amendment	6	9
Extension at maturity	12	42
Breach of covenant	122	139
<b>Total</b> .....	<b>186</b>	<b>276</b>
<b>Total impairment provision on forborne loans</b>	<b>23</b>	<b>19</b>

Note:

- (1) Loans where more than one concession event has occurred are reported under the latest event.



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.

Our valuation policy 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. The table below represents a breakdown of CRE lending balances by LTV and their share in the total CRE loans as at April 4, 2019 and 2018.

	As at April 4, 2019		As at April 4, 2018	
	(£ million, except percentages)			
	(unaudited)			
Fully collateralized				
LTV ratio:				
less than 25% .....	159	11%	313	17%
25% to 50% .....	857	60%	943	51%
51% to 75% .....	356	25%	532	29%
76 to 90% .....	21	1%	55	3%
91% to 100% .....	7	0%	5	0%
<b>Total</b> .....	<b>1,400</b>	<b>97%</b>	<b>1,848</b>	<b>99%</b>
Partially collateralized				
More than 100% (A).....	36	3%	16	1%
Collateral value of (A) .....	19	2%	7	1%
Negative equity on (A) .....	17	1%	9	0%
<b>Total CRE loans</b> .....	<b>1,436</b>	<b>100%</b>	<b>1,864</b>	<b>100%</b>

The overall proportion of partially collateralized loans has increased to 2.5% in the year ended April 4, 2019 (April 4, 2018: 0.7%) and the shortfall on collateral for non-performing CRE loans has increased by £10 million during the year ended April 4, 2019 to £17 million (April 4, 2018: £7 million).

## Consumer banking

Credit risk in the consumer banking portfolios is primarily monitored and reported based on arrears status which is set out below:

### Consumer banking gross balances by payment due status

(Audited)	As at April 4, 2019					As at April 4, 2018				
	Overdrawn current accounts	Personal loans	Credit cards	Total		Overdrawn current account	Personal loans	Credit cards	Total	
	(£ million)	(£ million)	(£ million)	(£ million)	%	(£ million)	(£ million)	(£ million)	(£ million)	%
Not past due	279	2,282	1,667	4,228	92.2	235	1,882	1,656	3,773	91.9
Past due 3 to 6 months .....	12	48	30	90	1.9	12	43	33	88	2.1
Past due 6 to 12 months .....	3	8	11	22	0.5	4	13	11	28	0.7
Past due over 12 months .....	3	15	2	20	0.4	3	12	2	17	0.4
Litigation (past term interest only).....	3	14	-	17	0.4	3	13	-	16	0.4
Possessions .....	24	82	103	209	4.6	20	68	97	185	4.5
<b>Total .....</b>	<b>324</b>	<b>2,249</b>	<b>1,813</b>	<b>4,586</b>	<b>100</b>	<b>277</b>	<b>2,031</b>	<b>1,799</b>	<b>4,107</b>	<b>100</b>

Note:

(1) Charged off balances related to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

The consumer banking portfolio comprises balances on unsecured retail banking products: current accounts overdrafts of £0.3 billion (April 4, 2018, £0.3 billion), personal loans of £2.4 billion (April 4, 2018: £2.0 billion), and credit cards of £1.8 billion (April 4, 2018: £1.8 billion). Over the year total balances across these portfolios have grown by £0.5 billion to £4.6 billion (April 4, 2018: £4.1 billion), equating to 11.7% growth, and credit quality has remained stable.

### Consumer banking gross balances

(Audited)	As at April 4, 2019		As at April 4 and April 5, 2018	
	(£ million)	%	(£ million)	%
Overdrawn current accounts	324	7	277	7
Personal loans	2,449	53	2,031	49
Credit cards	1,813	40	1,799	44
<b>Total consumer banking .....</b>	<b>4,586</b>	<b>100</b>	<b>4,107</b>	<b>100</b>

Following the transition to IFRS 9, all consumer banking loans continue to be classified and measured at amortized cost.

### Impairment losses for the year

(Audited)	2019	2018
	(IFRS 9 basis)	(IAS 39 basis)
	(£ million)	(£ million)
Overdrawn current accounts	9	15
Personal loans	38	36
Credit cards	67	46
<b>Total .....</b>	<b>114</b>	<b>97</b>

Note: Impairment losses represent the net amount charged through the profit and loss account rather than amounts written off during the year.

Impairment losses for the year reflect updates to the economic assumptions applied to provision calculations, which have led to a £23 million increase in provisions. The losses also include £13 million in recognition of the risk related to borrowers in persistent debt<sup>1</sup> in the credit card portfolio. As impairment provisions are calculated on a different basis under IFRS 9 from IAS 39, the losses shown above are not comparable between the year ended April 4, 2018 and the year ended April 4, 2019.

The following table shows consumer banking balances by stage, with the corresponding impairment provisions and resulting provision coverage ratios:

<b>Consumer banking product and staging analysis</b>								
	<b>As at April 4, 2019</b>				<b>As at April 5, 2018</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<i>(Audited)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>
<b>Gross balances</b>								
Overdrawn current accounts ....	187	100	37	324	149	94	34	277
Personal loans.....	2,140	186	123	2,449	1,803	116	112	2,031
Credit cards.....	1,211	475	127	1,813	1,312	365	122	1,799
<b>Total.....</b>	<b>3,538</b>	<b>761</b>	<b>287</b>	<b>4,586</b>	<b>3,264</b>	<b>575</b>	<b>268</b>	<b>4,107</b>
<b>Provisions</b>								
Overdrawn current accounts ....	2	18	33	53	2	23	30	55
Personal loans.....	11	22	107	140	10	18	96	124
Credit cards.....	14	92	119	225	13	62	111	186
<b>Total.....</b>	<b>27</b>	<b>132</b>	<b>259</b>	<b>418</b>	<b>25</b>	<b>103</b>	<b>237</b>	<b>365</b>
<b>Provisions as a % of total balance</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Overdrawn current accounts ....	1.30	17.42	89.92	16.37	1.34	24.19	90.52	19.97
Personal loans.....	0.53	12.11	86.57	5.74	0.57	15.16	86.31	6.11
Credit cards.....	1.12	19.33	93.61	12.38	12.38	17.09	90.64	10.36
<b>Total.....</b>	<b>0.77</b>	<b>17.32</b>	<b>90.12</b>	<b>9.11</b>	<b>9.11</b>	<b>17.86</b>	<b>88.45</b>	<b>8.90</b>

As at April 4, 2019, 77% (April 5, 2018: 79%) of the consumer banking portfolio is in stage 1. Over the year, consumer banking balances in stages 2 and 3 have increased, principally as a result of updating personal loan and credit card risk models for latest performance expectations and the recognition of the risks associated with persistent debt in the credit card portfolio, which resulted in balances moving from stage 1 to stage 2. In addition, changes in assumptions regarding the economic outlook have led to increased provisions, and therefore provision coverage, in the credit card portfolio. Further information is included in note 10 to the audited consolidated financial statements.

Consumer banking stage 3 gross balances and provisions include charged off balances. These are accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months) whilst recovery activities take place. Excluding these charged off balances and related provisions, the provision coverage ratio for the total portfolio is 5.0% as at April 4, 2019 (April 5, 2018: 4.8%).

<sup>1</sup> Borrowers are classified as being in persistent debt when they have paid more interest, fees and charges than capital over an 18-month period.

## **Results of Operations for the Year Ended April 4, 2018 Compared with the Year Ended April 4, 2017**

### ***Introduction***

We believe that our results indicate a strong performance for the year ended April 4, 2018 with an underlying profit before tax of £1,022 million, and a statutory profit before tax of £977 million.

Underlying profit before tax for the year ended April 4, 2018 is down 1% at £1,022 million from £1,030 million for the year ended April 4, 2017. Total underlying income decreased by 5% to £3,132 million in the year ended April 4, 2018, as compared to the year ended April 4, 2017.

Our financial performance for the year ended April 4, 2018 has statutory profit before tax down 7% year on year, although net interest income increased by 2%. The increase in net interest income was largely offset by a decrease in mortgage income, reflecting sustained competition in retail lending markets.

Nationwide experienced no cost growth in the year ended April 4, 2018, as a result of conscious decisions to focus on efficiency. Underlying administrative expenses remained flat (£1,979 million). The underlying cost income ratio has increased to 63.2% (April 4, 2017: 60.2%). At a statutory level, administrative expenses increased by 0.1% (£3 million).

Our cost trajectory reflects significant business growth and investment over recent years. Mortgage balances have grown 4% over the last year and we have 12% more main current accounts today than at the same time last year.

During the year ended April 4, 2018 employee costs increased by £7 million, reflecting an annual pay award averaging 9.5% and higher full year costs from enhancements made in the year ended April 4, 2017 to the defined contribution pension scheme in line with our commitment to provide a 'Living Pension'. Average employee numbers decreased by 1.1% year on year due to process and organisational simplification including the closure of operations that are not aligned to our core markets.

Notwithstanding the fact that cost growth in recent years is the result of conscious decisions to support the Society's strategy and the service provided to members, we recognize the need to improve efficiency, and that cost increases significantly ahead of inflation are not sustainable in the continuing low interest rate environment we face. We will continue our focus on operational efficiency, exploiting the benefits of past and ongoing investment while continuing to prioritize the needs of our members. We have launched an efficiency program which targets £300 million of sustainable cost savings to be delivered by 2022.

During the year we have made good progress with our efficiency program successfully reducing our cost base by £105 million, meaning that we are on course to achieve our target of realising £300 million of sustainable savings by 2022. As the program develops we will evolve our target of cost savings with a current expectation that this will increase.

During the period, investment has focused on service improvements for members, both in branch and through digital channels, including updating our savings point of sale systems to allow real time online account opening, delivery of in-house credit risk assessments for prime mortgages, upgrades to our Banking App for smartphones and tablets, and the roll out of further video links in branches which allow members greater flexibility to speak face to face with advisers in another location. We have also invested in IT resilience and ensuring compliance with U.K. and EU regulatory requirements.

Following a review of amounts capitalized for assets in use or in the course of development, asset write downs and depreciation charges of £141 million (April 4, 2017: £162 million) were recognized in the year due to adjustments to asset lives, reflecting the pace of change of technology and changing member needs. 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,  
2018**

	<b>Statutory profit</b>	<b>FSCS and bank levy</b>	<b>Transforma tion Costs</b> (£ million)	<b>Gain from derivatives and hedge accounting</b>	<b>Underlying profit</b>
Net interest income .....	3,011	-	-	-	3,011
Other income .....	121	-	-	-	121
Movements on derivatives and hedge accounting.....	(1)	-	-	(1)	-
<b>Total income.....</b>	<b>3,131</b>			<b>(1)</b>	<b>3,132</b>
Administrative expenses.....	(2,024)	(44)	-	-	(1,979)
<b>Pre-provision underlying profit....</b>	<b>1,108</b>	<b>44</b>	<b>-</b>	<b>(1)</b>	<b>1,153</b>
Impairment losses .....	(105)	-	-	-	(105)
Provisions for liabilities and charges	(25)	-	-	-	(26)
<b>Profit before tax .....</b>	<b>977</b>	<b>(44)</b>	<b>-</b>	<b>(1)</b>	<b>1,022</b>

**For the year ended April 4, 2017**

	<b>Statutory profit</b>	<b>FSCS and bank levy</b>	<b>Transforma tion Costs</b> (£ million)	<b>Losses from derivatives and hedge accounting</b>	<b>Underlying profit</b>
Net interest income .....	2,960	-	-	-	2,960
Other income .....	325	-	-	-	325
Movements on derivatives and hedge accounting.....	66	-	-	(66)	-
<b>Total income.....</b>	<b>3,351</b>	<b>-</b>	<b>-</b>	<b>(66)</b>	<b>3,285</b>
Administrative expenses.....	(2,021)	42	-	-	(1,979)
<b>Pre-provision underlying profit....</b>	<b>1,330</b>	<b>42</b>	<b>-</b>	<b>(66)</b>	<b>1,306</b>
Impairment losses .....	(140)	-	-	-	(140)
Provisions for liabilities and charges	(136)	-	-	-	(136)
<b>Profit before tax .....</b>	<b>1,054</b>	<b>42</b>	<b>-</b>	<b>(66)</b>	<b>1,030</b>

The following discussion considers our results for the year ended April 4, 2018 compared to our results for the year ended April 4, 2017:

**Total income**

Our total income decreased to £3,131 million in the year ended April 4, 2018 compared to £3,351 million in the year ended April 4, 2017. The following table sets forth the components of income for the years ended April 4, 2018 and 2017, respectively:

	<b>For the year ended April 4, 2018</b>	<b>For the year ended April 4, 2017</b>
	(£ million)	
Net interest income .....	3,011	2,960
Net fees and commissions .....	205	225
Income from investments .....	-	-
Other operating income .....	(84)	100
Gains/(losses) from derivatives and hedge accounting ..	(1)	66

	For the year ended April 4, 2018	For the year ended April 4, 2017
	(£ million)	
<b>Total</b> .....	<b>3,131</b>	<b>3,351</b>

#### *Net interest income*

Net interest income increased by 2% to £3,011 million for the year ended April 4, 2018 compared with £2,960 million for the year ended April 4, 2017 due to lower funding costs, which were offset by a decrease in mortgage income as a result of sustained competition in retail lending markets.

The following table sets forth the components of net interest income for the years ended April 4, 2018 and 2017, respectively:

	For the year ended April 4, 2018	For the year ended April 4, 2017
	(£ million)	
<b>Interest and similar income:</b>		
On residential mortgages .....	4,532	4,843
On other loans .....	798	774
On investment securities .....	201	372
On other liquid assets .....	95	59
Net expense on financial instruments hedging assets .....	(808)	(998)
<b>Total interest and similar income</b> .....	<b>4,818</b>	<b>5,050</b>
<b>Interest expense and similar charges:</b>		
On U.K. retail member deposits .....	(1,140)	(1,390)
On subscribed capital .....	(15)	(34)
<b>On deposits and other borrowings:</b>		
Subordinated liabilities .....	(175)	(128)
Other .....	(320)	(450)
Debt securities in issue .....	(712)	(767)
Net income on financial instruments hedging liabilities .....	563	684
Pension interest cost .....	(8)	(5)
<b>Total interest expense and similar charges</b> .....	<b>(1,807)</b>	<b>(2,090)</b>
<b>Net interest income</b> .....	<b>3,011</b>	<b>2,960</b>

#### *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 46% to £201 million for the year ended April 4, 2018, compared with £372 million for the year ended April 4, 2017.

#### *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, 2018, we incurred a net expense of £808 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £998 million in the year ended April 4, 2017.

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

The average interest rate that we paid to depositors decreased slightly to 0.76% for the year ended April 4, 2018 compared with 1.0% for the year ended April 4, 2017, which accounted for the majority of the decrease in interest paid. There was also an increase of 2.2% in the average balance of U.K. retail member deposits held to £146,297 million in the year ended April 4, 2018 from £143,208 million in the year ended April 4, 2017.

Thanks to a combination of strong growth and good retention, our market share of main standard and packaged current accounts rose to 7.9% as at April 4, 2018, an increase from 7.6% as at April 4, 2017. A record 816,000 (year ended April 4, 2017: 795,000) Nationwide current accounts were opened during the year ended April 4, 2018, which accounts for 16% of all new current accounts in the U.K. opened during the year ended April 4, 2018.

### ***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, 2018, interest on subordinated liabilities increased to £175 million from £128 million in the year ended April 4, 2017. Average balances increased to £4,219 million in the year ended April 4, 2018 from £2,477 million in the year ended April 4, 2017.

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, 2018, other interest expense on deposits and other borrowings decreased by 29% to £320 million from £450 million in the year ended April 4, 2017. This decrease includes an expense of £210 million (April 4, 2017: £327 million) in relation to the redemption and maturity of PEB deposits which have returns linked to the performance of specified stock market indices. The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities includes income of £206 million (April 4, 2017: £308 million) in relation to the associated derivatives.

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

Debt securities in issue include interest that we pay on certificates of deposit, time deposits, commercial paper, covered bonds, medium-term notes and securitizations. In the year ended April 4, 2018, interest expense on debt securities in issue decreased by 7% to £712 million from £767 million in the year ended April 4, 2017.

### ***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, 2018, net income on financial instruments used to hedge our fixed rate liabilities was £563 million, compared with a net income of £684 million in the year ended April 4, 2017.

### ***Net fees and commissions***

The following table sets forth the components of net fees and commissions for the years ended April 4, 2018 and 2017 respectively:

	<b>For the year ended April 4, 2018</b>			<b>For the year ended April 4, 2017</b>		
	<b>Income</b>	<b>Expense</b>	<b>Net</b>	<b>Income</b>	<b>Expense</b>	<b>Net</b>
			(£ million)			
Current account and savings .....	246	(187)	59	229	(156)	73
General insurance .....	76	-	76	81	-	81

	For the year ended April 4, 2018			For the year ended April 4, 2017		
	Income	Expense	Net	Income	Expense	Net
	<i>(£ million)</i>					
Protection and investments .....	65	-	65	78	-	78
Mortgage.....	16	(2)	14	10	-	10
Credit card .....	42	(45)	(3)	37	(42)	(5)
Other fees and commissions .....	4	(10)	(6)	11	(23)	(12)
<b>Fee and commission.....</b>	<b>449</b>	<b>244</b>	<b>205</b>	<b>446</b>	<b>(221)</b>	<b>225</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, 2018, net fees and commissions decreased by 9% to £205 million compared with £225 million in the year ended April 4, 2017, principally reflecting movements in net Current Account fees and commissions (£14 million lower in the year ended April 4, 2018) and protection and insurance fees and commissions (£13 million lower in the year ended April 4, 2018).

#### *Other operating income*

In the year ended April 4, 2018, other operating income was nil (with an operating expense of £84 million) compared with £100 million in the year ended April 4, 2017.

#### *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 U.K. 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 £1 million in the year ended April 4, 2018 compared to gains of £66 million in the year ended April 4, 2017. 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 loss of £1 million (April 4, 2017: gain of £66 million) was the impact of the following:

- Losses of £86 million (April 4, 2017: gains of £61 million) from fair value hedge accounting. This includes losses of £42 million (April 4, 2017: gains of £47 million) from macro hedges, due to hedge ineffectiveness and the amortization of existing balance sheet amounts. In addition, further losses of £44 million relate to micro hedges (April 4, 2017: gains of £14 million) due to a combination of hedge ineffectiveness, maturities and disposals.



- Gains of £50 million (April 4, 2017: losses of £8 million) relating to the mortgage pipeline. The income statement includes the full fair value movement of forward starting interest rate swaps economically hedging the pipeline; however Nationwide only elects to fair value certain underlying mortgage business within the pipeline.
- Gains of £5 million (April 4, 2017: losses of £19 million) from valuation adjustments and volatility on other derivatives which are not currently in an IAS 39 hedge accounting relationship.
- Gains of £13 million (April 4, 2017: £20 million) from the retranslation of foreign currency monetary items not subject to effective hedge accounting, against a backdrop of significant sterling depreciation.

### *Operating expenses and similar charges*

Operating expenses and similar charges decreased in the year ended April 4, 2018 to £2,154 million compared to £2,297 million in the year ended April 4, 2017. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2018 and 2017, respectively:

	<b>For the year ended April 4, 2018</b>	<b>For the year ended April 4, 2017</b>
	<i>(£ million)</i>	
Administrative expenses.....	1,627	1,625
Depreciation and amortization.....	397	396
Impairment losses on loans and advances to customers .....	107	131
Provisions for liabilities and charges .....	25	136
Impairment (recoveries)/losses on investment securities.....	(2)	9
<b>Total</b> .....	<b>2,154</b>	<b>2,297</b>

### *Administrative expenses*

Administrative expenses increased by 0.1% in the year ended April 4, 2018 to £1,627 million from £1,625 million in the year ended April 4, 2017 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 years ended April 4, 2018 and 2017, respectively:

	<b>For the year ended April 4, 2018</b>	<b>For the year ended April 4, 2017</b>
	<i>(£ million)</i>	
Employee costs:		
Salaries, bonuses and social security costs .....	651	656
Pension costs .....	173	137
Other administrative expenses.....	803	832
<b>Total</b> .....	<b>1,627</b>	<b>1,625</b>

Employee costs are made up of salaries, bonuses social security costs (which consist entirely of mandatory U.K. 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, 2018, salaries, bonuses and social security costs decreased by 1% to £651 million from £656 million in the year ended April 4, 2017. Within employee costs, the pension charge increased by 26% to £173 million for the year ended April 4, 2018 from £137 million in the year ended April 4, 2017, primarily due to an increase in defined benefit scheme costs as a result of market conditions.

Other administrative costs decreased by 3% to £803 million for the year ended April 4, 2018 from £832 million for the year ended April 4, 2017.

The cost income ratio has deteriorated on an underlying basis to 63.2% (April 4, 2017: 60.2%) and on a statutory basis to 64.6% (April 4, 2017: 60.3%) as a result of the growth in administrative expenses described above, which reflects our focus on improving product propositions and services for members whilst remaining strong, safe and secure.

#### *Depreciation and amortization*

For the year ended April 4, 2018 depreciation and amortization expenses remained flat at £397 million as a consequence of strategic investment in the business.

#### *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, 2018 decreased by 18% to £107 million from £131 million for the year ended April 4, 2017,

The following table analyses the impairment losses on loans and advances to customers for the years ended April 4, 2018 and 2017, respectively:

	<b>For the year ended April 4, 2018</b>	<b>For the year ended April 4, 2017</b>
	<i>(£ million)</i>	
Residential lending .....	11	58
Consumer banking .....	97	78
<b>Retail lending</b>	<b>108</b>	<b>136</b>
Commercial and other lending	(1)	(5)
<b>Impairment losses on loans and advances</b>	<b>107</b>	<b>131</b>
Impairment (reversals)/losses on investment securities.....	(2)	9
<b>Total .....</b>	<b>105</b>	<b>140</b>

Impairment losses have decreased by £35 million to £105 million (2017: £140 million). This reduction reflects a prior year charge of £52 million in relation to enhancements to our provisioning methodology primarily in relation to the credit risks associated with maturing interest only loans. This has been partially offset by the impact of updating provision assumptions to reflect current economic conditions. Delinquency levels have remained low across portfolios during the period, although there is some limited evidence of affordability pressures increasing after a period when inflation has exceeded wage growth.

#### *Provisions for liabilities and charges*

<b>For the year ended April 4, 2018</b>	<b>For the year ended April 4, 2017</b>
---	---

	(£ million)	
FSCS .....	(1)	-
Customer redress provision .....	26	136
<b>Total .....</b>	<b>25</b>	<b>136</b>

The income statement charge for provisions for liabilities and charges of £25 million (2017: £136 million) includes the customer redress net income statement charge of £26 million (2017: £136 million), and the FSCS release of £1 million (2017: £nil).

We hold provisions for customer redress to cover the 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 requirements. The charge for the year primarily relates to customer redress provisions recognized in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of our PPI provision we have considered the implications of the guidance published by the Financial Conduct Authority (“FCA”) in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

#### *Taxes*

The statutory reported tax charge for the year of £232 million in the year ended April 4, 2018 (April 4, 2017: £297 million charge) represents an effective tax rate of 24% which is higher than the statutory rate in the U.K. of 20%. The higher effective rate is due principally to the banking surcharge of 8% effective from January 1, 2016, equivalent to £43 million (April 4, 2017: £62 million charge), together with the tax effect of disallowable bank levy and customer redress costs of £8 million and nil (April 4, 2017: £8 million and £19 million) respectively.

This resulted in an overall statutory tax charge for the year ended April 4, 2018 of £232 million (April 4, 2017: £297 million) as set out in the table below:

	<b>For the year ended April 4, 2018</b>	<b>For the year ended April 4, 2017</b>
	(£ million)	
Charge on profits for the year .....	234	299
Adjustment in respect of prior years .....	2	-
Effect of corporation tax rate change .....	-	(2)
Effect of banking surcharge on deferred tax balances .....	(4)	-
<b>Statutory tax charge .....</b>	<b>232</b>	<b>297</b>

#### *Balance Sheet Review*

Weighted average total assets grew by 3%, from £223 billion as at April 4, 2017 to £230 billion as at April 4, 2018, with growth in retail lending and treasury balances, offset by a small reduction in commercial lending balances.

#### *Loans and advances to customers*

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 92.9% of our total loans and advances to customers at April 4, 2018. This is an increase from 91.9% as at April 4, 2017, reflecting our strategy of exiting non-core commercial lending:

	<b>As at April 4, 2018</b>		<b>As at April 4, 2017</b>	
	<i>(£ million, except percentages)</i>			
Prime residential mortgages .....	144,013	75.5%	137,970	74.2%
Specialist residential mortgages .....	33,141	17.4%	33,149	17.8%

	As at April 4, 2018		As at April 4, 2017	
	<i>(£ million, except percentages)</i>			
<b>Total residential mortgages .....</b>	<b>177,154</b>	<b>92.9%</b>	<b>171,119</b>	<b>91.9%</b>
Commercial lending .....	9,658	5.1%	11,202	6.0%
Consumer banking .....	3,809	2.0%	3,680	2.0%
<b>Gross balances .....</b>	<b>190,621</b>	<b>100.0%</b>	<b>186,001</b>	<b>100.0%</b>
Fair value adjustments for micro hedged risk.....	1,043		1,370	
<b>Total.....</b>	<b>191,664</b>		<b>187,371</b>	

### Residential mortgage portfolio

Residential mortgages include prime and specialist loans, with new lending in the specialist portfolio comprised entirely of BTL lending. Gross mortgage lending in the period was £33.0 billion (April 4, 2017: £33.7 billion), representing a market share of 12.8% (April 4, 2017: 14.0%).

Mortgage balances grew by £6.0 billion in the year ended April 4, 2018, all of which was related to prime lending with specialist mortgages remaining unchanged.

The average LTV of new lending in the period, weighted by value, remained at 71% (April 4, 2017: 71%) primarily due to our strategy to increase lending to the first time buyer market as we recognize the importance of helping people take their initial steps onto the housing ladder. Modest house price growth has resulted in the average LTV of our portfolio increasing to 56% (April 4, 2017: 55%). Residential mortgage arrears have decreased to 0.43% (April 4, 2017: 0.45%).

Non-performing balances have increased by £27 million to £2,721 million (April 4, 2017: £2,694 million), with particular improvement in those balances past due up to three months. The impairment provision balance has increased to £145 million (April 4, 2017: £144 million). This increase in provisions reflects an update to our credit loss provisioning methodology and assumptions to ensure that provisions appropriately reflect incurred losses within the portfolio. This update included focusing on the credit risk associated with maturing interest only loans and the period for evidence of impairment losses to emerge on up to date loans. Impairment provisions as a percentage of non-performing balances remained at 5.3% (April 4, 2017: 5.3%).

The growth of the BTL portfolio has slowed following a decision taken in May 2016 to increase the minimum interest cover ratio for new lending from 125% to 145% and reduce the maximum LTV from 80% to 75%. Despite the anticipated impact of this decision on BTL portfolio growth, these steps were taken in response to forthcoming income tax changes which will materially affect cash flow and affordability for some landlords.

	As at April 4, 2018	As at April 4, 2017
	<i>(percentages)</i>	
<b>LTV distribution of residential mortgages:</b>		
0% - 60% .....	26	26
60% - 75% .....	30	31
75% - 80% .....	9	9
80% - 85% .....	14	14
85% - 90% .....	18	17
90% - 95% .....	3	3
>95% .....	-	-
<b>Total</b> .....	<b>100</b>	<b>100</b>
 Average loan to value of stock .....	 56	 55

	As at April 4, 2018	As at April 4, 2017
	<i>(percentages)</i>	
Average loan to value of new business.....	71	71
<b>New business profile:</b>		
First-time buyers.....	38	36
Home movers.....	29	30
Remortgagers.....	21	19
BTL .....	11	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 April 4, 2018 were £145 million, compared with £144 million at April 4, 2017.

	As at April 4, 2018	As at April 4, 2017
<b>Cases three months or more in arrears as% of total book of residential mortgages</b>	<i>(percentages)</i>	
Prime .....	0.34	0.36
Specialist.....	0.83	0.89
<b>Total Group residential mortgages</b> .....	<b>0.43</b>	<b>0.45</b>
<b>CML industry average</b> .....	<b>0.81</b>	<b>0.91</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 0.45% compares favourably with the CML industry average of 0.81% (April 4, 2017: 0.91% as reported by CML).

The table below shows possessions as a percentage of our total residential mortgages as at April 4, 2018 and April 4, 2017:

	As at April 4, 2018	As at April 4, 2017
<b>Possessions as% of total residential mortgages (number of properties)</b>	<i>(percentages)</i>	
Prime .....	0.01	0.01
Specialist.....	0.05	0.05
<b>Total Group residential mortgages</b> .....	<b>0.02</b>	<b>0.01</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, 2018, the properties taken into possession increased to 258, representing only 0.02% of our book compared to the industry average of 0.03% (source: CML).

The table below provides further information on the residential mortgage portfolio by payment due status as at April 4, 2018 and April 4, 2017:

	As at April 4, 2018				As at April 4, 2017			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
	<i>(£ billion, except percentages)</i>							
<b>Not impaired:</b>								
Neither past due nor impaired .....	142.4	32.2	174.6	98.5	136.4	32.2	168.6	98.4%
Past due up to 3 months but not impaired .....	1.3	0.7	2.0	1.1	1.3	0.7	2.0	1.1%
Impaired .....	0.3	0.4	0.7	0.4	0.3	0.4	0.7	0.5%
<b>Total .....</b>	<b>144.0</b>	<b>33.3</b>	<b>177.3</b>	<b>100.0</b>	<b>138.0</b>	<b>33.3</b>	<b>171.3</b>	<b>100.0%</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, 2018				As at April 4, 2017			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
	<i>(£ million, except percentages)</i>							
<b>Impaired status:</b>								
Past due 3 to 6 months .....	162	159	321	44	156	173	329	43%
Past due 6 to 12 months .....	113	110	223	30	117	118	235	30%
Past due over 12 months .....	89	76	165	22	91	91	182	24%
Litigation (past term interest only).....	1	1	2	-	-	1	1	-
Possessions .....	8	23	31	4	8	18	26	3%
<b>Total .....</b>	<b>373</b>	<b>369</b>	<b>742</b>	<b>100</b>	<b>372</b>	<b>401</b>	<b>773</b>	<b>100%</b>

### For residential mortgage loans

Residential mortgages subject to forbearance at April 4, 2018 were £1,043 million compared to £1,094 million at April 4, 2017.

<b>Balances subject to forbearance 2018</b>	<b>Prime</b>	<b>Specialist</b>	<b>Total</b>
	<i>(£ millions)</i>		
Past term interest only concessions .....	147	136	283
Interest only concessions .....	512	66	578
Capitalization.....	45	59	104
Term extensions (within term).....	35	14	49
Permanent interest only conversions .....	5	24	29
<b>Total forbearance .....</b>	<b>744</b>	<b>299</b>	<b>1,043</b>
<b>Impairment provision on forborne loans....</b>	<b>8</b>	<b>9</b>	<b>17</b>

<b>Balances subject to forbearance 2017</b>	<b>Prime</b>	<b>Specialist</b>	<b>Total</b>
		<i>(£ millions)</i>	
Past term interest only concessions .....	154	141	295
Interest only concessions.....	501	70	571
Capitalization .....	59	72	131
Term extensions (within term) .....	42	16	58
Permanent interest only conversions.....	6	33	39
<b>Total forbearance .....</b>	<b>762</b>	<b>332</b>	<b>1,094</b>
<b>Impairment provision on forborne loans ..</b>	<b>7</b>	<b>11</b>	<b>18</b>

Note:

Loans where more than one concession event has occurred are reported under the latest event.

The balances outlined above apply to the prime residential mortgage portfolio. The table below show outstanding loans as at April 4, in each of 2018 and 2017 that are subject to forbearance in alignment with European Banking Authority definitions.

	<b>As at April 4,</b>			
	<b>2018</b>		<b>2017</b>	
	<i>(£ millions)</i>	<i>(% of total prime loans and advances)</i>	<i>(£ millions)</i>	<i>(% of total prime loans and advances)</i>
Past term interest only concessions .....	283	27.1%	295	27.0%
Interest only concessions .....	578	55.4%	571	52.2%
Capitalization.....	104	10.0%	131	12.0%
Term extensions (within term).....	49	4.7%	58	5.3%
Permanent interest only conversions .....	29	2.8%	39	3.6%
<b>Total forbearance .....</b>	<b>1,043</b>	<b>100.0%</b>	<b>1,094</b>	<b>100.0%</b>

The following table presents negative equity on residential mortgages:

	<b>As at April 4, 2018</b>		<b>As at April 4, 2017</b>	
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Prime lending</b>	<b>Specialist lending</b>
		<i>(£ million)</i>		
Past due but not impaired .....	1	2	1	3
Impaired.....	-	3	1	5
Possessions .....	-	1	-	1
<b>Total.....</b>	<b>1</b>	<b>6</b>	<b>2</b>	<b>9</b>

#### For commercial loans

Forbearance in the commercial portfolios is recorded and reported at borrower level and applies to all commercial lending including impaired exposures and customers subject to enforcement and recovery action. Impairment provisions on forborne loans are calculated on an individual borrower basis.

The table below provides details of the commercial loans which are subject to forbearance as at April 4, 2018 and 2017.

As at April 4,		
	2018	2017
	(£ millions)	
Refinance .....	78	34
Modifications:		
Interest concession .....		1
Capital concession .....	50	50
Security amendment .....	9	56
Extension at maturity .....	42	126
Breach of covenant .....	139	80
<b>Total</b> .....	<b>318</b>	<b>347</b>
Impairment provision on forborne loans .....	10	17

Note:

Loans where more than one concession event has occurred are reported under the latest event.

Consistent with the European Banking Authority reporting definitions, loans that meet the forbearance exit criteria are not reported as forborne.

Overall, the CRE exposures currently subject to forbearance have reduced to £318 million as at April 4, 2018, from £347 million as at April 4, 2017, principally as a result of the controlled exit from non-core, higher risk loans, and represented 17% of CRE loan balances as at April 4, 2018 (compared to 14% as at April 4, 2017). Of the CRE exposure currently subject to forbearance, £104 million (2017: £nil) relate to PFI cases and £nil (2017: £nil) to RSL cases as at April 4, 2018.

#### For consumer loans

The table below provides details of the consumer banking exposures which are subject to forbearance as at April 4, 2018 and April 4, 2017.

	Overdrawn current accounts	Personal loans	Credit cards	Total
	(£ millions)			
<b>2018</b>				
Payment concession .....	18	-	2	20
Interest suppressed payment arrangement .....	6	32	16	54
Balances re-aged/re-written .....	-	-	4	4
<b>Total forbearance</b> .....	<b>24</b>	<b>32</b>	<b>22</b>	<b>78</b>
Impairment provision on forborne loans .....	3	26	14	43
<b>2017</b>				
Payment concession .....	17	-	2	19
Interest suppressed payment arrangement .....	5	29	18	52
Balances re-aged/re-written .....	-	-	5	5
<b>Total forbearance</b> .....	<b>22</b>	<b>29</b>	<b>25</b>	<b>76</b>
Impairment provision on forborne loans .....	3	24	16	43

Note:

Where more than one concession event has occurred, exposures are reported under the latest event.

#### Commercial loan portfolio

Our commercial lending portfolio of £9.6 billion as at April 4, 2018 (April 4, 2017: £11.2 billion) comprises £1.9 billion secured on CRE (April 4, 2017: £2.6 billion), £6.8 billion advanced to RSL (April 4,



2017: £7.5 billion) and £0.9 billion advanced under Project Finance, principally via the PFI (April 4, 2017: £1.1 billion). Our CRE 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 CRE loans amounted to £30 million as at April 4, 2018 (April 4, 2017: £45 million) and provisions held against the portfolio amounted to £15 million (April 4, 2017: £25 million) representing a coverage ratio of 50% (April 4, 2017: 56%).

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

	As at April 4, 2018	As at April 4, 2017
	<i>(£ million, except percentages)</i>	
<b>Gross balances</b>	1,868	2,568
Impaired balances .....	30	45
Impaired balances as a% of gross balances .....	2%	2%
<b>Commercial provisions:</b>		
Total provisions .....	15	25
<b>Provision coverage ratios:</b>		
Total provisions as a% of total gross balances .....	1%	1%

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amounted to £23 million (77% of impaired balances) as at April 4, 2018 and £32 million (71% of impaired balances) as at April 4, 2017. There are no cases classified as impaired or with payment arrears in our RSL or PFI portfolios.

The improved CRE market conditions, including increased liquidity and capital values, have resulted in a net impairment reversal of £1 million.

### Other operations loan portfolio

The total other lending portfolio of £79 million as at April 4, 2018 (April 4, 2017: £17 million) represents 0.7% (April 4, 2017: 0.01%) of the Group's loans and advances to customers. The portfolio primarily consists of secured loans relating to a European commercial loan facility which is held by one of the Group's subsidiaries, Cromarty CLO Ltd ("Cromarty"). The portfolio has reduced during the year through ongoing loan maturities and amortization and remains in run-off.

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

	As at April 4, 2018				As at April 4, 2017			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired	1.8	97%	0.1	100%	2.5	96%	-	-
Past due up to 3 months but not impaired	-	1%	-	-	-	-	-	-
Impaired	0.1	2%	-	-	0.1	4%	-	-
<b>Total</b>	<b>1.9</b>	<b>100%</b>	<b>0.1</b>	<b>100%</b>	<b>2.6</b>	<b>100%</b>	<b>-</b>	<b>-</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 as at April 4, 2018 were nil (April 4, 2017: nil).

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

	As at April 4, 2018				As at April 4, 2017			
	Commercial		Other operations		Commercial		Other operations	
	(£ million, except percentages)							
Impaired status:								
Past due 0 to 3 months.....	6	20%	-	-	24	53%	-	-
Past due 3 to 6 months.....	11	37%	-	-	1	2%	-	-
Past due 6 to 12 months.....	1	3%	-	-	3	7%	-	-
Past due over 12 months.....	12	40	-	-	17	38%	-	-
Possessions .....	-	-	-	-	-	-	-	-
Total.....	30	100%	-	-	45	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.

Our valuation policy 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. The table below represents a breakdown of CRE lending balances by LTV and their share in the total CRE loans as at April 4, 2018 and 2017.

	As at April 4, 2018	As at April 4, 2017
	<i>(£ million, except percentages)</i>	

(unaudited)

**Performing loans**

Fully collateralized

LTV ratio:

less than 25% .....	311		274	
25% to 50% .....	932		1,239	
51% to 75% .....	519		893	
76 to 90% .....	49		71	
91% to 100% .....	4		10	
<b>Total</b> .....	<b>1,815</b>	<b>97%</b>	<b>2,487</b>	<b>97%</b>

Partially collateralized

More than 100% (A) .....	1		7	
Collateral value of (A) .....	-		4	
Negative equity on (A) .....	1		3	
<b>Total performing loans</b> .....	<b>1,816</b>	<b>97%</b>	<b>2,494</b>	<b>97%</b>

**Non-performing loans**

Fully collateralized

LTV ratio:

less than 25% .....	3		1	
25% to 50% .....	15		14	
51% to 75% .....	15		13	
76 to 90% .....	6		3	
91% to 100% .....	-		10	
<b>Total</b> .....	<b>39</b>	<b>2%</b>	<b>41</b>	<b>2%</b>

Partially collateralized

More than 100% (A) .....	13		33	
Collateral value of (A) .....	7		20	
Negative equity of (A) .....	6		13	
<b>Total non-performing loans</b> .....	<b>52</b>	<b>3%</b>	<b>74</b>	<b>3%</b>
<b>Total CRE loans</b> .....	<b>1,868</b>	<b>100%</b>	<b>2,568</b>	<b>100%</b>

The overall proportion of partially collateralized non-performing loans has reduced to 0.7% in the year ended April 4, 2018 (April 4, 2017: 1.3%) and the shortfall on collateral for non-performing CRE loans has reduced by £7 million during the year ended April 4, 2018 to £6 million (April 4, 2017: £13 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, 2018</b>	<b>As at April 4, 2017</b>
	<i>(£ million)</i>	
Past due but not impaired .....	3	4
Impaired .....	3	6
Possessions .....	1	1
<b>Total</b> .....	<b>7</b>	<b>11</b>

## Consumer banking

Consumer banking comprises personal loans of £2.0 billion (April 4, 2017: £2.0 billion), credit cards of £1.8 billion (April 4, 2017: £1.7 billion) and current account overdrafts of £0.3 billion (April 4, 2017: £0.2 billion). The asset quality of the portfolio remains strong, benefiting from proactive risk management practices and continued low interest rates.

	<b>As at April 4, 2018</b>	
	<b>Delinquent balances</b>	<b>Balances before provisions</b>
	<i>(£ million)</i>	
FlexAccount (overdraft balances) .....	42	277
Personal loans .....	149	2,031
Credit cards.....	143	1,799
<b>Total</b> .....	<b>334</b>	<b>4,107</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, 2018</b>	<b>As at April 4, 2017</b>
	<i>(percentages)</i>	
FlexAccount (overdraft balances).....	8.6	8.9
Personal loans .....	4.1	3.9
Credit cards.....	2.7	2.6

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.

	<b>As at April 4, 2018</b>		<b>As at April 4, 2017</b>	
	<b>Consumer banking</b>	<b>%</b>	<b>Consumer banking</b>	<b>%</b>
	<i>(£ billion, except percentages)</i>			
Neither past due nor impaired.....	3.8	92%	3.6	92%
Past due up to 3 months but not impaired.....	0.1	2%	0.1	4%
Impaired.....	0.0	1%	-	-
Charged off <sup>(1)</sup> .....	0.2	5%	0.2	4%
<b>Total</b> .....	<b>4.1</b>	<b>100%</b>	<b>3.9</b>	<b>100%</b>

Note:

- (1) Charged off balances are balances on accounts which are closed to future transactions and are held on the balance sheet for an extended period up to 36 months, depending upon the product whilst recovery procedures take place.

Impaired loans are broken down further in the following table:

<b>As at April 4, 2018</b>	<b>As at April 4, 2017</b>
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	<b>Consumer banking</b>	<b>%</b>	<b>Consumer banking</b>	<b>%</b>
	<i>(£ million, except percentages)</i>			
<b>Impaired status:</b>				
Past due 3 to 6 months .....	28	46%	26	44%
Past due 6 to 12 months .....	17	28%	16	27%
Past due over 12 months .....	16	26%	17	29%
Possessions .....			-	-
<b>Total .....</b>	<b>61</b>	<b>100%</b>	<b>59</b>	<b>100%</b>

### 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 in the tables below:

#### As at April 4, 2019

	<b>Belgium</b>	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Netherlands</b>	<b>Spain</b>	<b>Total Eurozone</b>	<b>USA</b>	<b>Rest of the world</b>	<b>Total</b>
Government bonds.....	208	244	185	673	178	-	1,488	2,642	140	4,270
Mortgage backed securities .....	-	-	-	-	255	-	255	-	-	255
Covered bonds .....	-	24	-	15	-	-	39	-	455	494
Supra-national bonds.....	-	-	-	-	-	-	-	-	725	725
Loans to banks .....	-	-	24	190	-	18	232	265	60	557
Other corporate .....	-	-	-	-	-	-	-	-	-	-
Other assets....	-	-	33	132	-	-	165	59	-	224
<b>Total .....</b>	<b>108</b>	<b>268</b>	<b>242</b>	<b>1,010</b>	<b>433</b>	<b>18</b>	<b>2,179</b>	<b>2,966</b>	<b>1,380</b>	<b>6,525</b>

#### As at April 4, 2018

	<b>Austria</b>	<b>Belgium</b>	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Ireland</b>	<b>Netherlands</b>	<b>Total Eurozone</b>	<b>USA</b>	<b>Rest of the world</b>	<b>Total</b>
	<i>(£ million, audited)</i>										
Cash .....	-	-	-	-	-	-	-	-	-	-	-
Government bonds.....	66	44	267	-	627	-	335	1,339	441	-	1,780
Mortgage backed securities .....	-	-	-	-	-	-	263	263	-	-	263
Covered bonds .....	-	-	24	-	-	-	-	24	-	472	496
Supra-national bonds.....	-	-	-	-	-	-	-	-	-	656	656
Loans to banks .....	-	-	-	156	119	1	-	276	215	63	554
Other corporate .....	-	-	-	-	-	-	-	-	-	-	-
Other assets....	-	-	-	36	132	-	-	168	41	-	209

<b>Total.....</b>	<b>66</b>	<b>44</b>	<b>291</b>	<b>192</b>	<b>878</b>	<b>1</b>	<b>598</b>	<b>2,070</b>	<b>697</b>	<b>1,191</b>	<b>3,958</b>
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**As at April 4, 2017**

	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Ireland</b>	<b>Italy</b>	<b>Netherlands</b>	<b>Total Eurozone</b>	<b>USA</b>	<b>Rest of the world</b>	<b>Total</b>
<i>(£ million, audited)</i>										
Cash.....	-	-	-	1,258	-	-	1,258	16	-	1,274
Government bonds.....	218	-	484	-	-	153	855	600	-	1,455
Mortgage backed securities .....	-	-	-	-	-	366	366	7	-	373
Covered bonds	24	31	-	-	-	-	55	-	400	455
Supra-national bonds.....	-	-	-	-	-	-	-	-	459	459
Loans to banks	-	-	44	27	-	-	71	474	232	777
Other corporate .....	-	1	-	-	3	-	4	-	-	4
Other assets....	-	54	43	-	-	-	97	182	-	279
<b>Total.....</b>	<b>242</b>	<b>86</b>	<b>571</b>	<b>1,285</b>	<b>3</b>	<b>519</b>	<b>2,706</b>	<b>1,279</b>	<b>1,091</b>	<b>5,076</b>

Note:

(1) Rest of world exposure is to Australia, Canada, Denmark, Norway, Sweden and Switzerland.

We remain active in the above Eurozone jurisdictions and in the USA. The above balances are affected by asset pay downs, plus fair value and exchange rate movements. Movements in our exposure to peripheral Eurozone countries between the years ended April 4, 2017 and 2018 relate to disposals, maturities and fair value movements and there has been no new investment in the current financial year.

None of our exposures detailed in the tables above were in default as at April 4, 2018, and we did not incur any impairment on these assets in the year ended April 4, 2018. We continue to monitor closely the exposures to these countries.

## **Funding and Liquidity**

### ***Funding strategy***

Our strategy is to remain predominantly retail funded; retail customer loans and advances are therefore largely funded by customer deposits. Non-retail lending, including treasury assets and commercial customer loans, are largely funded by wholesale debt, as set out below.

	<b>As at April 4,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<i>(£ billion)</i>			
<b>Liabilities:</b>			
Retail funding .....	154	148	147
Wholesale funding .....	61	59	56
Capital and reserves .....	20	18	14
Other .....	3	4	5
<b>Total.....</b>	<b>238</b>	<b>229</b>	<b>222</b>
<b>Assets:</b>			
Retail mortgages .....	186	177	171
Treasury (including liquidity portfolio) .....	33	31	25
Other lending .....	4	4	4

	As at April 4,		
	2019	2018	2017
		(£ billion)	
Commercial/other lending .....	9	11	13
Other assets.....	6	6	9
<b>Total.....</b>	<b>238</b>	<b>229</b>	<b>222</b>

Our management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid assets, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable us to meet financial obligations as they fall due, even during episodes of stress. This is achieved through the management and stress testing of business cash flows and through translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high quality liquid assets and appropriate encumbrance levels are maintained.

We continue to maintain sufficient liquid assets, in terms of both amount and quality, to meet daily cash flow needs as well as stressed requirements driven by internal and regulatory liquidity assessments. The composition of the liquid asset buffer (which includes both the on-balance sheet liquidity and investments and excludes encumbered assets) is subject to limits, set by the Board and the Assets and Liabilities Committee (“ALCO”), in relation to issuer, currency and asset type. The liquid asset buffer predominately comprises:

- reserves held at central banks; and
- highly rated debt securities issued by a restricted range of governments, central banks and supranationals.

We also hold a portfolio of other high quality, central bank eligible, covered bonds, RMBS and asset backed securities. Other securities are held that are not eligible for central bank operations but can be monetized through repurchase agreements with third parties or through sale.

For contingent purposes, unencumbered mortgage assets are pre-positioned at the BoE which can be used in the BoE’s liquidity operations if market liquidity is severely disrupted.

TFS was a scheme launched by the BoE in August 2016 within a package of monetary stimulus measures, with the purpose of encouraging lending institutions to pass on base rate cuts, by providing an efficient source of funding. It closed on February 28, 2018, and as of April 4, 2019, Nationwide had TFS drawings of £17 billion.

During the year ended April 4, 2019, the CET1 ratio increased to 32.4% (April 5, 2018: 30.4%) as a result of an increase in CET1 capital resources, with RWAs remaining relatively stable. CET1 capital resources have increased by £0.6 billion, primarily due to the profit after tax for the year of £0.6 billion. RWAs remained stable with increased retail lending and treasury related RWAs offset by run-off in the commercial book and the implementation of a new credit card IRB model.

## 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.*” 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”).

The LCR became a binding standard in the EU on October 1, 2015, although implementation was phased such that the LCR was increased in stages from 60% at October 1, 2015 to reach 100% from January 1, 2018. In November 2016, the European Commission published draft amendments to the CRR, including its proposed implementation of the NSFR in the EU, with the NSFR intended to become a binding standard two years after the European legislation is finalized. Political agreement has now been reached on the draft text. For further information, please refer to the section entitled “*Supervision and Regulation – European Union Legislation*”.

Nationwide monitors its liquidity position relative to internal risk appetite and the regulatory short-term liquidity stress metric, the LCR. Our LCR at April 4, 2019 was 150.2% (April 4, 2018: 130.3%), which represents a surplus to the U.K. regulatory minimum requirement of 100%.

Nationwide also monitors its position against the future longer-term funding metric, the NSFR. Based on current interpretations of expected European regulatory requirements and guidance, our NSFR at April 4, 2019 was 130.5% (April 4, 2018: 131.0%) which exceeds the expected 100% minimum future requirement.

### 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 April 4, 2019		As at April 4, 2018	
	<i>(£ billion, except percentages)</i>			
Repos .....	0.8	1%	0.9	2%
Deposits .....	7.3	12%	6.8	12%
Certificates of deposit.....	4.8	8%	4.3	7%
Commercial paper.....	3.2	5%	1.0	2%
Covered bonds .....	16.8	28%	15.3	26%
Medium-term notes.....	7.5	12%	9.0	15%
Securitizations .....	3.0	5%	3.7	6%
Term Funding Scheme.....	17.0	28%	17.0	29%
Other.....	0.8	1%	0.8	1%
<b>Total.....</b>	<b>61.2</b>	<b>100%</b>	<b>58.8</b>	<b>100%</b>

The table below sets out an analysis of the currency composition of our wholesale funding as at April 4, 2019:

	As at April 4, 2019				
	USD	EUR	GBP	Other	Total
	(£ billion)				
Repos .....	0.4	0.3	0.1	-	0.8
Deposits (including PEB balances) .....	6.0	1.2	0.1	-	7.3
Certificate of deposit .....	3.2	1.1	0.5	-	4.8
Commercial paper.....	-	0.3	2.9	-	3.2
Covered bonds .....	3.8	12.9	-	0.1	16.8
Medium term notes .....	2.0	3.0	1.9	0.6	7.5
Securitizations .....	0.7	1.1	1.2	-	3.0
Term Funding Scheme.....	17.0	-	-	-	17.0



As at April 4, 2019					
	USD	EUR	GBP	Other	Total
	<i>(£ billion)</i>				
Other .....	0.2	0.6	-	-	0.8
<b>Total</b> .....	<b>33.3</b>	<b>20.5</b>	<b>6.7</b>	<b>0.7</b>	<b>61.2</b>

The table below sets out an analysis of the currency composition of our wholesale funding as at April 4, 2018:

As at April 4, 2018					
	USD	EUR	GBP	Other	Total
	<i>(£ billion)</i>				
Repos .....	-	0.2	0.7	-	0.9
Deposits (including PEB balances) .....	-	1.4	5.4	-	6.8
Certificate of deposit .....	0.2	0.1	4.0	-	4.3
Commercial paper .....	1.0	-	-	-	1.0
Covered bonds .....	-	12.6	2.5	0.2	15.3
Medium term notes .....	1.8	4.6	2.0	0.6	9.0
Securitizations .....	1.3	1.3	1.1	-	3.7
Term Funding Scheme .....	-	-	17.0	-	17.0
Other .....	-	0.6	0.2	-	0.8
<b>Total</b> .....	<b>4.3</b>	<b>20.8</b>	<b>32.9</b>	<b>0.8</b>	<b>58.8</b>

To mitigate the cross-currency refinancing risk, we ensure we hold liquidity in each currency to cover at least the next ten business days of wholesale funding maturities.

As at April 4, 2019, cash, government bonds and supranational bonds included in the liquid asset buffer represented 120% (April 4, 2018: 142%) of wholesale funding maturing in less than one year, assuming no rollovers.

The tables below set out the residual maturity of the wholesale funding book as at April 4, 2019 and 2018, respectively:

As at April 4, 2019			As at April 4, 2018	
	<i>(£ billion, except percentages)</i>			
Less than one year .....	20.5	33.5%	16.4	27.9%
One to two years .....	10.6	17.3%	4.3	7.3%
Two to five years .....	30.1	49.2%	38.1	64.8%
<b>Total</b> .....	<b>61.2</b>	<b>100%</b>	<b>58.8</b>	<b>100%</b>

The tables below set out the residual maturity of the wholesale funding book as at April 4, 2018 and 2017, respectively:

As at April 4, 2018			As at April 4, 2017	
	<i>(£ billion, except percentages)</i>			
Less than one year .....	16.4	27.9%	19.1	34.4%
One to two years .....	4.3	7.3%	3.2	5.8%
Two to five years .....	38.1	64.8%	33.2	59.8%
<b>Total</b> .....	<b>58.8</b>	<b>100%</b>	<b>55.5</b>	<b>100%</b>

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

As at April 4, 2019

	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, except percentages)</i>								
Repos .....	0.8	-	-	-	0.8	-	-	0.8
Deposits .....	4.5	0.6	2.2	-	7.3	-	-	7.3
Certificates of deposit .....	-	2.3	2.3	0.2	4.8	-	-	4.8
Commercial paper .....	-	2.0	1.2	-	3.2	-	-	3.2
Covered bonds .....	0.8	0.9	-	-	1.7	3.3	11.8	16.8
Medium-term notes .....	-	0.6	0.4	0.9	1.9	0.1	5.5	7.5
Securitizations .....	0.4	-	0.1	0.3	0.8	1.0	1.2	3.0
Term Funding Scheme	-	-	-	-	-	6.0	11.0	17.0
Other .....	-	-	-	-	-	0.2	0.6	0.8
<b>Total .....</b>	<b>6.5</b>	<b>6.4</b>	<b>6.2</b>	<b>1.4</b>	<b>20.5</b>	<b>10.6</b>	<b>30.1</b>	<b>61.2</b>
Of which secured .....	2.0	0.9	0.1	0.3	3.3	10.5	24.6	38.4
Of which unsecured .....	4.5	5.5	6.1	1.1	17.2	0.1	5.5	22.8
<b>% of total .....</b>	<b>10.6</b>	<b>10.5</b>	<b>10.1</b>	<b>2.3</b>	<b>33.5</b>	<b>17.3</b>	<b>49.2</b>	<b>100.0</b>

## External Credit Ratings

Our short- and long-term credit ratings from the major rating agencies as at the date of this Base Prospectus are as set out below. The long-term rating for both Standard & Poor's and Moody's is the senior preferred rating. The long-term rating for Fitch is the senior non-preferred rating:

	Senior Preferred	Short- Term	Senior No- Preferred	Tier 2	Date of last rating action /confirmation	Outlook
S&P .....	A	A-1	BBB+	BBB	November 2018	Positive
Moody's .....	Aa3	P-1	Baa1	Baa1	February 2019	Negative
Fitch .....	A+	F1	A	A-	March 2019	Ratings Watch Negative

In October 2018 Moody's affirmed our Aa3/P-1 long and short term ratings, but revised its outlook to negative from stable. This change in outlook reflected uncertainties embedded in Moody's forward looking view on the loss given failure of our senior debt. This was reaffirmed in February 2019.

In November 2018 Standard & Poor's reaffirmed their positive outlook reflecting their expectation that Nationwide's buffer of bail-in instruments could exceed their threshold for two notches of Additional Loss Absorbing Capacity (ALAC) uplift over their 18-24 month forecast horizon.

In March 2019, Fitch placed the Long Term Issuer Default Rating of Nationwide, along with eighteen other U.K. banking groups, on Ratings Watch Negative. The Ratings Watch Negative reflects the heightened uncertainty over the ultimate outcome of the Brexit process and the increased risk that a disruptive "no-deal" Brexit could result in negative action on the U.K. banks, with the likelihood that negative outlooks will be assigned.

Whilst there have been changes to outlook as referred to above, Nationwide's credit ratings remain unchanged since April 2018.

### *Treasury Assets*

Our liquidity and investment portfolio held on the balance sheet at April 4, 2019 of £32.7 billion (April 5, 2018: £30.8 billion) is held in two separate portfolios: liquid assets and other securities.

The liquid assets portfolio comprises cash held at central banks, highly rated debt securities issued by a limited range of governments, multi-lateral development banks (referred to as "supranationals"), and government guaranteed agencies. In addition, cash is invested in highly rated liquid assets (covered bonds, residential mortgage backed securities and asset-backed securities) that are eligible for accessing central bank funding operations. The other securities portfolio comprises available for sale investment securities, with movements reflecting legacy asset disposals, market prices and the Group's operational and strategic liquidity requirements.

Our Treasury Credit Policy ensures all credit risk exposures align to the Board's risk appetite with investments restricted to low risk assets and proven market counterparties; an analysis of the on-balance sheet portfolios by credit rating and geographical location of the issuers is set out below.

Liquidity and investment portfolio by credit rating:	As at April 4, 2019								
	Credit Rating					Geography			
	£ million	AAA	AA	A	Other	U.K.	USA	Europe	Other
	(£ million)	(percentages)							
<i>(audited)</i>									
<b>Liquid assets:</b>									
Cash and reserves at central banks.....	12,493	-	100	-	-	100	-	-	-
Government bonds .....	11,581	29	71	-	-	63	23	14	-
Supranational bonds .....	725	100	-	-	-	-	-	-	100
Covered bonds.....	1,202	60	4	36	-	59	-	18	23
Residential mortgage backed securities (RMBS) .....	556	100	-	-	-	54	-	46	-
Asset-backed securities (other) .....	258	100	-	-	-	49	-	51	-
<b>Liquid assets total.....</b>	<b>26,815</b>	<b>21</b>	<b>77</b>	<b>2</b>	<b>-</b>	<b>78</b>	<b>10</b>	<b>8</b>	<b>4</b>
<b>Other securities:</b> .....									
RMBS FVOCI.....	142	35	20	45	-	100	-	-	-
RMBS amortized cost .....	1,656	84	6	8	2	100	-	-	-
Other investments.....	114	-	29	52	19	19	52	29	-
<b>Other securities total.....</b>	<b>1,912</b>	<b>75</b>	<b>9</b>	<b>13</b>	<b>3</b>	<b>95</b>	<b>3</b>	<b>2</b>	<b>-</b>
Loans and advances to banks .....	4,009	-	51	49	-	86	7	6	1
<b>Total.....</b>	<b>32,736</b>	<b>22</b>	<b>70</b>	<b>8</b>	<b>-</b>	<b>80</b>	<b>9</b>	<b>8</b>	<b>3</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.

A monthly review of the current and expected future performance of all treasury assets is undertaken, with regular independent review, underpinned by robust risk reporting and performance metrics, to measure, mitigate and manage credit risk. In accordance with accounting standards, assets are impaired where there is

objective evidence that current events or performance will result in a loss. In assessing impairment Nationwide evaluates, among other factors, normal volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance and underlying cash flows.

Collateral held as security for treasury assets is determined by the nature of the instrument. Treasury liquidity and portfolios are generally unsecured with the exception of reverse repos, asset-backed securities (“ABS”) and similar instruments, which are secured by pools of financial assets. Within loans and advances as at April 4, 2019 are reverse repos of £1,333 million (April 4, 2018: £403 million), which are secured by high quality liquid assets.

*Fair value through other comprehensive income reserve (previously: Available-for-sale reserve)*

Of the total £32,736 million (April 5, 2018: £30,900 million) liquidity and investment portfolio, £14,500 million (IFRS 9 basis - April 5, 2018: £11,881 million) is held as FVOCI. These assets are marked to market, with fair value movements recognized in reserves.

Of these assets, £81 million (April 4, 2018: £44 million) are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 13. Further detail on the Level 3 portfolio is provided in note 22 in our audited consolidated financial statements as at and for the year ended April 4, 2019.

As at April 4, 2019, the balance on the FVOCI reserve was a £50 million gain, net of tax (April 4, 2018: AFS reserve £75 million gain). The impact of IFRS 9 is a £45 million movement from AFS investment securities to FVTPL due to the underlying instrument’s contractual cash flow characteristics. The reclassification of assets from AFS to FVTPL also caused a £13 million movement from AFS reserve to the general reserve recognized on April 5, 2018. The movements in the FVOCI reserve reflect general market movements and the realisation of gains through disposal of investment assets. The fair value movement of FVOCI assets that are not impaired has no effect on our profit. As at April 4, 2019 investment securities classified as FVTPL totalled £78 million.

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, 2019			
	Level 1	Level 2	Level 3	Total
	(£ million)			
<b>Financial Assets:</b>				
Government and supranational investments ....	12,306	-	-	12,306
Other debt investment securities .....	1,202	989	62	2,253
Investment in equity shares .....	-	-	19	19
<b>Total investment securities<sup>(i)</sup> .....</b>	<b>13,508</b>	<b>989</b>	<b>81</b>	<b>14,578</b>
Interest rate swaps .....	-	1,271	-	1,270
Cross currency interest rate swaps .....	-	2,238	-	2,239
Foreign exchange swaps .....	-	15	-	15
Inflation swaps .....	-	35	-	35
Swaptions .....	-	3	-	3
<b>Total derivative financial instruments .....</b>	<b>-</b>	<b>3,562</b>	<b>-</b>	<b>3,562</b>
Loans and advances to customers <sup>(ii)</sup> .....	-	-	129	129
<b>Total financial assets .....</b>	<b>13,508</b>	<b>4,551</b>	<b>210</b>	<b>18,269</b>
<b>Financial liabilities:</b>				
Interest rate swaps .....	-	(1,107)	-	(1,707)

As at April 4, 2019				
	Level 1	Level 2	Level 3	Total
	<i>(£ million)</i>			
Cross currency interest rate swaps .....	-	(324)	-	(324)
Foreign exchange swaps .....	-	(80)	-	(80)
Bond forwards.....	-	(58)	-	(58)
Swaptions.....	-	(3)	-	(3)
Inflation swaps .....	-	(21)	-	(21)
<b>Total derivative financial instruments .....</b>	<b>-</b>	<b>(1,593)</b>	<b>-</b>	<b>(1,593)</b>
<b>Financial liabilities.....</b>	<b>-</b>	<b>(1,593)</b>	<b>-</b>	<b>(1,593)</b>

	As at April 4, 2018			
	Level 1	Level 2	Level 3	Total
	<i>(£ million)</i>			
<b>Financial Assets:</b>				
Government and supranational investments ....	9,592	-	-	9,592
Other debt investment securities .....	1,007	1,282	41	2,330
Investment in equity shares.....	-	-	3	3
<b>Total investment securities<sup>(i)</sup> .....</b>	<b>10,599</b>	<b>1,282</b>	<b>44</b>	<b>11,925</b>
Interest rate swaps .....	-	1,654	-	1,654
Cross currency interest rate swaps .....	-	2,441	-	2,441
Forward foreign exchange .....	-	2	-	2
Index linked swaps.....	-	24	-	24
<b>Total derivative financial instruments.....</b>	<b>-</b>	<b>4,121</b>	<b>-</b>	<b>4,121</b>
<b>Total financial assets .....</b>	<b>10,599</b>	<b>5,403</b>	<b>44</b>	<b>16,046</b>

<b>Financial liabilities:</b>				
Interest rate swaps.....	-	(2,002)	(4)	(2,006)
Cross currency interest rate swaps .....	-	(293)	-	(293)
Forward foreign exchange .....	-	(27)	-	(27)
Forward rate agreements.....	-	(1)	-	(1)
Swaptions.....	-	(3)	-	(3)
Index linked swaps.....	-	(7)	-	(7)
<b>Total derivative financial instruments .....</b>	<b>-</b>	<b>(2,333)</b>	<b>(4)</b>	<b>(2,337)</b>
<b>Financial liabilities.....</b>	<b>-</b>	<b>(2,333)</b>	<b>(4)</b>	<b>(2,337)</b>

Notes:

- (1) Investment securities exclude £1,656 million of investment securities held at amortized cost (2018: £1,120 million of held to maturity investment securities and £1 million of available for sale investments in equity shares).
- (2) On transition to IFRS 9, certain loans and advances to customers have been classified as FVTPL.

Our Level 1 portfolio comprises government and other highly rated securities for which traded prices are readily available.

Asset valuations for Level 2 investment securities are sourced from consensus pricing or other observable market prices. None of Level 2 investment securities 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. Level 2 loans and advances to customers are valued based on discounted cashflows or by reference to similar assets in markets which are not active.

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

#### *Investment securities*

*The Level 3 items in this category primarily include £62 million (2018: £44 million) of investments in industry-wide banking and credit card service operations and £18 million of new investments made in Fintech companies during the year.*

#### *Derivative financial instruments*

During the year, derivatives economically hedging a small closed portfolio of equity release mortgages were settled upon sale of the associated loans.

#### *Asset encumbrance*

Asset encumbrance arises from collateral pledged against secured funding and other collateralized obligations. The majority of asset encumbrance within the Group arises from the use of prime mortgage pools to collateralize the Covered Bond and Silverstone asset-backed funding programs and from participation in the Funding for Lending Scheme. Encumbrance also results from repurchase transactions, voluntary excess collateral balances, participation in payment schemes and collateral posted for derivative margin requirements. Assets that have been used for any of these purposes cannot be utilized for other purposes and are classified as encumbered.

All other assets are by definition unencumbered. These comprise assets that are readily available to secure funding or meet collateral requirements, and assets that are capable of being encumbered with a degree of further management action. Any remaining assets which do not fall into either of these categories are classified as not being capable of being encumbered.

### **Financial Condition of Nationwide**

#### ***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 we continue to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, we target strong capital ratios relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the fair value other comprehensive income reserve and pension deficit) are all considered. Our strategic leverage ratio target is 4.5%.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. In recent years, we have demonstrated our ability to supplement retained earnings through the issuance of CET1, Additional Tier 1 and Tier 2 capital instruments and have delivered significant deleveraging of our non-core CRE portfolio and out of policy treasury assets.

The capital disclosures included below are reported on a CRD IV end point basis unless otherwise stated. This assumes that all CRD IV requirements are in force during the period, with no transitional provisions

permitted. In addition, the disclosures are on a Group (consolidated) basis, including all subsidiary entities, unless otherwise stated.

The table below reconciles the general reserves to total regulatory capital.

	As at April 4, 2019	As at April 4, 2018	As at April 4, 2017
		(£ million)	
General reserve .....	10,418	9,951	9,316
Core capital deferred shares (CCDS).....	1,325	1,325	531
Revaluation reserve .....	64	68	67
FVOCI reserve.....	50	-	-
Available for sale reserve .....	-	75	44
Regulatory adjustments and deductions:			
Foreseeable distributions <sup>(1)</sup> .....	(68)	(68)	(43)
Prudent valuation adjustment <sup>(2)</sup> .....	(50)	(32)	(23)
Own credit and debit valuation adjustments <sup>(3)</sup> .....	-	(1)	-
Intangible assets <sup>(4)</sup> .....	(1,274)	(1,286)	(1,174)
Goodwill <sup>(4)</sup> .....	(12)	(12)	(12)
Excess of regulatory expected losses over impairment provisions <sup>(5)</sup> .....	(2)	(95)	(151)
IFRS 9 transitional arrangements <sup>(6)</sup> .....	66	-	-
Total regulatory adjustments and deductions .....	(1,340)	(1,494)	(1,403)
<b>CET1 capital</b> .....	<b>10,517</b>	<b>9,925</b>	<b>8,555</b>
Additional Tier 1 capital securities (AT1) <sup>(7)</sup> .....	992	992	992
<b>Total Tier 1 capital</b> .....	<b>11,509</b>	<b>10,917</b>	<b>9,547</b>
Dated subordinated debt <sup>(8)</sup> .....	2,976	3,019	2,555
Excess of expected loss over impairment <sup>(5)</sup> .....	46	-	-
IFRS 9 transitional arrangements <sup>(6)</sup> .....	(46)	-	-
<b>Tier 2 capital</b> .....	<b>2,976</b>	<b>3,019</b>	<b>2,582</b>
<b>Total regulatory capital</b> .....	<b>14,485</b>	<b>13,936</b>	<b>12,129</b>

Notes:

- (1) Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
- (2) A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
- (3) 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 Nationwide's own credit standing and risk, in accordance with CRD IV rules.
- (4) Intangible assets and goodwill are deducted from capital resources after netting associated deferred tax liabilities.
- (5) Where capital expected loss exceeds accounting impairment provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where impairment provisions exceed capital expected loss, the excess balance is added back to Tier 2 capital, gross of tax. This calculation is not performed for equity exposures, in line with Article 159 of CRR. The expected loss amounts for equity exposures are deducted from CET1 capital, gross of tax.
- (6) The transitional adjustments to capital resources apply scaled relief for the impact of IFRS 9, over a 5-year transition period. Further detail regarding these adjustments is provided in the Interim Pillar 3 disclosures at nationwide.co.uk.
- (7) On April 24, 2019 Nationwide announced the redemption of the AT1 instrument in full at the first call date of 20 June 2019, therefore making it ineligible as regulatory capital from the date of this announcement.
- (8) Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortized premiums and discounts that are included in the consolidated balance sheet, and any amortization of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

Our key capital measures are summarized in the table below:

	<u>As at April 4, 2019</u>	<u>As at April 4, 2018<sup>(1i)</sup></u>	<u>As at April 4, 2017</u>
	<i>(£ millions, except percentages)</i>		
<b>Solvency ratios</b>			
CET1 ratio .....	32.4%	30.4%	25.4%
Total Tier 1 ratio.....	35.4%	33.5%	28.4%
Total regulatory capital ratio .....	44.6%	42.8%	36.1%
<b>Leverage</b>			
CRR leverage Exposure <sup>(3)</sup> .....	£247,586	£236,458	£228,428
U.K. leverage Exposure <sup>(2)</sup> .....	£235,147	£221,982	£215,894
Total Tier 1 capital .....	£11,509	£10,907	£9,547
CRR leverage ratio .....	4.6%	4.6%	4.2%
U.K. leverage ratio.....	4.9%	4.9%	4.4%

Notes:

- (1) Figures have been adjusted to reflect the impact of applying IFRS 9 Financial Instruments from April 5, 2018. Further information is provided in our Report on Transition to IFRS 9: Financial Instruments, which can be found on nationwide.co.uk.
- (2) The U.K. leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves.
- (3) The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.

Our capital resources have continued to strengthen during the period with the CET1 ratio increasing to 32.4% (April 5, 2018: 30.4%) and the U.K. leverage ratio remaining consistent at 4.9% (April 5, 2018: 4.9%). Both are comfortably in excess of minimum regulatory capital requirements and Nationwide's strategic target of maintaining a U.K. leverage ratio of greater than 4.0%.

CET1 capital resources have increased by £0.6 billion, primarily due to profit after tax for the period of £0.6 billion. RWAs remained stable with increased retail lending and treasury related RWAs offset by run-off in the commercial book and the implementation of a new credit card IRB model.

The CRR requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

Nationwide has been granted permission to report a U.K. leverage ratio on the basis of measurement announced by the PRA in October 2017. Minimum leverage requirements are monitored by the PRA on this basis and set at 3.25%. It is calculated using the CRR definition of Tier 1 for the capital amount and the Commission Delegated Regulation (EU) 2015/62 (the “**Delegated Act**”) definition of the exposure measure, excluding eligible central bank reserves.

The U.K. leverage ratio remained stable at 4.9% as at April 4, 2019 (April 5, 2018: 4.9%), with an increase in Tier 1 capital driven by profits after tax of £0.6 billion offset by an increase in U.K. leverage exposure of £13 billion resulting from an increase in net retail lending of £9 billion, treasury assets of £6 billion, offset by run-off in the commercial book of £2 billion. The CRR Leverage ratio is based on the Delegated Act definition and therefore exposures include central bank reserves. This also remained stable at 4.6% as at April 4, 2019 (April 5, 2018: 4.6%). On April 24, 2019, Nationwide notified investors of its intention to redeem its outstanding Additional Tier 1 capital instrument in full, on June 20, 2019. This will reduce Tier 1 capital resources by £992m resulting in a 0.4 percentage point reduction in the U.K. leverage ratio, to 4.5%, and a 0.4 percentage point reduction in CRR leverage ratio to 4.2%, based on the year-end balance sheet.

Nationwide's latest Pillar 2A ICR and TCR were received in September 2018. The ICR equates to circa £2.4 billion, of which at least circa £1.4 billion (56%) must be met by CET1 capital. The ICR was equivalent to



7.4% of RWAs as at April 4, 2019 (April 4, 2018: 7.1%), largely reflecting the low average risk weight, given that approximately 78% (April 4, 2018: 78%) of total assets are in the form of secured residential mortgages.

	As at April 4, 2019	As at April 4, 2018	As at April 4, 2017
<b>Credit risk</b>		(£ million)	
Retail mortgages .....	14,072	13,764	13,863
Retail unsecured lending.....	5,581	5,805	5,641
Commercial loans .....	3,604	4,634	5,636
Treasury .....	779	540	849
Counterparty credit risk <sup>(1)</sup> .....	1,532	1,184	1,221
Other <sup>(2)</sup> .....	2,095	1,681	1,566
<b>Total credit risk .....</b>	<b>27,663</b>	<b>27,608</b>	<b>28,776</b>
Operational risk .....	4,843	4,901	4,865
<b>Total risk weighted assets (RWAs).....</b>	<b>32,506</b>	<b>32,509</b>	<b>33,641</b>

Notes:

(1) Counterparty credit risk relates to derivative financial instruments and repurchase agreements.

(2) Other relates to equity, fixed and other assets.

RWAs remained stable at £32.5 billion as at April 4, 2019 (April 4, 2018: £32.5 billion) primarily due to an increase in retail lending and treasury related RWAs offset by run-off in commercial loans and the implementation of a new credit card IRB model impacting retail unsecured lending RWAs. Details on how RWAs are calculated can be found in the Group's annual Pillar 3 Disclosure 2019 at nationwide.co.uk.

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.

## Investments

Our principal investments are targeted at three distinct areas: meeting regulatory and mandatory requirements; ensuring that technology and property infrastructure is resilient and secure; and, providing strategic investment. The strength of our business means we are well placed to invest confidently in the future of the Society, and we have committed to invest an additional £1.3 billion over the next five years to transform our technology estate and capabilities. This will take our total investment over the next five years to £4.1 billion and will ensure the Society makes the most of the opportunities ahead. We will develop new propositions, further enhance our service, simplify our operations and build new skills for the future.

The key drivers for recent strategic activity are to ensure that the customer product offerings remain relevant and efficient across all distribution channels with a particular focus on digital technologies. Significant investment has been made on our mobile and tablet applications and the underlying infrastructure to support these as well as enabling real time online opening of savings products. Looking forward, there is a commitment to the roll out of an innovative new branch design, the digitization and simplification of customer journeys across main product lines of banking, savings and mortgages and investment in data and analytics. We are also developing our response to Open Banking regulation and the opportunities this creates.

## FSCS

Like other UK financial institutions, we pay levies based on our share of protected deposits to the FSCS. This enables the FSCS to pay compensation in the event that a firm is unable to pay claims arising against it. In 2008 a number of institutions were declared in default by the Financial Services Authority (now the

FCA). The FSCS has met the claims that arose following these defaults by way of loans received from HM Treasury. The terms of these loans were initially interest only for the first three years, and the FSCS recovered the interest cost, together with ongoing management expenses, by way of annual levies on member firms over this period.

While it was anticipated that the majority of the borrowings would be repaid wholly from recoveries from the failed institutions concerned, the industry was levied in respect of the anticipated shortfall in repaying these loans. During the financial year ended 4 April 2019 UK Asset Resolution sold loan portfolios relating to Bradford and Bingley Plc, and repaid the outstanding loan from HM Treasury.

The FSCS has confirmed that there will be no further interest costs following the sale of Bradford & Bingley plc asset portfolios and subsequent repayment of the loan to HM Treasury. During the financial year ended 4 April 2019 there was an overall release of £9 million reflecting the lower than anticipated interest costs following receipt of additional recoveries from the administration of the failed institutions.

### **Bank Levy**

Bank levy requirements were introduced in the U.K. in July 2011. The levy applies to U.K. banking groups, building societies and the operations of non-U.K. banks in the U.K. and is based on the chargeable equity and liabilities at the balance sheet date. An allowance is given against the first £20 billion of chargeable equity and liabilities, meaning that smaller institutions are effectively exempted from the levy. Non-chargeable equity and liabilities include Tier 1 capital, insured retail deposits, repos secured on sovereign debt, retirement benefit obligations and tax liabilities. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of equity and liabilities subject to the levy. From January 1, 2016, the Government has been implementing a gradual reduction in bank levy rates combined with the introduction of a corporation tax surcharge (at 8%) on the taxable profits of banking companies and building societies within the charge to corporation tax. The bank levy charge for the year ended April 4, 2019 was £43 million (year ended April 4, 2018: £45 million).

### **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, deposits by other financial institutions and debt securities in issue and derivative financial instruments, please see notes 28 and 29 to our audited consolidated financial statements as at and for the year ended April 4, 2019 incorporated by reference herein.

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

For a description of off-balance sheet commitment items under IFRS, please see note 29 to our audited consolidated financial statements as at and for the year ended April 4, 2019 incorporated by reference herein.

### **Critical Accounting Policies**

For details on our critical accounting policies under IFRS, please see note 2 to our audited consolidated financial statements as at and for the year ended April 4, 2019 incorporated by reference herein.

### ***IFRS 9: Financial Instruments***

The IASB has issued a new accounting standard as a replacement for IAS 39: “Financial Instruments: Recognition and Measurement”, being IFRS 9: “Financial Instruments”. IFRS 9 introduced new requirements for the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting. IFRS 9 was adopted from April 5, 2018.

Under IFRS 9, financial assets are classified and measured based on the business model under which they are held and the characteristic of their contractual cash flows. Financial assets are classified as held at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. The impacts on the Group’s and Society’s balance sheet and members’ interests and equity at April 5, 2018 are included in note 37 of audited condensed consolidated financial statements.

For further description of the basis of preparation, please see note 1 to the audited condensed consolidated financial statements as of and for the year ended April 4, 2019.

## DESCRIPTION OF BUSINESS

### OVERVIEW

We are the largest building society in the United Kingdom in terms of total assets, with £238.3 billion of assets as at April 4, 2019. We have approximately 675 branches and over 15 million customers. Our core business is providing personal financial services, which is mainly residential mortgage loans, retail savings and personal current accounts. In addition, we maintain a portfolio of debt securities for our own account for liquidity management purposes.

We are currently the fourth largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 10.1% (as calculated by us based on BoE data) and 13.1% (according to BoE data), respectively, as at April 4, 2019.

As a mutual organization, we are managed for the benefit of our members, who are primarily our current account, retail savings and residential mortgage customers. 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. 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.

We benchmark our products and performance against a group of leading retail banks operating in the U.K. (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander U.K. and TSB) and seek to offer more consistent long-term good value on savings and prime mortgages than is offered by this peer group. In addition to returning value to members through our competitive products, we believe that we provide better service to our customers than that offered by most of our competitors and this is a key component of our strategy.

### STRATEGY

As a mutual, owned by our members, Nationwide is driven by a strong sense of social purpose, based on our history and founding principles. As we exist primarily for the benefit of our members, we organise ourselves around their needs, as we set out in our Society "Plan" at the start of the financial year. 'Building society, nationwide' describes our purpose which is to grow the Society in a sustainable way that benefits our members, customers, colleagues, and society more generally.

Our strategy is founded upon a rigorous evaluation of our strengths and an assessment of the way in which the financial services industry has evolved in recent years. We have engaged our members through live 'talkbacks', suggestion schemes and through our 5,000 strong online 'member connect' community.

Our focus on mortgages and savings remains as relevant today as it was when we were founded in the 19th century. Additionally, we believe that increasing the size of our current account base remains a logical extension of our purpose by fulfilling our members' day to day financial needs and strengthening our mutual relationship. We intend to continue to offer a broad range of financial services that complement our core products of mortgage, savings and current accounts. Our core purpose is "building society, nationwide" and we have defined the following five interconnected cornerstones which support our purpose and strategy. Our strategic targets and key performance indicators have also been reviewed and amended in line with our strategy and are re-assessed at least annually to ensure they remain relevant to our achieving the required outcomes.

### Built to last

We believe that our members want us to keep their money safe by being secure and dependable and that they want us to be built to last by:

- generating a level of profit sufficient to meet regulatory capital and future business investment requirements;
- focusing on how we spend members' money through driving a culture of efficiency;
- maintaining a prudent approach to risk management, operating at all times within Board risk appetite; and
- supporting member expectations of 'always on' through the resilience of our operations.

We have developed a financial performance framework based on the fundamental principle of maintaining our capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow us to calibrate future performance and help ensure we achieve the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of our capital. In this context, we currently believe that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium-term would meet our objective for sustainable capital strength. This range is based on our current assumptions around the size of the mortgage market and goal of maintaining a U.K. leverage ratio in excess of 4.0%. This range will vary from time to time, and whether our profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. It should not be construed as a forecast of the likely level of Nationwide's underlying profit for any financial year or period within a financial year.

Our financial performance will be supported by a renewed focus on efficiency. We intend to continue to put our members and their money first by making careful choices on how best to allocate our resources. Whilst cost income ratio was previously our main measure of efficiency, we introduced sustainable cost savings targets in 2017. As at April 4, 2019 we reported that we were on course to deliver our target of £500 million of sustainable cost savings by 2023. This is expected to be delivered across a range of initiatives, including 'right first time' member service, third party procurement reviews, process automation and digitized service delivery, as well as targeted restructuring activity.

### **Building PRIDE**

PRIDE is the internal symbol of our culture and values. It guides us to serve our members to the best of our ability and support our people in doing the right thing. It means:

- **P**utting our members and their money first.
- **R**ising to the challenge.
- **I**nspiring trust.
- **D**oing the right thing in the right way.
- **E**xcelling at relationships.

And in delivering on these values, we equip our people by:

- developing our leaders and high potential talent to enable a more empowered and agile workforce;
- growing our capabilities across the business to equip all of our people to make decisions in the interests of members; and
- inspiring them and invigorating our culture through our PRIDE values.

We are, and intend to remain, one of the U.K.'s best places to work, which is in keeping with our mutual ethos of care, which is the backbone behind the service our members receive. Having engaged and enabled employees is a key source of competitive advantage as we strive to have industry leading levels of customer satisfaction and grow our business. We measure engagement and enablement through ViewPoint, conducted by Karin & Box

### **Building legendary service**

Our ambition is for members to experience our service as heartfelt, easy, lifelong and personal. We aim to have industry leading service levels by:

- investing in our high street presence to transform the branch experience;
- using technology to enhance the experience through both branches and mobile;
- deploying the people and technology to enable our members to interact with us whenever and however they choose; and
- delivering on our members' expectations by getting it right first time.

We believe that delivering leading levels of member satisfaction is a key point of differentiation to our peers and an important driver in helping to grow our membership. We measure our service satisfaction performance using an independent survey conducted by market research experts, GfK. Our performance is currently benchmarked against a peer group of high street competitors with a main current account market share greater than 4%. To ensure that we continue to focus on our members' satisfaction and to further support us in our core purpose: "building society, nationwide", we have set a strategic target for the year ending March 31, 2019 to be 1st for customer satisfaction with a lead of at least 4% ahead of the next best competitor within our peer group.

### **Building thriving membership**

We can help our members achieve their goals, whether home ownership or saving for the future and we will deliver real value to our membership by:

- delivering a membership proposition that recognizes loyalty by rewarding our most committed members;
- building our relationships with young families through enhanced products and services; and
- building depth in our core products of mortgages, savings and current accounts.

Growing our base of engaged members allows us to bring the benefits of mutuality to a wider population. In recent years we have measured our performance through our number of engaged members, defined as those who hold a mortgage or savings account with us (with a balance greater than £5,000) or who hold their main personal current account with us. As at April 4, 2019 we had 9.2 million engaged members, up from 8.9 million as at April 4, 2018 and 8.6 million as at April 4, 2017. We're aiming to have 10 million engaged members by 2022, with 4 million committed members. A committed member is one who holds at least two engaged membership products with us (current account, £1,000 in savings, a mortgage with a balance greater than £5,000) or one engaged membership product plus either a personal loan, credit card, home insurance, or an investment and protection product.

## **Building a national treasure**

Our ambition is to be considered a ‘national treasure’ in British society, in particular for our members and for the public to trust us and to believe that Nationwide makes a difference to people’s lives. We intend to strengthen our position as one of the most respected organizations in the U.K. by:

- leading by example, being an influencer and acknowledged expert in our field;
- improving awareness of the Nationwide brand and our mutual difference;
- engaging with our members through their preferred channels of communication; and
- aligning our social investment agenda with our purpose of ‘building society, nationwide’, through a focus on housing initiatives.

Our brand is the sum of how our members and others perceive us. A strong brand, effective both in digital and traditional media, is essential to attract new members. In the year ended March 31, 2019, Nationwide are joint top for prompted brand consideration and first for trust (2.3% ahead of its nearest peer)<sup>2</sup>. For the year ending April 4, 2020, our strategic targets are to continue to lead in both measures.

## **HISTORY AND DEVELOPMENT OF THE SOCIETY**

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 and residential mortgage customers. Our origins date back to the Southern Co-operative Permanent Building Society (1884). 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 demutualized and transferred their businesses to existing or specially formed banks. Further, in one case, a society transferred its business to the subsidiary of another mutual organization. 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 the Society’s strategy to remain a building society.

In 1997, when many of our competitors that were building societies demutualized, we experienced a sharp increase in the number of new U.K. member retail savings accounts. We believe that many of these accounts were opened because customers expected the Society to demutualize and wanted to receive any associated windfall distributions. At our annual general meeting in 1998, its members voted against a proposal to demutualize and no subsequent motion to demutualize has since been proposed at a general meeting of the Society. In order to prevent the disruption caused by speculative account opening, we have generally required all new members opening accounts since November 1997 to assign to charity any windfall benefits which they might otherwise have received as a result of a future demutualization. As such, a majority of members would not benefit personally from either a demutualization or takeover of Nationwide, significantly lessening the incentive to vote for demutualization or any proposed takeover of the Society by a competitor which is incorporated as a limited liability company.

The Society has been involved in a number of mergers and acquisitions in recent years. It 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. We believe these developments have added value, improved our distribution footprint, helped

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<sup>2</sup> Source: Nationwide Brand Guidance Study – compiled by Independent Research Agency, based on all consumer responses, (12 months ending March 31, 2019). Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, TSB and Santander. Joint top for prompted brand consideration with Halifax.

to grow the membership and are a testament to our strength and our ability to provide support to other building societies.

During the year ended April 4, 2017 and in line with our core purpose of “building society, nationwide”, the Society decided to exit its offshore deposit taking business in the Isle of Man and also announced the closure of its Republic of Ireland branch operations. In addition, we have ceased to advance new commercial loans as we have determined that the commercial lending business is no longer a good fit with our core purpose.

## GROUP STRUCTURE AND PRINCIPAL SUBSIDIARIES

We are the principal holding entity of the Group and the main business of the Group is conducted by the Society. The Society’s interests in its principal subsidiary undertakings, all of which are consolidated, as at April 4, 2019 are set out below:

<b>100% held subsidiary undertakings</b>	<b>Nature of business</b>
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (U.K.) plc	Centralized mortgage lender
Derbyshire Home Loans Limited	Centralized mortgage lender
E-Mex Home Funding Limited	Centralized mortgage lender
UCB Home Loans Corporation Limited	Centralized mortgage lender

All the above subsidiary undertakings are limited liability companies which are registered in England and Wales and operate in the U.K. and, with the exception of Nationwide Syndications Limited, they are all regulated entities.

Nationwide Syndications Limited is a wholly owned mortgage lender specializing in syndicated commercial loans to RSL. Nationwide Syndications Limited has ceased to offer new lending. As at April 4, 2019, it held mortgage assets of £0.5 billion.

TMW is a wholly owned centralized mortgage lending subsidiary, specializing mainly in residential BTL lending to individuals. As at April 4, 2019, it had mortgage assets of £31.6 billion. In the year ended April 4, 2019, TMW’s gross lending was £5 billion, representing 13.7% of our total gross residential mortgage lending in that year.

Each of Derbyshire Home Loans Limited, E-Mex Home Funding Limited (“**E-Mex**”) and UCB Home Loans Corporation Limited (“**UCB**”) is a wholly owned subsidiary that has ceased to offer new lending.

We also have interests in structured entities. A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

The table below provides details of these entities as at April 4, 2019.

<b>Group undertaking</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	U.K.
Silverstone Master Issuer plc	Funding vehicle	England and Wales	U.K.
Silverstone Funding No. 1 Limited	Funding vehicle	England and Wales	U.K.



## BUSINESS OF THE SOCIETY

### Retail business

Our retail business aims to offer its customers a full range of personal financial services products comprising residential mortgage lending, a range of savings products as well as investments and general insurance solutions, both directly and through intermediary sales channels.

### Residential mortgage lending

The vast majority of our lending portfolio consists of U.K. residential mortgage loans to individuals. These loans 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. This lending can take the form of either prime residential lending (where the borrower is the owner and occupier of the mortgaged property and meets our credit requirements for prime lending) or specialist residential lending (which are loans advanced to borrowers who intend to let the mortgage property). Our policy is for all residential mortgage loans to individuals to be fully secured first priority loans on the mortgaged property, to ensure that our claim to the property, in the event of default, is senior to those of other potential creditors. As a result, our residential mortgage lending to individuals carries lower risk than many other types of lending.

As at April 4, 2019, we were the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding and calculated by us based on BoE data and publicly available financial information). 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 70 to 80% of customers when they reach the end of a product.

The table below shows a breakdown of our prime and specialist residential mortgage lending outstanding balances as at April 4, 2019.

	<b>As at April 4, 2019</b>
	<i>(£ billions)</i>
Prime .....	151
Specialist.....	34
of which:	
BTL.....	32
Other <sup>(1)</sup> .....	2

Note:

(1) Other includes self-certified, near prime and subprime lending discontinued in 2009.

Source: Nationwide Building Society – audited financial statements for the year ended April 4, 2019

We offer specialist U.K. residential mortgage lending to individuals, comprising lending to private landlords (BTL) and other non-conforming lending. As at April 4, 2019, our outstanding specialist U.K. residential mortgage lending to individuals was £34 billion. The specialist residential mortgage balance is made up of advances made through our specialist lending brands, including TMW. Our outstanding specialist lending loans were advanced primarily in the BTL and self-certification markets. New specialist lending is restricted to BTL through TMW with us having withdrawn from the self-certified lending market in 2009.

Our specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.6% of the total mortgage book as at April 4, 2019, which compares favourably to the overall CML industry measure, which is inclusive of prime lending, of 0.8% as at April 4, 2019.

We have a national franchise within the United Kingdom, with a regional distribution of U.K. residential mortgage lending to individuals generally matching the regional gross domestic product distribution in the United Kingdom.

The table below shows the geographical distribution of our U.K. residential mortgage loans as at April 4, 2019.

	<b>U.K. residential mortgage lending to individuals as at April 4, 2019</b>
	(%)
<b>Region</b>	
Greater London.....	34
Central England .....	18
Northern England .....	15
South East England (excluding London) .....	13
South West England .....	10
Scotland .....	6
Wales .....	3
Northern Ireland .....	1
<b>Total</b> .....	<b>100</b>

Source: Nationwide Building Society – audited financial statements for the year ended April 4, 2019

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 or three 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 the BMR and the SMR are variable rates set at our discretion, except that the 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. Total gross mortgage lending during the year ended April 4, 2019 has increased to £36.4 billion (April 4, 2018: £33.0 billion), of which gross prime lending increased to £151.4 billion (April 4, 2018: £143.9 billion) and gross specialist lending increased to £34.5 billion (April 4, 2018: £33.2 billion). This represents one of our strongest gross lending performances in the first half of a financial year, reflecting the competitively priced products and good long-term value that we continue to offer members. Net mortgage lending was £8.6 billion (April 4, 2018: £5.8 billion) largely driven by a rise in redemptions due to sustained market competition.

The LTV profile of new lending, weighted by value, remained at 71% as at April 4, 2019 compared to April 4, 2018. The indexed LTV for the whole residential portfolio increased to 58% as at April 4, 2019 compared to 56% as at April 4, 2018 on a value basis.

We believe that asset quality has remained strong as a result of our continued prudent approach to lending. The proportion of mortgage accounts three months or more in arrears has reduced to 0.43% as at April 4, 2019, which compares favourably with the U.K. Finance average of 0.79% as at the same date.

The table below shows our residential mortgage loans which are three months or more in arrears as a percentage of its total residential mortgage loans as at each of April 4, 2019 2018 and 2017 and the U.K. Finance average.

	As at April 4,		
	2019	2018	2017
		%	
Prime .....	0.35	0.34	0.36
Specialist.....	0.82	0.83	0.89
<b>Group</b> .....	<b>0.43</b>	<b>0.43</b>	<b>0.45</b>
U.K. Finance average .....	0.79	0.81	0.91

Source: Audited financial statements for the years ended April 4, 2019, 2018 and 2017.

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. 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. The proportion of new lending to first time buyers decreased to 35% during the year ended April 4, 2019 with 65% to experienced buyers (compared to 38% of residential mortgage advances to first-time buyers and 62% to experienced buyers during the year ended April 4, 2018).

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.

### ***Consumer lending***

We engage in consumer lending, which accounted for 2% of our total loan assets as at April 4, 2019. Almost all of our consumer loans are made on an unsecured basis.

Unsecured consumer lending 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 assess all unsecured consumer loans to ensure they remain affordable alongside any mortgage.

### ***Savings***

The great majority of our retail savings are in the form of U.K. retail member deposits. In addition, we have historically accepted offshore deposits and deposits which do not convey member status. As at April 4,

2019 we had U.K. retail member deposits of £154 billion. U.K. retail member deposits represented 68% of our total liabilities and reserves as at April 4, 2019.

We provide a wide range of retail savings products that may be repayable on demand or on 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 savings products than those set by our main competitors. We gather U.K. retail member deposits from a number of sources, chiefly from our branch network but also by mail and internet-based deposit accounts.

The U.K. 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.

Our retail business also manages a range of business savings accounts that are offered to U.K.-domiciled small- and medium-sized enterprises, including companies, housing associations, charities and educational organizations. We provide a wide range of savings products that may be repayable on demand or on notice and which may pay a variable or fixed rate of interest. On all business savings products, we determine variable interest rates at our discretion according to market conditions. Generally, the more restrictions on withdrawal of business savings, the higher the rate of interest. As at April 4, 2019, our business savings balances were £3.4 billion.

### ***Personal banking***

We have a growing base of current account customers, which we estimate accounts for an 8.0% share of main standard and packaged current accounts in the United Kingdom. Nationwide opened 794,000 new current accounts in the six months ended April 4, 2019 (year ended April 4, 2018: 816,000) maintaining market share of openings. One in five of all switchers moved to Nationwide, increasing market share of switchers to 21.5% (year ended April 4, 2018: 15.8%).

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 had overall balances of £1.8 billion at April 4, 2019.

### ***Other retail services***

Our other retail services principally comprise insurance business and investment business.

#### ***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 and distribute insurance products of other companies.

The insurance products that we market are:

- buildings and contents insurance, which we market to our residential mortgage customers and non-mortgage customers;
- landlord insurance;

- term income protection insurance, replacing up to 60% of gross income in case of unemployment; 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 years ended April 4, 2019, 2018 and 2017, we earned £65 million, £76 million, and £81 million, respectively, from 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.

### *Investments*

Our income from the distribution of protection and investments was £63 million for the year ended April 4, 2019.

### *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;
- call centres;
- mail;
- internet and mobile banking; and
- intermediaries.

We also maintain a network of ATMs. As of April 4, 2019 we had 1,371 ATMs.

### *Branches*

Our branch network continues to be a major source of our mortgage lending and retail funding. As at April 4, 2019, we had approximately 675 branches of Nationwide Building Society in the United Kingdom.

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 continue to make significant investment in transforming our products and delivery channels through the implementation of new systems and organizational structures and to meet consumer expectations of digital banking.

### *Call centres*

Our telephone call centres 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.

### *Internet and mobile banking*

We first launched an internet banking service in 1997 and have continued to update the service in line with technological advances and increasing customer expectations. Our website allows customers to transact on their accounts and apply for a broad range of our products online. We also allow customers to access and carry out transactions on their accounts using our mobile and tablet applications.

### *Intermediaries*

A substantial amount of our mortgage sales are introduced to us by third-party intermediaries. Intermediaries range from large U.K. insurance companies to small independent mortgage advisers. We remunerate intermediaries for introducing mortgage business.

### *ATMs*

Our customers have access to our own network of ATMs (1,371 as at April 4, 2019), as well as access to ATMs in the United Kingdom through the LINK network and world-wide through the Visa network.

## **Commercial business**

Our commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, commercial real estate investors and project finance initiatives. As at April 4, 2019, this portfolio accounted for 4% of total loans and advances to customers. Following a strategic review of the commercial lending business, we concluded that the CRE and FPI lending is no longer a good fit with our core purpose. The strategy for CRE and PFI lending is now to hold and actively manage the portfolios to maturity in line with contractual terms. The RSL portfolio was reopened in September 2018.

The table below shows the amount and types of loans in the commercial lending portfolio as at April 4, 2019.

	<b>As at April 4, 2019</b>	
	<i>(£ billions)</i>	<i>(percentage of total commercial loans)</i>
Registered social landlords .....	6.0	73%
Commercial real estate .....	1.4	17%
Private finance initiative .....	0.8	10%
<b>Total</b> .....	<b>8.2</b>	<b>100%</b>

RSL loans are made to U.K. registered social landlords, are secured on residential property and differ significantly from other loans secured on real property. U.K. 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 the RSL portfolio. To date, we have not needed to raise any loss provisions against this portfolio.

CRE portfolio is well diversified by industry type and by borrower, with no significant exposure to development finance.

PFI loans are secured on cash flows from Government-backed contracts such as schools, hospitals and roads under the U.K. private finance initiative legislation. We have not suffered any losses on this lending and there are currently no arrears of three months or more.

### **Head office functions**

Our head office functions comprise the executive management and the treasury function together with a range of support functions such as legal and secretariat services, human resources, strategic planning and external relations, finance, risk management, property services and internal audit.

The treasury division centrally manages liquid asset portfolios as well as most of financial risk exposures and is responsible for wholesale funding activities. 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.

## 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 years ended April 4, 2019, 2018 and 2017, respectively:

	For the year ended April 4, 2019		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
	(£ million, except percentages)		
<b>Interest-earning assets:</b>			
Loans to credit institutions .....	20,590	64	0.80%
Debt securities & derivative financial instruments <sup>(2)</sup> .....	18,793	88	0.47%
Loans to customers .....	196,030	4,866	2.48%
<b>Total average interest-earning assets .....</b>	<b>235,413</b>	<b>5,118</b>	<b>2.17%</b>
<b>Non-interest-earning assets:</b>	-		
Tangible fixed assets .....	876		
Fair value adjustment for hedged risk .....	26		
Other financial assets at fair value .....	-		
Other assets .....	652		
Goodwill and intangible fixed assets .....	1,308		
Investment properties .....	9		
Deferred tax assets .....	88		
<b>Total average assets .....</b>	<b>238,372</b>		
<b>Interest-bearing liabilities:</b>	-		
U.K. retail member deposits .....	152,926	1,331	0.87%
Other deposits .....	27,153	168	0.62%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	37,304	516	1.38%
Subordinated liabilities .....	6,469	177	2.73%
Subscribed Capital .....	257	5	2.10%
Unwind of discount of pension liabilities .....	-	6	0.00%
<b>Total average interest-bearing liabilities .....</b>	<b>224,109</b>	<b>2,203</b>	<b>0.98%</b>
<b>Non-interest-bearing liabilities:</b>	-		
Other liabilities .....	1,399		
Fair value adjustment for hedged risk .....	(30)		
Other financial liabilities at fair value .....	-		
Reserves .....	12,733		
Current taxes .....	161		
<b>Total average liabilities .....</b>	<b>238,372</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, 2018			
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
<i>(£ million, except percentages)</i>			
<b>Interest-earning assets:</b>			
Loans to credit institutions .....	20,480	110	0.53%
Debt securities & derivative financial instruments <sup>(2)</sup> .....	16,230	50	0.31%
Loans to customers .....	190,282	4,658	2.45%
<b>Total average interest-earning assets .....</b>	<b>226,992</b>	<b>4,818</b>	<b>2.12%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	836		
Fair value adjustment for hedged risk .....	288		
Other financial assets at fair value .....	1		
Other assets .....	555		
Goodwill and intangible fixed assets .....	1,309		
Investment properties .....	8		
Deferred tax assets .....	90		
<b>Total average assets .....</b>	<b>230,079</b>		
<b>Interest-bearing liabilities:</b>			
U.K. retail member deposits .....	146,297	1,115	0.76%
Other deposits .....	21,768	61	0.28%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	43,925	501	1.14%
Subordinated liabilities .....	4,108	117	2.85%
Subscribed Capital .....	267	5	2.02%
Unwind of discount of pension liabilities .....	0	8	0.00%
<b>Total average interest-bearing liabilities .....</b>	<b>216,365</b>	<b>1,807</b>	<b>0.83%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,668		
Fair value adjustment for hedged risk .....	(33)		
Other financial liabilities at fair value .....	4		
Reserves .....	11,920		
Current taxes .....	155		
<b>Total average liabilities .....</b>	<b>230,079</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, 2017			
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
<i>(£ million, except percentages)</i>			
<b>Interest-earning assets:</b>			
Loans to credit institutions .....	19,119	59	0.31%

**For the year ended April 4, 2017**

	<b>Average balance<sup>(1)</sup></b>	<b>Interest<sup>(2)</sup></b>	<b>Average yield/ rate</b>
	<i>(£ million, except percentages)</i>		
Debt securities & derivative financial instruments <sup>(2)</sup> .....	15,048	58	0.39%
Loans to customers .....	184,966	4,933	2.67%
<b>Total average interest-earning assets</b> .....	<b>219,133</b>	<b>5,050</b>	<b>2.3%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	820		
Fair value adjustment for hedged risk .....	862		
Other financial assets at fair value .....	7		
Other assets .....	650		
Goodwill and intangible fixed assets .....	1,243		
Investment properties .....	8		
Deferred tax assets .....	124		
<b>Total average assets</b> .....	<b>222,847</b>		
<b>Interest-bearing liabilities:</b>			
U.K. retail member deposits .....	143,208	1,390	0.97%
Other deposits .....	18,525	43	0.23%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	45,113	544	1.21%
Subordinated liabilities .....	2,477	87	3.51%
Subscribed Capital .....	374	21	5.61%
Unwind of discount of pension liabilities .....	-	5	-
<b>Total average interest-bearing liabilities</b> .....	<b>209,697</b>	<b>2,090</b>	<b>1.00%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,649		
Fair value adjustment for hedged risk .....	15		
Other financial liabilities at fair value .....	1		
Reserves .....	11,171		
Current taxes .....	314		
<b>Total average liabilities</b> .....	<b>222,847</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 years ended April 4, 2019, 2018 and 2017, respectively:

	<b>As at April 4, 2019</b>
	<i>(£ million, except percentages)</i>
Net average interest-earning assets.....	235,413
Net average interest-bearing liabilities .....	224,109
Net interest income <sup>(1)</sup> .....	2,915
Average yield on average interest-earning assets .....	2.17%
Average rate on average interest-bearing liabilities.....	0.98%
Net interest spread <sup>(2)</sup> .....	1.19%
Net interest margin <sup>(3)</sup> .....	1.24%

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 weighted average interest-earning assets.

	<b>As at April 4, 2018</b>
	<i>(£ million, except percentages)</i>
Net average interest-earning assets.....	262,992
Net average interest-bearing liabilities .....	216,365
Net interest income <sup>(1)</sup> .....	3,011
Average yield on average interest-earning assets .....	2.12%
Average rate on average interest-bearing liabilities.....	0.83%
Net interest spread <sup>(2)</sup> .....	1.29%
Net interest margin <sup>(3)</sup> .....	1.33%

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 weighted average interest-earning assets.

	<b>As at April 4, 2017</b>
	<i>(£ million, except percentages)</i>
Net average interest-earning assets.....	219,133
Net average interest-bearing liabilities .....	209,697
Net interest income <sup>(1)</sup> .....	2,960
Average yield on average interest-earning assets .....	2.30%
Average rate on average interest-bearing liabilities.....	1.00%
Net interest spread <sup>(2)</sup> .....	1.30%
Net interest margin <sup>(3)</sup> .....	1.33%

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 weighted 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 year ended April 4, 2019 compared to the year ended April 4, 2018. 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:

	Year ended April 4, 2019 compared to year ended April 4, 2018		
	Increase/(decrease) in net interest due to changes in:		
	Volume	Yield/rate	Total net change
	<i>(£ million)</i>		
<b>Interest income:<sup>(1)</sup></b>			
Loans to credit institutions .....	110	54	164
Debt securities and derivative financial instruments .....	2,563	38	2,601
Loans to customers .....	5,748	208	5,956
<b>Total interest income .....</b>	<b>8,421</b>	<b>300</b>	<b>8,721</b>
<b>Interest expense:<sup>(1)</sup></b>			
U.K. retail member deposits .....	6,629	216	6,845
Other Deposits .....	5,385	107	5,492
Debt Securities in Issue and Derivative Financial Instruments .....	(6,621)	15	(6,606)
Subordinated liabilities .....	2,361	60	2,421
Subscribed Capital .....	(10)	-	(10)
Unwind of Discount of Pension Liabilities.....	-	(2)	(2)
<b>Total interest expense .....</b>	<b>7,744</b>	<b>396</b>	<b>8,140</b>
<b>Net interest income .....</b>	<b>677</b>	<b>(96)</b>	<b>581</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 year ended April 4, 2018 compared to the year ended April 4, 2017. 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:

Year ended April 4, 2018 compared to year ended April 4, 2017			
Increase/(decrease) in net interest due to changes in:			
	Volume	Yield/rate (£ million)	Total net change
<b>Interest income:</b> <sup>(1)</sup>			
Loans to credit institutions .....	5	46	51
Debt securities and derivative financial instruments .....	4	(12)	(8)
Loans to customers .....	140	(415)	(275)
<b>Total interest income</b> .....	<b>173</b>	<b>(405)</b>	<b>(232)</b>
<b>Interest expense:</b> <sup>(1)</sup>			
U.K. retail member deposits .....	29	(304)	(275)
Other Deposits .....	8	10	18
Debt securities in issue .....	(14)	(29)	(43)
Subordinated liabilities .....	49	(19)	30
Subscribed capital .....	(5)	(11)	(16)
<b>Total interest expense</b> .....	<b>66</b>	<b>(349)</b>	<b>(283)</b>
<b>Net interest income</b> .....	<b>107</b>	<b>(56)</b>	<b>51</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, 2019, our investment securities portfolios were carried at a book value of £16,234 million, representing 15.2% of our total assets. 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, 2019, 2018 and 2017, respectively:

As at April 4,			
	2019	2018	2017
	(£ million)		
Government and supranational investment securities <sup>(1)</sup> .....	12,306	9,592	6,897
Other debt investment securities <sup>(2)</sup> .....	3,909	3,450	2,900
Investments in equity shares <sup>(3)</sup> .....	19	4	34
<b>Total</b> .....	<b>16,234</b>	<b>13,046</b>	<b>9,831</b>

Notes:

- (1) As at April 4, 2019, Government and supranational securities (including U.K. Government and local authorities, and sovereign debt backed by foreign governments) that we held were equal to 76% of our general and revaluation reserves compared to 74% as at April 4, 2018 and 74% as at April 4, 2017.

- (2) As at April 4, 2018, other debt investment securities includes £1.1 billion of RMBS purchased under a program to securitise Bradford and Bingley plc residential mortgages.
- (3) In the year ended April 4, 2017, £33 million has been reclassified from Investments in equity shares to Other debt investment securities to better reflect the nature of the investment.

The following table shows the contractual maturity of investment securities held as at April 4, 2019:

	As at April 4, 2019				Total
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 years but within 10 years	Maturing after 10 years	
			(£ million)		
Government and supranational investment securities.....	268	3,834	7,148	1,056	12,306
Other debt investment securities.....	245	2,694	279	691	3,909
Investments in equity shares...	-	-	-	19	19
<b>Total</b> .....	<b>513</b>	<b>6,528</b>	<b>7,427</b>	<b>1,766</b>	<b>16,234</b>

The following table presents a further analysis of other issuers as at April 4, 2019, 2018 and 2017, respectively:

	As at April 4,		
	2019	2018	2017
		(£ million)	
U.K. financial institutions.....	-	-	-
European financial institutions .....	-	-	-
Non-European financial institutions .....	33	41	33
ABS .....	3,814	3,355	2,153
Other issuers .....	62	54	714
<b>Total</b> .....	<b>3,909</b>	<b>3,450</b>	<b>2,900</b>

### Loan Portfolio

As at April 4, 2019 total loans to customers excluding fair value adjustments for portfolio hedged risk, including accrued interest, were £198,168 million, representing 83% of our total assets. Our loan portfolio net of allowances has increased by 4% during the last year from £195,086 million as at April 4, 2018 to £203,060 million as at April 4, 2019.

The following table summarizes our loan portfolio, net of allowances, as at April 4, 2019, 2018 and 2017, respectively:

	As at April 4,		
	2019	2018	2017
		(£ million)	
Residential mortgage loans.....	151,473	177,154	171,119
Consumer banking .....	4,168	3,738	3,680
Specialist Lending .....	34,333		
Commercial Lending .....	8,194	9,658	11,202
<b>Total loans to customers</b> .....	<b>198,168</b>	<b>190,550</b>	<b>186,001</b>
Fair value adjustment for micro hedged risk <sup>(1)</sup> ...	883	1,043	1,370
Loans and advances to banks.....	4,009	3,493	2,587
<b>Total</b> .....	<b>203,060</b>	<b>195,086</b>	<b>189,958</b>

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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 loan portfolio held by us as at April 4, 2019:

As at April 4, 2019						
	Due on Demand	Due within 3 Months	Due in 3 months to 1 year	Due in 1 year to 5 years	Due after 5 years	Allowances
						Total <sup>(1)</sup>
<i>(£ million)</i>						
Loans and advances to customers.....	3,024	1,393	5,959	31,852	156,823	-
Loans and advances to banks.....	3,363	-	-	-	646	-
<b>Total Loans portfolio net of impairment provisions.....</b>	<b>6,387</b>	<b>1393</b>	<b>5959</b>	<b>31852</b>	<b>157469</b>	<b>-</b>
						<b>203,060</b>

Note:

- (1) The maturity analysis is produced on the basis that where a loan is repayable by instalments, each instalment is treated as a separate repayment.

### Loans in Arrears

Loans in arrears refer to amounts that are unpaid at their contractual date. A customer is in arrears when they are behind in fulfilling their obligations such that an outstanding loan payment is overdue. Such a customer can also be said to be in a state of delinquency. When a customer is in arrears, the entire outstanding balance is said to be delinquent, meaning that delinquent balances are the total outstanding loans on which payments are overdue.

The following table shows the payment status of all residential mortgages.

	As at April 4, 2019				As at April 4, 2018			
	Prime	Specialist	Total	%	Prime	Specialist	Total	%
<i>(Audited)</i>	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>		<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>	
Not past due	149,771	33,468	183,239	98.5	142,383	32,197	174,580	98.5
Past due up to 3 months.....	1,356	657	2,013	1.1	1,294	685	1,979	1.1
Past due 3 to 6 months.....	177	159	336	0.2	162	159	321	0.2
Past due 6 to 12 months.....	122	121	243	0.1	113	110	223	0.1
Past due over 12 months.....	84	69	153	0.1	89	76	165	0.1
Possessions.....	7	21	28	-	8	23	31	-
<b>Total.....</b>	<b>151,517</b>	<b>34,495</b>	<b>186,012</b>	<b>100</b>	<b>144,049</b>	<b>33,250</b>	<b>177,299</b>	<b>100</b>

The proportion of loans in arrears has remained stable at 1.5% (April 4, 2018: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the favourable economic conditions and low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending. In total, £370 million (April 4, 2018: £368 million) of specialist lending balances were more than 3 months past due or in possession. Of these, £233 million or 63.0% (April 4, 2018: £182 million), and the total value of arrears was £20 million (April 4, 2018: £22 million) or 0.01% (April 4, 2018: 0.01%) of total mortgage balances.

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2017:

As at April 4, 2017				
Prime lending	Specialist lending	Consumer banking	Total	%
<i>(£ billion, except percentages)</i>				



**As at April 4, 2017**

	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>	<b>%</b>
	<i>(£ billion, except percentages)</i>				
Not impaired:					
Neither past due nor impaired.....	136.4	32.2	3.6	172.2	98%
Past due up to 3 months but not impaired.....	1.3	0.7	0.1	2.1	1%
Impaired.....	0.3	0.4	0.3	0.8	1%
<b>Total.....</b>	<b>138.0</b>	<b>33.3</b>	<b>4.0</b>	<b>175.3</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 year ended April 4, 2019:

Gross balances	Reconciliation of movements in gross balances and impairment provisions							
	Non-credit impaired				Credit impaired (note i)		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)	(£ million)
At April 5, 2018	169,049	48	20,012	284	1,700	297	190,761	629
Stage transfers:								
Transfers from Stage 1 to Stage 2	(29,278)	(30)	29,278	30	-	-	-	-
Transfers to Stage 3	(305)	(1)	(1,022)	(113)	1,327	114	-	-
Transfers from Stage 2 to Stage 1	37,282	266	(37,282)	(266)	-	-	-	-
Transfers from Stage 3	187	3	573	24	(760)	(27)	-	-
Net remeasurement of ECL arising from transfer of stage		(237)		287		20		70
Net movement arising from transfer of stage (note ii)	7,886	1	(8,453)	(38)	567	107	-	70
New assets originated or purchased (note iii)	38,717	30	-	-	-	-	38,717	30
Repayments and changes in risk	(8,835)	(9)	(199)	32	(63)	29	(9,097)	52

parameters (note iv)								
Other items								
impacting income								
statement								
charge/(reversal)								
including recoveries	2	-	-	-	(1)	(19)	1	(19)
Redemptions (note v)	(19,451)	(2)	(1,821)	(17)	(285)	(1)	(21,557)	(20)
Income statement								
charge for the year								113
Decrease due to								
write-offs	-	-	-	-	(121)	(96)	(121)	(96)
Other provision								
movements	-	-	-	-	-	19	-	19
04-Apr-19	<b>187,368</b>	<b>68</b>	<b>9,539</b>	<b>261</b>	<b>1,797</b>	<b>336</b>	<b>198,704</b>	<b>665</b>
Net carrying amount		187,300		9,278		1,461		198,039

The following table sets forth the movement in our allowances for loan losses for the year ended April 4, 2018:

For the year ended April 4, 2018					
	Prime residential	Specialist residential	Consumer banking	Commercial and other lending	Total
	<i>(£ million)</i>				
<b>As at April 5, 2017</b> .....	34	110	269	25	438
Charge for the year .....	3	8	97	(1)	107
Amounts written off during the year .....	(2)	(9)	(73)	(17)	(101)
Amounts recovered during the year .....	1	1	10	9	21
Unwind of discount of provision .....		(1)	(5)	(1)	(7)
<b>As at April 4, 2018</b> .....	<b>36</b>	<b>109</b>	<b>298</b>	<b>15</b>	<b>458</b>

The following tables set forth the movement in our allowances for loan losses for the year ended April 4, 2019, April 5, 2018 and April 4, 2017:

Impairment provisions			
	April 4, 2019	April 5, 2018 <sup>(1)</sup>	April 5, 2018 <sup>(1)</sup>
	<i>(£ million)</i>	<i>(£ million)</i>	<i>(£ million)</i>
Prime residential	44	47	36
Specialist residential	162	188	109
Consumer banking	418	365	298
Commercial and other lending	41	29	15
<b>Total</b>	<b>665</b>	<b>629</b>	<b>458</b>

Note:

- (1) April 5, 2018 balances are prepared under IFRS 9. Comparatives for the year ended as at April 4, 2018 are prepared under IAS 39.

	For the year ended April 4, 2017					
	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	<i>(£ million)</i>					
As at April 5, 2016 .....	25	77	281	59	1	443
Charge for the year .....	11	47	78	(5)	-	131

**For the year ended April 4, 2017**

	<b>Prime residential</b>	<b>Specialist residential</b>	<b>Consumer banking</b>	<b>Commercial lending</b>	<b>Other lending</b>	<b>Total</b>
	<i>(£ million)</i>					
Amounts written off during the year.....	(2)	(15)	(101)	(31)	(1)	(150)
Amounts recovered during the year.....	1	1	15	3	-	20
Unwind of discount of provision.....	(1)	-	(4)	(1)	-	(6)
<b>As at April 4, 2017 .....</b>	<b>34</b>	<b>110</b>	<b>269</b>	<b>25</b>	<b>-</b>	<b>438</b>

The following table shows the allowances for loan losses as a percentage of total loans, analysed by category for the years ended April 4, 2019, April 4, 2018 and April 4, 2017:

<b>April 4, 2019</b>	<b>Total Balance</b>	<b>% of Total</b>	<b>Provision</b>	<b>Provision/Total Balance</b>
Prime residential mortgages.....	151,473	76.10%	44	0.03%
Specialist residential mortgages...	34,333	17.25%	162	0.47%
Consumer banking.....	4,168	2.09%	418	10.03%
Commercial and other lending....	9,077	4.56%	41	0.45%
<b>Total</b>	<b>199,051</b>	<b>100.00%</b>	<b>665</b>	<b>0.33%</b>

<b>April 5, 2018</b>	<b>Total Balance</b>	<b>% of Total</b>	<b>Provision</b>	<b>Provision/Total Balance</b>
Prime residential mortgages.....	143,869	75.42%	47	0.03%
Specialist residential mortgages...	33,245	17.43%	188	0.57%
Consumer banking.....	4,107	2.15%	365	8.89%
Commercial and other lending....	9,540	5.00%	29	0.30%
<b>Total</b>	<b>190,761</b>	<b>100.00%</b>	<b>629</b>	<b>0.33%</b>

<b>April 4, 2017</b>	<b>Total Balance</b>	<b>% of Total</b>	<b>Provision</b>	<b>Provision/Total Balance</b>
Prime residential mortgages.....	137,970	73.63%	36	0.03%
Specialist residential mortgages...	33,149	17.69%	109	0.33%
Consumer banking.....	3,680	1.96%	298	8.10%
Commercial and other lending....	12,572	6.71%	15	0.12%
<b>Total</b>	<b>187,371</b>	<b>100.00%</b>	<b>458</b>	<b>0.24%</b>

## Deposits

The following table sets out the average balances and average interest rates for each deposit type for the year ended April 4, 2019:

**For year ended April 4, 2019**

	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ million, except percentages)</i>	
U.K. retail member deposits .....	152,926	0.87%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	27,153	0.62%

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 year ended April 4, 2018:

	<b>For year ended April 4, 2018</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ million, except percentages)</i>	
U.K. retail member deposits .....	146,297	0.76%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	21,768	0.28%

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 year ended April 4, 2017:

	<b>For year ended April 4, 2017</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ million, except percentages)</i>	
U.K. retail member deposits .....	143,208	0.97%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	18,525	0.23%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

### **Maturity of Deposits**

The following table shows the maturity analysis of time deposits over \$100,000 and certificates of deposit as at April 4, 2019:

	<b>As at April 4, 2019</b>			
	<b>Time deposits</b>	<b>Certificates of deposit</b>	<b>Total</b>	<b>%</b>
	<i>(£ million, except percentages)</i>			
Less than 3 months .....	(647)	(2,319)	(2,966)	50
3 months to 6 months.....	(602)	(2,334)	(2,936)	49
6 months to 1 year .....	(11)	(82)	(93)	1
Over 1 year .....	-	(5)	(5)	-
<b>Total.....</b>	<b>(1,260)</b>	<b>(4,740)</b>	<b>(6,000)</b>	<b>100%</b>

## Return on Assets

The following table represents net income as a percentage of total average assets:

	For the year ended April 4,		
	2019	2018	2017
	<i>(£ million, except percentages)</i>		
Net income <sup>(1)</sup> .....	618	745	757
Total average assets <sup>(2)</sup> .....	238,372	230,079	222,847
Return on total average assets.....	0.26%	0.32%	0.34%

Notes:

- (1) Net income represents profit for the financial year after tax.
- (2) Total average asset 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, primarily 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 Nationwide, are interest rate risks (including basis risk), credit risks, liquidity and funding risks.

All risks are monitored and managed within the Enterprise Risk Management Framework (“**ERMF**”). 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 we comply with the U.K. 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, equity index swaps and inflation linked derivatives. 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.

We are exposed to liquidity risk, interest rate risk, foreign exchange risk, equity risk, inflation risk and credit risk in our derivatives positions. All of our 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.

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 or which have embedded options	Sensitivity to changes in interest rates and inflation risk including differential between Base Rate and LIBOR/SONIA or inflation risk	Interest rate swaps including basis swaps, interest rate futures, swaptions, forward rate agreements and inflation swaps
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/SONIA and inflation risk.	Interest rate swaps including basis swaps, interest rate futures, swaptions, caps, collars, forward rate agreements
Investment and funding in foreign	Sensitivity to changes in foreign	Cross-currency swaps, FX swaps,

<b>Activity</b>	<b>Risk</b>	<b>Type of derivative instrument used</b>
currencies	exchange rates	foreign exchange transactions

The accounting policy for derivatives and hedge accounting is described in the Statement of Accounting Policies. Where possible, we apply hedge accounting to derivatives in order to reduce accounting volatility. Nationwide currently uses two of the three types of hedge accounting permitted by IAS39: fair value hedge accounting and cash flow hedge accounting, but not hedging of a net investment in a foreign operation.

The Board and the ALCO are responsible for setting certain parameters respectively over our exposure to interest rates, foreign exchange rates and other indices. The Credit Committee sets our credit policy and regularly monitors and reviews credit exposures arising in all aspects of Group operations, including derivatives. All risk committees are overseen by the Executive Risk Committee, while the Board Risk Committee provides oversight of the risk framework for Nationwide 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. Where applicable, certain derivative contracts are centrally cleared to comply with regulations. All of our derivatives activity is contracted with Organization for Economic Co-operation and Development financial institutions.

Each of the principal financial risks to which we are exposed (interest rate, credit, foreign exchange, liquidity and funding risk) is considered below.

### **Interest rate risk**

The main market risk faced is interest rate risk. Market movements in interest rates affect the interest rate margin realized from lending and borrowing activities. To reduce the impact of such movements, hedging activities are undertaken by our Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally. The remaining net exposure is managed using derivatives, within parameters set by ALCO.

The Board risk appetite is not to take any market risk unless required for operational efficiency, stability of earnings or cost minimization in supporting core business activities. Nationwide does not have a trading book.

VaR is a technique that estimates the potential losses that could occur on risk positions because of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This considers inter-relationships between different markets and rates. There are separate models for interest rates and currencies.

The VaR model we use incorporates risk factors based on interest rate and currency movements. A10-day horizon and a 99% confidence level are typically used in day to day VaR reporting. VaR is used to monitor interest rate, swap spread and currency risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by management to test the validity of the assumptions and factors used in the VaR calculation. Values reported below are on the same basis as those used internally.

Although it is a valuable guide to risk, VaR needs to be viewed in the context of the following limitations which may mean that exposure could be higher than modelled:

- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of diversification in those extreme 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 model uses historical data to predict future events. Extreme market moves beyond those used to calibrate the model will deliver exceptions. For example, in periods of heightened volatility the model is likely to under-predict market risks and in periods of low volatility it is likely to over-predict market risks.
- Historical data may not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increases the difficulty of evaluating risks.

To seek to mitigate these limitations, backtesting of the VaR model is undertaken on a regular basis to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss is greater than the daily VaR on any given day. In the year ended April 4, 2019, there were six loss exceptions, which were due to significant movements in market rates on each of those days. Backtesting and broader model governance did not highlight any model deficiencies.

To evaluate the potential impact of more extreme, though plausible events or movements in a set of financial variables the standard VaR metric is augmented with sensitivity or stress analysis.

For example, for interest rate risk exposures, standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily.

In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two year period and on a 99% 10-day basis but uses market data from a period of significant financial stress.

Each quarter, the residual interest rate risk and currency positions are also subjected to a range of stressed scenarios designed to highlight potential losses in extreme market conditions. The results of these scenarios are reviewed by management to provide insight into the circumstances in which losses may be made. A range of metrics are also regularly produced focusing on the crystallization of product option risks under stressed events.

The table below highlights the limited amount to which we are exposed to interest rate risk:

	For the year ended April 4, 2019			For the year ended April 4, 2018		
	Average	High	Low	Average	High	Low
	(£ million)					
VaR (99%/10-day) ( <i>audited</i> ) .....	1.1	3.1	0.4	0.9	5.4	0.1
Sensitivity analysis (PV01)			(0.1)			
( <i>audited</i> ) .....	0.0	0.1		0.0	0.2	(0.2)
Stress testing (PV200: all			(23.4)			
currencies) .....	6.1	21.4		4.2	39.1	(32.6)

Income sensitivity metrics are used to measure and quantify exposure to interest rate risks. These techniques apply rate shocks to the rates paid on liabilities and to the rates earned on assets and the impact on earnings is calculated. The absolute levels of interest rates can influence the flexibility to manage earnings. If



interest rates fall further or become negative, margins may be constrained because it is unlikely that the benefit to borrowers can be fully offset through current account or savings product rate changes.

Nationwide measures interest rate risk through Net Interest Income (“**NII**”) and Economic Value of Equity (“**EVE**”) measures, under a range of shock scenarios which include behavioural assumptions for retail products as interest rates change. These measures are assessed based on the standard shocks prescribed in the EBA final guidelines published in July 2018, as well as against internally generated shock scenarios.

- NII sensitivities assess the impact to earnings in different interest rate shocks over a one year period. Sensitivities are calculated based on a static balance sheet, where all assets and liabilities maturing within the year are reinvested in like for like products. The sensitivity also includes the impact arising from off-balance sheet exposures.
- EVE sensitivities measure the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks. Sensitivities are calculated on a run-off balance sheet basis.

Both NII and EVE sensitivities are measured monthly, with risk limits set against the various shocks.

### **Credit risk**

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk encompasses:

- borrower / counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay the interest or principal on a loan, financial product, or service on time;
- security / collateral risk – the risk of loss arising from deteriorating security / collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification;
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

At Nationwide, we lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle. To this end, Board Risk Committee set the level of risk appetite it is willing to take in pursuit of the Society’s strategy, which is articulated as Board risk appetite statements and underlying principles:

We safeguard our members by lending responsibly

- We will only lend to members, customers or counterparties who demonstrate that they can afford to borrow.
- We will support members and customers buying houses of wide-ranging types and qualities.
- We will work with members, customers and counterparties to recover their financial position should there be a delay, or risk of delay, in meeting their financial obligations.

We safeguard the Society’s financial performance, strength and reputation

- We will manage asset quality so that losses through an economic cycle will not undermine profitability, financial strength and our standing with internal/external stakeholders.
- We will ensure that no material segment of our lending exposes the Society to excessive loss.

- We will proactively manage credit risk and comply with regulation.

We operate with a commitment to responsible lending and a focus on championing good conduct and fair outcomes. In this respect, we formulate appropriate credit criteria and policies which are aimed at mitigating risk against individual transactions and ensuring that the Society's credit risk exposure remains within risk appetite. Board Risk Committee and, under a governed delegated mandate structure, Credit Committee, Executive Sanctioning Committee and Material Risk Takers make credit decisions, based on a thorough credit risk assessment, to ensure that customers are able to meet their obligations.

At a portfolio level, we measure and manage our risk profile and the performance of our credit portfolios on an ongoing basis, through a formal governance structure. Compliance with Board risk appetite is measured against absolute limits and risk metrics and is reported to the Society's Credit Committee on a monthly basis, with adverse trends being investigated and corrective action taken to mitigate the risk and bring performance back on track.

On an individual basis, Nationwide is committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty offering a range of forbearance options that are tailored to their individual circumstances. This is the case for residential mortgages, consumer banking and commercial and other lending. Accounts in financial difficulty/arrears are managed by a specialist teams within Nationwide to ensure an optimal outcome for our members, customers and the Society.

Credit risk within the Treasury portfolio arises primarily from the instruments held and transacted by the Treasury function for operational, liquidity and investment purposes. In addition, counterparty credit risk arises from the use of derivatives to reduce exposure to market risks, these are only transacted with highly rated organisations and are collateralised under market standard documentation.

The Treasury Credit Risk function manages all aspects of credit risk in accordance with the Society's risk governance frameworks, under the supervision of the Credit Committee. The Treasury Credit Risk function is subject to regular independent review and challenge by Credit Risk Oversight in accordance with our risk governance frameworks.

A monthly review is undertaken of the current and expected future performance of all Treasury assets. An established governance structure identifies and reviews under-performing assets to assess the likelihood of future losses.

Assets are impaired where there is objective evidence that current events and/or performance will result in a loss. Impairment assessments evaluate, among other factors, volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance, and underlying cash flows.

Nationwide has no exposure to emerging markets, hedge funds or credit default swaps.

The following table presents our 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:

	2019			2018		
	Carrying value	Commitments	Maximum credit risk exposure	Carrying value	Commitments <sup>(1)(2)</sup>	Maximum credit risk exposure
	<i>(£ million)</i>					
Cash .....	12,493	-	12,493	14,361		14,361
Loans and advances to banks .....	4,009		4,009	3,493	101	3,493
Investment securities – FVOCI...	14,500	-	14,500	11,881		11,881
Investment securities – Amortized Cost .....	1,656		1,656	1,120	700	1,120
Investment securities – FVTPL	78	-	78	45		45

Derivative financial instruments .	3,562	-	3,562	4,121		4,121
Fair value adjustment for portfolio hedged risk .....	411	-	411	(144)		(144)
Loans and advances to customers	198,922	12,956	211,878	191,714	13,088	191,714
<b>Total .....</b>	<b>235,760</b>	<b>12,956</b>	<b>248,716</b>	<b>226,051</b>	<b>13,889</b>	<b>226,051</b>

Notes:

- (1) In addition to the amounts shown above Nationwide has, as part of its retail operations, revocable commitments of £9,475 million (April 4, 2018: £9,517 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by Nationwide, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.
- (2) The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (included within the carrying value of the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to lending risk through the relationship with the underlying loans covered by our hedging programs.

### Currency risk

Currency exposure is managed through natural offset on the balance sheet or using derivatives to reduce exposures to acceptable levels. ALCO sets and monitors limits on the net currency exposure. The table below sets out the limited extent of the residual exposure to currency risk:

	2019			2018		
	Average	High	Low	Average	High	Low
			(£ million)			
VaR (99%/10-day) .....	0.1	2.4	0.0	0.1	2.2	0.0

### Liquidity and funding risk

Liquidity risk is the risk that we are unable to raise cash to settle our financial obligations as they fall due and maintain member and other stakeholder confidence. Funding risk is the risk that we are unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.

The management of liquidity and funding risks aims to ensure that at all times there are sufficient liquid assets, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding; retain public confidence; and meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows, and through the translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high quality liquid assets and appropriate encumbrance levels are maintained.

The Liquidity and Funding risk framework is reviewed by the Board as part of the annual Internal Liquidity Adequacy Assessment Process. ALCO is responsible for managing the balance sheet structure, including the funding plan, and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

To mitigate liquidity and funding risks generated by its business activities, Nationwide aims to maintain a liquid asset buffer of at least 100% of the anticipated outflows seen under internal stress test scenarios and the regulatory-prescribed LCR.

Nationwide maintains a high quality liquid asset portfolio through continued investment in highly liquid assets, predominantly comprising unencumbered high-quality sovereign-issued securities and reserves held at central banks. Assets may be acquired through direct purchase, repurchase agreements or collateral swaps.

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 limit set by ALCO.

A Liquidity Contingency Plan (“LCP”) is maintained which describes early warning indicators for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust. Nationwide also has a Recovery Plan which describes potential actions that could be utilized in a more extreme stress.

We undertake securities financing transactions in the form of repurchase agreements (repo). This demonstrates the liquid nature of the assets held in our liquid asset buffer and also satisfies regulatory requirements. 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 our collateral management processes.

Repo market capacity is assessed and tested regularly to ensure there is sufficient capacity to rapidly monetize the liquid asset buffer in a stress.

The table below segments 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, 2019 and 2018. In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid faster. This gives rise to mismatches in funding on the balance sheet. The balance sheet structure and risks are managed and monitored by ALCO. We use judgment and past behavioural performance of each asset and liability class to forecast the likely cash flow requirements of Nationwide.

	As at April 4, 2019					
	Not more than one month <sup>(1)</sup>	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	(£ million)					
<b>Assets</b>						
Cash .....	12,493	-	-	-	-	12,493
Loans and advances to banks and similar institutions .....	3,363	-	-	-	646	4,009
Investment securities – available for sale .....	16	20	476	6,529	9,193	16,234
Loans and advances to customers .....	3,024	1,393	5,959	31,852	156,823	199,051
Derivative financial instruments .....	18	127	132	1,718	1,567	3,562
Other financial assets ..	(2)	4	63	203	143	411
<b>Total financial assets</b>	<b>18,912</b>	<b>1,544</b>	<b>6,630</b>	<b>40,302</b>	<b>168,372</b>	<b>235,760</b>
<b>Liabilities</b>						
Shares .....	131,451	3,039	7,027	11,312	1,140	153,969
Deposits from banks ...	3,026	1	122	17,000	-	20,149
Other deposits .....	2,295	625	2,138	16	-	5,074
Secured funding – ABS and covered bonds .....	1,183	887	421	12,121	5,777	20,389
Senior unsecured .....	43	4,890	4,957	2,396	3,267	15,553
Derivative financial instruments .....	36	118	43	196	1,200	1,593

As at April 4, 2019						
	Not more than one month <sup>(1)</sup>	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	<i>(£ million)</i>					
Other financial liabilities .....	-	(1)	(2)	(14)	-	(17)
Subordinated liabilities	18	-	57	1,418	5,213	6,706
Subscribed capital <sup>(2)</sup> ....	1	1	1	-	247	250
<b>Total financial liabilities.....</b>	<b>138,053</b>	<b>9,560</b>	<b>14,764</b>	<b>44,445</b>	<b>16,844</b>	<b>223,666</b>
Off balance sheet commitments <sup>(3)</sup> .....	12,956	-	-	-	-	12,956
<b>Net liquidity difference.....</b>	<b>(132,097)</b>	<b>(8,016)</b>	<b>(8,134)</b>	<b>(4,143)</b>	<b>151,528</b>	<b>(862)</b>
<b>Cumulative liquidity difference.....</b>	<b>(132,097)</b>	<b>(140,113)</b>	<b>(148,247)</b>	<b>(152,390)</b>	<b>(862)</b>	<b>-</b>
As at April 4, 2018						
	Not more than one month <sup>(1)</sup>	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	<i>(£ million)</i>					
<b>Assets</b>						
Cash .....	14,361					14,361
Loans and advances to banks.....	3,149				344	3,493
Investment securities – available for sale.....	76	64	247	2885	9,774	13,046
Loans and advances to customers.....	2,970	1,318	5,719	30,525	151,061	191,593
Derivative financial instruments .....	12	17	289	2,347	1,456	4,121
Other financial assets...		(16)	(79)	(143)	129	(109)
<b>Total financial assets .</b>	<b>20,568</b>	<b>1,383</b>	<b>6176</b>	<b>35,614</b>	<b>162,764</b>	<b>226,505</b>
<b>Liabilities</b>						
Shares .....	120,617	2,892	12,081	11,092	1,321	148,003
Deposits from banks ....	3,375	9	52	17,000		20,436
Other deposits.....	2,493	481	1,708	11		4,693
Secured funding – ABS and covered bonds .....	872	65	708	11,757	6,288	19,690
Senior unsecured.....	229	4,644	2,128	3,434	3,993	14,428
Derivative financial instruments .....	39	25	28	369	1,876	2,337
Other financial liabilities .....		(6)	(14)	(33)		(53)
Subordinated liabilities	17		49	690	4,741	5,497
Subscribed capital <sup>(2)</sup> .....	1	1	1		260	263
<b>Total financial liabilities.....</b>	<b>127,643</b>	<b>8,111</b>	<b>16,741</b>	<b>44,320</b>	<b>18,479</b>	<b>215,294</b>
Off balance sheet commitments <sup>(3)</sup> .....	13,890					13,890
<b>Net liquidity</b>	<b>(120,965)</b>	<b>(6,728)</b>	<b>(10,565)</b>	<b>(8,706)</b>	<b>144,285</b>	<b>(2,679)</b>

	<b>As at April 4, 2018</b>					
	<b>Not more than one month<sup>(1)</sup></b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ million)</i>					
<b>difference .....</b>						
<b>Cumulative liquidity difference .....</b>	(120,965)	(127,693)	(406,944)	(287,976)	(2,679)	

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Notes:

- (1) Not more than one month includes amounts repayable on demand.
- (2) Comparatives have been restated as a result of a change in presentation of accrued interest on subordinated liabilities and subscribed capital, as described in note 1 to the audited consolidated financial statements as at and for the year end April 4, 2019.
- (3) The principal amount for undated subscribed capital is included within the due after more than five years column.
- (4) Off-balance sheet commitments include amounts payable on demand for unrecognized loan commitments and customer overpayments on residential mortgages, where the borrower is able to drawdown the amount overpaid.
- (5) The analysis above excludes certain non-financial assets including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and non-financial 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 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.

<b>For the year ended April 4, 2019</b>						
<b>Gross contractual cash flows</b>	<b>Not more than one month<sup>(1)</sup></b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ million)</i>					
Shares .....	131,451	3,098	7,160	11,668	1,141	154,518
Deposits from banks	3,026	32	215	17,221	0	20,494
Other deposits .....	2,295	630	2,140	16	0	5,081
Secured funding – ABS and covered bonds ...	1,199	835	543	11,806	5,901	20,284
Senior unsecured.....	43	4,670	5,312	2,908	3,486	16,419
Subordinated liabilities	20	0	226	1,495	6,412	8,153
Subscribed capital (note ii)	1	1	11	81	217	311
<b>Total non-derivative financial liabilities</b>	<b>138,035</b>	<b>9,266</b>	<b>15,607</b>	<b>45,195</b>	<b>17,157</b>	<b>225,260</b>
Derivative financial instruments .....						
Gross settled derivative outflows	(439)	(2,565)	(1,390)	(4,791)	(5,349)	(14,534)
Gross settled derivative inflows	427	2,485	1,288	4,378	5,086	13,664
Gross settled derivatives – net flows	(12)	(80)	(102)	(413)	(263)	(870)
Net settled derivative liabilities	(28)	(125)	(350)	(947)	(916)	(2,366)
<b>Total derivative financial liabilities</b>	<b>(40)</b>	<b>(205)</b>	<b>(452)</b>	<b>(1,360)</b>	<b>(1,179)</b>	<b>(3,236)</b>
<b>Total financial liabilities.....</b>	<b>137,995</b>	<b>9,061</b>	<b>15,155</b>	<b>43,835</b>	<b>15,978</b>	<b>222,024</b>
Off-balance sheet commitments <sup>(3)</sup> .....	12,956					12,956
<b>Total financial liabilities including off-balance sheet commitments .....</b>	<b>150,951</b>	<b>9,061</b>	<b>15,155</b>	<b>43,835</b>	<b>15,978</b>	<b>234,980</b>



**For the year ended April 4, 2018**

<b>Gross contractual cash flows</b>	<b>Not more than one month<sup>(1)</sup></b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ million)</i>					
Shares .....	120,617	2,959	12,229	11,398	1,524	148,727
Deposits from banks .....	3,402	8	187	17,453		21,050
Other deposits .....	2,493	486	1,710	11		4,700
Secured funding – ABS and covered bonds .....	880	76	857	10,745	8,625	21,183
Senior unsecured.....	162	4,712	2,257	3,041	5,274	15,446
Derivative financial instruments .....	(22)	(71)	(221)	(917)	(1,286)	(2,517)
Subordinated liabilities .....	18		178	1,201	5,400	6,797
Subscribed capital <sup>(2)</sup> .....	1	1	21	73	244	340
<b>Total financial liabilities.....</b>	<b>127,551</b>	<b>8,171</b>	<b>17,218</b>	<b>43,005</b>	<b>19,781</b>	<b>215,726</b>
Off-balance sheet commitments <sup>(3)</sup> .....	13,890					13,890
<b>Total financial liabilities including off-balance sheet commitments .....</b>	<b>141,441</b>	<b>8,171</b>	<b>17,218</b>	<b>43,005</b>	<b>19,781</b>	<b>229,616</b>

Notes:

- (1) Due less than one month includes amounts repayable on demand.
- (2) The principal amount for undated subscribed capital is included within the due after more than five years column.
- (3) Off-balance sheet commitments include amounts payable on demand for unrecognized loan commitments and customer overpayments on residential mortgages, where the borrower is able to drawdown the amount overpaid.

**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 our balance sheets at fair value:

	<b>For the year ended April 4, 2019</b>	
	<b>Carrying value</b>	<b>Fair value</b>
	<i>(£ million)</i>	
<b>Financial assets</b>		
Loans and advances to banks.....	4,009	4,009
Investment Securities – Amortized Cost	1,656	1,651
Loans and advances to customers:		
Residential mortgages.....	185,734	186,151
Consumer banking .....	4,168	4,104
Commercial lending .....	9,020	8,973
Other lending .....	-	-
<b>Total .....</b>	<b>204,587</b>	<b>204,888</b>
<b>Financial liabilities</b>		
Shares .....	153,969	153,989
Deposits from banks .....	20,149	20,149
Other deposits .....	5,074	5,074

Debt securities in issue .....	35,942	36,720
Subordinated liabilities .....	6,706	6,681
Subscribed capital.....	250	235
<b>Total</b> .....	<b>222,090</b>	<b>222,848</b>

	<b>For the year ended April 4, 2018</b>	
	<b>Carrying value</b>	<b>Fair value</b>
	<i>(£ million)</i>	
<b>Financial assets</b>		
Loans and advances to banks.....	422	422
Investment securities.....	1,120	1,128
Loans and advances to customers:		
Residential mortgages.....	177,154	176,479
Consumer banking .....	3,809	3,666
Commercial lending.....	10,630	9,570
<b>Total</b> .....	<b>196,206</b>	<b>194,336</b>
<b>Financial liabilities</b>		
Shares .....	148,003	147,901
Deposits from banks .....	20,436	20,436
Other deposits .....	4,693	4,693
Debt securities in issue .....	34,118	34,807
Subordinated liabilities .....	5,497	5,521
Subscribed capital.....	263	258
<b>Total</b> .....	<b>198,492</b>	<b>213,616</b>

Note:

- (1) Comparatives have been restated as a result of a change in presentation of accrued interest on subordinated liabilities and subscribed capital, as described in note 1 to the audited consolidated financial statements as at and for the year ended April 4, 2019.

### ***Loans and advances to banks***

The fair value of loans and advances to banks is estimated by discounting expected cash flows at a market discount rate. The carrying amount is considered a reasonable approximation of fair value.

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

The fair value of loans and advances to customers is estimated by discounting expected cash flows to reflect current rates for similar lending.

Consistent modelling techniques are used across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (the “SVR”) which, for example, in the case of our residential base mortgage rate (the “BMR”) mortgage book, generates a fair value lower than the amortized cost value as those mortgages are priced below the SVR.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

### *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.

### *Subordinated liabilities and subscribed capital*

The fair value of subordinated liabilities and subscribed capital is determined by reference to quoted market prices of similar instruments.

### *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, 2019</b>				
	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
	<i>(£ million)</i>			
<b>Financial Assets</b>				
Investment securities .....	13,508	989	62	14,559
Investments in equity shares .....	-	-	19	19
Derivative financial instruments .....		3,562	-	3,562
Loans and advances to customers	-	-	129	129
<b>Total .....</b>	<b>13,508</b>	<b>4,551</b>	<b>210</b>	<b>18,269</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(1,593)	-	(1,593)
<b>Total</b>	<b>-</b>	<b>(1,593)</b>	<b>-</b>	<b>(1,593)</b>

<b>For the year ended April 4, 2018</b>				
	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
	<i>(£ million)</i>			
<b>Financial Assets</b>				
Investment securities—AFS .....	10,599	1,282	44	11,925
Investments in equity shares .....	-	-	3	3
Derivative financial instruments .....	-	4,121	-	4,121
Other financial assets .....	-	-	-	-
<b>Total .....</b>	<b>10,599</b>	<b>5,403</b>	<b>47</b>	<b>16,049</b>

For the year ended April 4, 2018				
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
	<i>(£ million)</i>			
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(2,333)	(4)	(2,337)
<b>Total .....</b>	<b>-</b>	<b>(2,333)</b>	<b>(4)</b>	<b>(2,377)</b>

Notes:

- (1) Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.
- (2) Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, ABS, certain CDOs, CLOs and OTC derivatives.
- (3) Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain ABS and bonds.

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. Nationwide fair values a portion of the mortgage commitments on the balance sheet.

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, 2018. There were no significant transfers between the Level 1 and Level 2 portfolios during the year ended April 4, 2018.

With respect to our Level 2 investment securities, fair value through other comprehensive income (FVOCI) assets are sourced from consensus pricing or other observable market prices. None of these Level 2 FVOCI 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 – FVOCI***

Nationwide did not hold any Level 3 FVOCI investment securities at April 4, 2018. During the period all investments were transferred from Level 3 to Level 2 due to changes in the availability of observable market prices. For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognized at the beginning of the reporting period in which they occur.

#### ***Investments in equity shares***

The Level 3 investments in equity shares include investments of £81 million as at April 4, 2019 (April 4, 2018: £44 million) in industry wide banking and credit card service operations and £18 million of new investments made in Fintech companies during the year.

#### ***Derivative financial instruments***

Level 3 assets and liabilities in this category are primarily equity linked derivatives with external counterparties which economically match the investment return payable by Nationwide to investors in the PEBs product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party. Fair value changes are recognized within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

### Level 3 portfolio – movements analysis

The table below analyses movements in the Level 3 portfolio:

	For the year ended April 4, 2019		
	Investments in equity shares	Net derivative financial instruments – liabilities	Loans and advances to customers
	<i>(£ million)</i>		
<b>As at April 4, 2018</b>			
(Loss)/gain recognized in the income statement:	44	(4)	-
IFRS9 Transition <sup>(1)</sup>	1	-	247
As at April 5, 2018	45	(4)	247
Net interest (expense)/income .....	-	-	8
Gains/(losses) from derivatives and hedge accounting .....	4	-	-
Other operating income .....	15	2	6
Additions	18	-	-
Settlements .....	(1)	2	(21)
Transfers out of Level 3.....	-	-	(111)
<b>As at April 4, 2019</b> .....	<b>81</b>	<b>-</b>	<b>129</b>

Note:

(1) Figures have been adjusted to reflect the impact of applying IFRS 9 Financial Instruments from April 5, 2018. Further information is provided in our Report on Transition to IFRS 9: Financial Instruments, which can be found on nationwide.co.uk.

	For the year ended April 4, 2018		
	Investments in equity shares	Net derivative financial instruments – liabilities	Other deposits – PEBs
	<i>(£ million)</i>		
<b>As at April 4, 2017</b>	66	228	(810)
Gains/(losses) recognized in the income statement:			
Net interest income/(expense) .....	-	206	(210)
Losses/(gains) from derivatives and hedge accounting .....	-	(232)	233
Other operating income .....	26	-	-
(Losses)/gain recognized in other comprehensive income:			
Fair value movement taken to members' interests and equity .....	(18)	-	-
Settlements .....	-	-	-
Disposals.....	-	(206)	787
Transfers out of Level 3.....	(30)	-	-
<b>As at April 4, 2018</b> .....	<b>44</b>	<b>(4)</b>	<b>-</b>

**For the year ended April 4, 2017**

	<b>Investments in equity shares</b>	<b>Net derivative financial instruments – liabilities</b>	<b>Other deposits – PEBs</b>
		<i>(£ million)</i>	
<b>As at April 4, 2016</b>	125	431	(1,885)
Gains/(losses) recognized in the income statement:			
Net interest income/(expense) .....	-	308	(327)
(Losses)/gains from derivatives and hedge accounting .....	-	(205)	201
Other operating income .....	100	-	-
Losses recognized in other comprehensive income: .....			
Fair value movement taken to members' interests and equity .....	(66)	-	-
Settlements .....	-	(306)	1,201
Acquisitions .....	25	-	-
Disposals .....	(118)	-	-
<b>As at April 4, 2017</b> .....	<b>66</b>	<b>228</b>	<b>(810)</b>

The significant movements in Level 3 positions during the year ended April 4, 2019 are explained below:

- A decrease in net derivative financial instruments due to a decrease in market value. This decrease is driven by settlements as the product being economically hedged (PEBs) matures.
- A decrease in other deposits—PEBs due to settlements which occur as products mature and customer deposits are redeemed.

### 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, 2019</b>		
	<b>Fair value</b>	<b>Favourable changes</b>	<b>Unfavourable changes</b>
		<i>(£ million)</i>	
<b>Investment securities:</b>	<b>81</b>	<b>36</b>	<b>(39)</b>
Loans and advances to customers .....	129	4	(5)
<b>Total</b> .....	<b>210</b>	<b>40</b>	<b>(44)</b>

	<b>For the year ended April 4, 2018</b>		
	<b>Fair value</b>	<b>Favourable changes</b>	<b>Unfavourable changes</b>
		<i>(£ million)</i>	
<b>Investment securities:</b>	<b>44</b>	<b>25</b>	<b>(35)</b>
Net derivative financial instruments .....	(4)	-	-
<b>Total</b> .....	<b>40</b>	<b>25</b>	<b>(35)</b>

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Note:

- (1) The derivative financial instruments balance is an economic hedge of a closed equity release mortgage portfolio. The fair value is an unadjusted account sourced from a third party and so there is no quantitative information available to disclose a sensitivity analysis.

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.

## 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 Chief Financial Officer, the Deputy CEO and the Chief Products and Propositions Officer. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under 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.

### Management and Director Changes

Albert Hitchcock was appointed to the Board on December 2, 2018 and will be elected at the Society's annual general meeting to be held on July 18, 2019.

On 21 May 2019, the Society announced that Mark Rennison, Chief Financial Officer, has discussed with the Board his intention to retire. Mark Rennison has agreed to stay in role until a successor has been appointed.

### Directors

The following table presents information with respect to current directors:

Name	Age (as at April 4, 2019)	Position	Other Directorships
David Roberts	56	Chairman	Beazley plc Beazley Furlonge Limited Campion Willcocks Limited NHS England NHS Improvement
Joe Garner	49	Chief Executive Officer	British Triathlon Foundation Trust U.K. Finance
Mark Rennison	58	Chief Financial Officer	Arkose Funding Limited Confederation Mortgage Services Limited Exeter Trust Limited First Nationwide LBS Mortgages Limited Nationwide Anglia Property Services Limited Nationwide Housing Trust Limited



Name	Age (as at April 4, 2019)	Position	Other Directorships
			Nationwide Investments (No.1) Limited Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited NBS Fleet Services Limited NBS Ventures Management Limited Piper Javelin Holding Company Limited Piper Javelin No 1 Limited Staffordshire Leasing Limited Silverstone Securitisation Holdings Limited
Chris Rhodes	56	Chief Products and Propositions Officer	at.home nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited National Numeracy (Trustee) NBS Ventures Management Limited The Lending Standards Board Limited The Mortgage Works (U.K.) plc UCB Home Loans Corporation Limited
Tony Prestedge	49	Deputy CEO	Dunfermline BS Nominees Limited Monument (Sutton) Limited Nationwide Anglia Property Services Limited Nationwide Trust Limited NBS Ventures Limited NBS Ventures Management Limited The Derbyshire (Premises) Limited The Nationwide Foundation
Rita Clifton	61	Non-Executive	Ascential plc

Name	Age (as at April 4, 2019)	Position	Other Directorships
		Director	ASOS plc BrandCap Limited Rita Clifton Limited The Green Alliance Trust
Mitchel Lenson	64	Non-Executive Director	The Currency Cloud Group Limited
Lynne Peacock	65	Non-Executive Director	Hawkins Residents Limited Serco Group plc The Westminster Society for People with Learning Disabilities
Mai Fyfield	49	Non-Executive Director	Roku Inc
Tim Tookey	56	Non-Executive Director	Westmoreland Court Management (Beckenham) Limited
Kevin Parry	57	Non-Executive Director	Daily Mail and General Trust plc Intermediate Capital Group plc KAH Parry Limited Royal National Children's Springboard Foundation Standard Life Aberdeen plc Royal London Group
Baroness Usha Prashar	70		

Name	Age (as at April 4, 2019)	Position	Other Directorships
		Non-Executive Director	U.K. Community Foundations (Honorary President)  Cumberland Lodge
Gunn Waersted	64	Non-Executive Director	Petoro AS  Telenor ASA  Lukris Invest AS  Fidelity International (Bermuda)  Saferoad ASA
Albert Hitchcock	54	Non-Executive Director	

## Biographies

### David Roberts

#### *Chairman*

David joined Nationwide on September 1 2014 and took over as Chairman in July 2015. David combines a distinctive blend of leadership experience across major listed corporations, the mutual movement, and public service, including 35 years in financial services. He is a passionate champion of Nationwide's social purpose and of the Society's commitment to help improve the financial lives of its members. David also strongly believes in the economic value of commerce and the importance of rebuilding trust in big business.

#### **Current external positions include:**

Chairman, Beazley plc

Vice Chair, NHS England

Associate non executive director, NHS Improvement

Non executive director, Campion Wilcocks Limited

Advisor Board member, The Mentoring Foundation Advisory Council

Member, Strategy Board, Henley Business School, University of Reading

#### **Previous positions include:**

Group Deputy Chairman, Lloyds Banking Group plc

Executive director, Barclays Bank plc and CEO, International and Commercial Banking

Chairman and CEO, Bawag PSK AG

Non executive director, BAA plc

Non executive director, Absa Group SA

## **Joe Garner**

### *Chief Executive Officer*

Joe joined Nationwide as CEO in April 2016. Joe has spent his working life in consumer-focused businesses, starting his career with consumer product companies Procter & Gamble and Dixons Carphone. He later took on leadership roles first as Head of HSBC's UK retail and commercial businesses and then as CEO at Openreach. Throughout his career, Joe has championed the interests of colleagues and customers, believing that looking after both is not only the right thing to do, but the key to commercial success. Since joining Nationwide, Joe's mission has been to inspire colleagues to remain true to the Society's social purpose; using the power of the collective to improve people's lives. Joe is passionate about Nationwide's core purpose of "building society, nationwide".

#### **Current external positions include:**

Director, UK Finance

Member, Financial Conduct Authority Practitioner Panel

Chairman and trustee, British Triathlon Trust

Member, Economic Crime Strategy Board

#### **Previous positions include:**

CEO, Openreach

Deputy CEO, HSBC Bank plc

Head, HSBC's UK Retail and Commercial Business

Non executive director, Financial Ombudsman Service

## **Mark Rennison**

### *Chief Financial Officer*

Mark is a chartered accountant with over 30 years' experience in financial services. His track record in the sector, including expertise in treasury operations, risk management and capital planning, equip him to lead the sustained and safe operation of a large financial business like Nationwide. As Chief Financial Officer, he is responsible for Finance and Efficiency, effectively ensuring Nationwide's financial strength so that it can continue to invest in sustainable services for current and future members.

#### **Current external positions include:**

Chair, Financial Risk and Policy Committee, UK Finance

Director, Arkose Funding Limited

#### **Previous positions include:**

Partner, PricewaterhouseCoopers LLP

Member, Bank of England's PRA Practitioner Panel

## **Chris Rhodes**

### *Chief Products and Propositions Officer*

Chris joined Nationwide in April 2009. He is a chartered accountant with over 30 years' experience in retail and commercial banking, holding senior leadership roles across finance, treasury, operations, retail distribution and risk management. This broad background in financial services means he is ideally placed to oversee the development of the Society's product and services to ensure they meet the needs of the Society's 15 million members.

#### **Current external positions include:**

Trustee, National Numeracy

Director, Lending Standards Board

#### **Previous positions include:**

Group Finance Director, Alliance and Leicester Group

Deputy Managing Director, Girobank

## **Board of Director, Visa Europe Rita Clifton CBE**

### *Non-Executive Director*

As a former CEO and Chair of brand consultancy Interbrand, Rita is an acclaimed brand expert. This, and her background in consumer insight, help ensure that member interests are central to Board business. Rita has helped a wide range of iconic British organisations understand how to use research, marketing strategy and communications to build sustainable brand value. She is also a committed advocate for environmental and sustainability issues.

#### **Current external positions include:**

Non executive director, ASOS plc

Non executive director, Ascential plc (previously known as EMAP plc)

Chairman, BrandCap

Member, Assurance and Advisory Panel, BP's carbon off-setting programme

Target Neutral

Trustee, Green Alliance

#### **Previous positions include:**

London CEO and Chairman, Interbrand

Vice Chairman, Saatchi & Saatchi

Non executive director, Dixons Retail plc

Fellow and Trustee, WWF (Worldwide Fund for Nature)

Non executive director, Bupa

Non executive director, Populus Limited

Member, the UK Government's Sustainable Development Commission

## **Tony Prestedge**

### *Deputy Chief Executive*

Tony combines deep strategic, transformation, IT and operational experience from over two decades in financial services, with a passionate focus on delivering exceptional service across every member touch point within the Society. Tony is Deputy Chief Executive; his accountabilities include developing Nationwide's strategy and driving digital transformation as well as leading the Society's Relationships and Distribution community. This encompasses branches, contact centres, mobile and digital channels, mortgage and financial planning distribution, collections and recoveries, member services and intermediary sales. Prior to his current role Tony was Nationwide's Chief Operating Officer.

#### **Previous positions include:**

Managing Director, Home Finance and Retail Support and

Operations Director, Barclays plc

Director, Woolwich Mortgage Services Limited

Director, Global Home Loans Limited

Director, Opportunity Now

## **Mitchel Lenson**

### *Non-Executive Director*

After serving the Society for eight years, Mitchel will step down from the Board at the 2019 AGM. During his term of office, Mitchel has brought to the Board an exceptional leadership track record in technology, operations and programme management. In a 30-year career in financial services he has held senior management positions across retail, corporate, investment banking and private wealth and asset management. In addition, Mitchel has advised on financial services in the private equity sector and has ongoing involvement in the finch space.

#### **Current external positions include:**

Non executive director, The Currency Cloud Group Limited

Advisor to Lombard Odier

#### **Previous positions include:**

Group Chief Information Officer, Deutsche Bank AG

Managing Director, Global Head of Operations & Operation IT, UBS Warburg

Director, Group Operations, Credit Suisse First Boston

Partner, Olivant & Co

Non executive director, NYFIX

Advisor to Lombard Odier

## **Lynne Peacock**

### *Non-Executive Director*

Lynne has an exceptional background in financial services, including an extensive understanding of the mutual sector. In addition to leading two retail banks and holding a directorship within a building society, she has operated at Board level for over 20 years, overseeing brand development, mergers and acquisitions, change management and business transformation. Lynne is a strong advocate of mutuality and is Chair of the trustees of a charity for people with learning disabilities.

#### **Current external positions include:**

Non executive director, Serco Group plc

Chair of trustees, Westminster Society for People with Learning Disabilities

#### **Previous positions include:**

CEO of National Australia Bank's UK business

CEO of Woolwich plc

Non executive director, Jardine Lloyd Thompson Group plc

Non executive director, Scottish Water

Non executive director, Standard Life Aberdeen plc

## **Mai Fyfield**

### *Non-Executive Director*

Mai combines her experience as an economist and strategist with considerable commercial experience to guide the Board's strategic thinking and assessment of new opportunities and initiatives. She was until last year Chief Strategy and Commercial Officer at Sky where she led strategy and commercial partnerships across the Sky Group, an organisation she joined in 1999. With a strong focus on customer experience and service delivery, Mai previously served as economic adviser to major blue-chip companies. She is a champion of diversity and helping women succeed in senior management and Board positions.

#### **Current external positions include:**

Director, Roku Inc.

#### **Previous positions include:**

Director, Jupiter Entertainment

Chief Strategy and Commercial Officer, Sky Group plc

## **Tim Tookey**

*Non-Executive Director*

Tim is a chartered accountant with over 30 years' experience in finance, across retail and commercial banking, life assurance and pensions, and insurance. As a former Chief Financial Officer, Tim has the background and expertise to analyse and test the Society's financial and risk strategies.

### **Current external positions include:**

Director, Westmoreland Court Management (Beckenham) Ltd

### **Previous positions include:**

Chief Financial Officer, Quilter plc (previously known as Old Mutual Wealth Management Limited)

Chairman, Alliance Trust Savings Limited

Chief Financial Officer, Friends Life Group Limited

Group Finance Director, Lloyds Banking Group

Finance Director, Prudential plc's UK business

## **Kevin Parry**

*Non-Executive Director*

Kevin is a chartered accountant with a distinguished career in financial services and professional practice, bringing to the Board expertise in audit, regulation, risk management, and finance. As a former Chairman of the Homes and Communities Agency, his perspective on housing is a valuable asset to the Society. He is Chairman of Royal London, the largest mutual insurer in the UK. He is a trustee and former Chairman of the Royal National Children's SpringBoard Foundation, a charity providing life transforming opportunities through education to disadvantaged children.

### **Current external positions include:**

Chairman, Royal London Group

Chairman, Intermediate Capital Group plc

Non executive director and Chairman of the Audit and Risk Committee, Daily

Mail and General Trust plc

Trustee, Royal National Children's SpringBoard Foundation

### **Previous positions include:**

Chief Financial Officer, Schroders plc



Chief Executive Officer, Management Consulting Group plc

Managing Partner, Information Communications and Entertainment, KPMG LLP

Senior Independent Director, Standard Life Aberdeen plc

## **Baroness Usha Prashar**

### *Non-Executive Director*

Usha is a highly experienced policy advisor, with a singular mix of insight across the public, not-for-profit and broadcasting sectors. Her wealth of public and voluntary sector expertise helps inform Nationwide's regulatory perspectives and social purpose. Usha shares the Society's commitment to contributing to local communities and voluntary work.

#### **Current external positions include:**

Member of House of Lords

Honorary President, UK Community Foundations

Member, the Home Building Review Panel

Chair, Cumberland Lodge

#### **Previous positions include:**

Deputy Chair, the British Council

Member, European Select Committee

Non executive director, ITV

Non executive director, the Cabinet Office

Non executive director, Channel 4

Non executive director, Ealing, Hounslow and Hammersmith Health Authority

Inaugural Chairman, the Judicial Appointments Commission

## **Gunn Waersted**

### *Non-Executive Director*

Gunn has a distinguished international career, including senior leadership positions in financial services, telecommunications and petrochemicals. She brings to the Board vast experience of driving large-scale operational, cultural change and digital transformation programmes to improve customer experience. She is a strong advocate of the need for strong people cultures and creating genuinely diverse organisations.

#### **Current external positions include:**

Chair, Telenor ASA

Chair, Petoro AS

Member, Fidelity International.

Director, Saferoad ASA

**Previous positions include:**

CEO, Wealth Management Division, CEO of Nordea Bank Norway and

Executive Vice President at Nordea Bank Group

CEO, Vital Forsikring and Executive Vice President of DnB

Chair, Ferd and BI

Non executive director, Statkraft, Statoil

**Albert Hitchcock**

*Non-Executive Director*

Albert is a leader in information technology with a 33-year career in the technology industry. His experience is of huge value to the Society as we embark upon our ambitious £4.1 billion transformation programme to meet the expectations of our members today and in the future.

**Current external positions include:**

Chief Technology and Operations Officer, Pearson plc

**Previous positions include:**

Technology Adviser to the Board, Royal Bank of Scotland plc

Group Chief Information Officer, Vodafone plc

Global Chief Information officer, Nortel Networks

**Committees of Our Board of Directors**

Our **Board of Directors** operates through its meetings and through its five main committees, the Audit Committee, the Nomination and Governance Committee, the Remuneration Committee, the Board IT and Resilience 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 Officer, who is assisted by the Executive Committee and the Executive Risk Committee.

The **Audit Committee** provides oversight and advice to the Board in respect of amongst other things, financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems.

The purpose of the **Nomination and Governance Committee** is to assist the Chairman in keeping the composition of the Board under review, making recommendations to the Board on succession planning, executive level appointments and leading the appointments process for nominations to the Board. The Committee oversees the implementation of the Society's Equality, Diversity and Inclusion strategy and

objectives. It also reviews the Board's governance arrangements and makes recommendations to the Board to ensure that the arrangements are consistent with best practice.

The **Remuneration Committee** is responsible for determining and agreeing with the Board the framework or broad policy for remuneration of the Chairman, the directors and other senior executives of the Society including employees who are identified as material risk takers under the PRA Remuneration Code. It determines, within the terms of the agreed policy, the specific remuneration packages for these roles. The Committee also reviews the ongoing appropriateness and relevance of the remuneration policy across the rest of Nationwide.

The Board IT and Resilience Committee provides oversight and advice to the Board on the Society's IT strategy, IT architecture, IT operating model effectiveness, delivery performance and resilience controls, including cyber risk, as well as overseeing the Society's data management strategy.

The purpose of the **Board Risk Committee** is to provide oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite. In addition, the Committee is responsible for monitoring compliance oversight, and the effectiveness of the Enterprise Risk Management Framework ("ERMF"). It also advises the Remuneration Committee on any risk adjustments to be made, including risk appetite, risk monitoring, and risk adjustments to remuneration.

The **Executive Committee** is our key operational committee which oversees the day-to-day operations of our business. This Committee meets once a month, reviews all matters that are to be presented to the Board of Directors, and is composed of our Chief Executive Officer, the three other executive directors and the seven other individuals who form the Society's senior leadership team (this includes the Chief Internal Auditor who is an attendee of the Committee).

The **Weekly Heartbeat Committee** reports to the Executive Committee and reviews the end-to-end performance of our product and service propositions and agrees actions in order to meet the organization's strategic objectives. The Committee's membership is wide ranging and comprises of senior leaders from across the Society including the second line.

The **Executive Risk Committee**, which meets on average once a month, is responsible for ensuring a coordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the four executive directors and a number of other members of the Executive Committee. It is chaired by the Chief Risk Officer. The risk committees comprise the:

- ALCO (Assets and Liabilities Committee);
- Credit Committee
- Model Risk Oversight Committee (formerly Risk Oversight Committee);
- Operational Risk Committee; and
- Conduct & Compliance Committee.

**ALCO** determines and amends the Society's approach to financial risk and sets thresholds for endorsement by the Executive Risk Committee and approval by the Board. It manages the financial risk profile of the Society in accordance with the Enterprise Risk Management Framework, Board Risk Appetite, Society Strategy and the Financial Plan.

ALCO comprises the Chief Financial Officer (Chair), Chief Executive Officer, Chief Products and Propositions Officer, Chief Risk Officer, Director of Treasury, Director of Financial Planning and Stress Testing and the Chief Credit Officer. For more information about ALCO, see the section entitled "*Financial Risk Management*."

The **Credit Committee** is responsible for determining and amending the Society's attitude to lending risk and set thresholds for endorsement by the Executive Risk Committee and the Board Risk Committee. It also manages the lending risk profile of the Society in accordance with the Enterprise Risk Management Framework, Board Risk Appetite, Society Strategy and the Financial Plan.

The Committee's membership comprises the Chief Credit Officer (Chair), Chief Risk Officer, Chief Products and Propositions Officer, Chief Financial Officer Head of Secured Credit Risk, Head of Unsecured Portfolio Management, Head of Property and Underwriting Risk Services, Director of Modelling, Head of Commercial and Treasury Credit Risk and Director of Treasury. For more information about the Credit Committee, see the section entitled "*Financial Risk Management—Credit risk.*"

The Model **Risk Oversight Committee** is responsible for overseeing the model risk profile of the Society, assessing whether models are fit for purpose and reviewing and challenging the Society's 1st Line use and management of models to manage the risk.

The Committee is comprised of the Head of Model Risk Oversight: Credit, Head of Model Risk Oversight: Finance & MRM, Head of Financial and Strategic Risk, Head of Market, Liquidity and Solvency Risk; and Head of Retail Lending.

The **Operational Risk Committee** is responsible for monitoring operational risk exposures of the Society in accordance with the Enterprise Risk Management Framework, Operational Risk Management Framework, Board Risk Appetite and Society Strategy. It ensures that controls over operational risks are designed and operating effectively and that actions address control deficiencies and are implemented in a timely manner. It also informs the Executive Risk Committee and the Board Risk Committee of the Society's operational risk and control profile, including presenting options for improving the risk and control environment.

The Committee's membership comprises the Chief Data Officer, Chief Transformation Officer, Director of Technology Risk, Director of Risk & Governance, Director of Supply Chain Management, Director of Financial Controls & Operations, Director of Fraud, Director of Channel Risk & Compliance and Senior Manager of Risk Policy and Control.

The **Conduct & Compliance Committee** oversees the Society's progress and implementation of significant conduct and compliance activity. It supports the Executive Risk Committee and the Board Risk Committee with the creation of and challenge to the Society's conduct and compliance risk thresholds. It also oversees the review and management of the Society's conduct and compliance risk and incident exposures.

The Committee's membership comprises of the Director of Channel Risk & Compliance, Director of Regulated Advice, Chief Marketing Officer, Chief People Officer, Compliance Advice Director, Director of Anti-Money Laundering, Director of Governance, Director of Home Proposition, Director of Banking & Insurance and Director of Product Operations.

## **Compensation**

For the year ended April 4, 2019 the aggregate amount of compensation that we paid to the Board of Directors as a group totalled £6.7 million. From April 2014 we have operated a performance pay plan for Directors 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. For performance periods commencing from April 2016 onwards, the time horizon for payments of awards has been extended in response to changing regulatory requirements, such that awards are deferred for between three and seven years. The Remuneration Committee sets the performance targets each year. From April 2017 onwards, the maximum award under this scheme each year for the Chief Executive is 152% of base salary and for other executive directors is 112% of salary. Previous maximums were 160% and 120% respectively.

In addition, executive directors receive other benefits including a car allowance, access to shared drivers when required, healthcare, and insurance benefits.

## **Directors' Loans**

As at April 4, 2019, we had loans to directors or persons connected to directors totalling £0.9 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. Whilst Nationwide previously offered directors and other employees' discounts on residential mortgage loans, these offers have been ceased. Some such loans originated before the offer cessation date may still be extant.

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**

Executive directors (Joe Garner, Tony Prestedge, Mark Rennison and Chris Rhodes) receive a cash allowance in lieu of pension.

Mark Rennison is a deferred member of the Group's defined benefit plan and receives a cash allowance in lieu of future accrual in this plan.

#### **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 U.K. banking groups. In addition we also compete with a range of other smaller banks, with other building societies and with insurance companies. In recent years, new providers have emerged as competitors in all areas of the U.K. personal financial services market where evolving technology and innovation have widened the range of competitive threats. 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.

### ***Major U.K. Banks***

The U.K. financial services market is dominated by the five largest banking groups, namely Lloyds Banking Group, Royal Bank of Scotland, Barclays, HSBC and Santander U.K. These are our principal competitors in our core mortgages, savings and personal account markets. Following the ring-fencing of their U.K. retail operations, banks with surplus liquidity (i.e. where deposit balances exceed loan balances and can no longer be deployed to fund lending outside the ring fence) may or will seek to do so by increasing loan growth rates. This may increase competition in lending markets.

### ***Smaller U.K. Banks***

We also compete with a series of smaller U.K. banks that have emerged as challengers to the industry leaders (e.g. Virgin Money, CYBG and Metro Bank). While typically relatively small, some of these banks have sought rapid expansion via aggressive pricing, low cost operating models and by use of digital and intermediary distribution aided by the absence of legacy IT and other issues.

### ***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. Further, in one case, a society transferred its business to the subsidiary of another mutual organization. As a result, the number of building societies in the United Kingdom has fallen from 137 in 1985 to 43 as at April 4, 2019. Building societies today continue to hold an important share of the U.K. mortgage and savings market and have been recognized by recent U.K. Governments and the Independent Commission on Banking as bringing valuable diversity and competition to the U.K. banking sector. For further information about the U.K. residential mortgage market and U.K. retail deposit market see below.

### ***U.K. Insurance Companies***

The U.K. 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.

### ***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 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 U.K. 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. Online automated advice is likely to have an increasing impact on investment and protection 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. This includes new banks specifically providing mobile-phone based banking (e.g. Starling, Atom and Monzo) and large technology companies using their core businesses as a platform for financial services, particularly in the payments arena. The use of the intermediary sector also allows new entrants to gain access to the U.K. mortgage market. 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 U.K. Residential Mortgage Market

The table below sets out information for the last three years concerning year-end balances of U.K. lending secured on residential property and the proportions held by building societies, banks and us:

Year ended December 31,	Total Balances <sup>(1)</sup>	Banks & Building Societies <sup>(1)</sup>	Others	Our share of total U.K. residential mortgages <sup>(1)</sup>
		(£ billion, except percentages)		
2018.....	1,409.8	85.8%	14.2%	13.0%
2017.....	1,369.9	87.2%	12.8%	12.8%
2016.....	1,324.1	84.4%	15.6%	12.9%

Note:

- (1) *Source:* BoE, except for information regarding our balances which are taken from our own data. Building society figures include our own balances.

Although the overall size of the new mortgage market has shrunk considerably since 2007, the nature of competition is essentially unchanged, in that it involves defending the existing stock of balances and competing for the flow of new lending.

Competition for new lending remains fierce and is driven by first-time buyers or next-time buyers remortgaging, changing homes or extending their mortgages. The majority of this is for residential purposes; there has been a softening in BTL following SDLT reforms and in response to changes in underwriting standards. There has been a decline in the proportion of the U.K. population owning their own homes, from a peak of around 71% in 2003 to around 64% in 2018 (source: English Housing Survey). 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 has improved in recent years. For further information, see “*Risk Factors—Risks Related to Our Business—Changes to interest rates or monetary policy, whether by the U.K., US or other central banking authorities, could affect the financial condition of our customers, clients and counterparties, which could in turn adversely affect us.*” Competition is driven by a combination of price, risk profile and access to funding by lenders.

Our market share of gross advances of 13.4% during the year ended April 4, 2019 was slightly above our par share of 12.8% as at January 1, 2018. Over the year ended April 4, 2018, the average LTV ratio of new mortgage lending remained stable at 71% (excluding further advances) in line with the previous year.

### The U.K. Retail Deposit Market

The U.K. retail deposit market is dominated by banks, building societies and NS&I. Below is a table breaking down the total U.K. retail deposit market by type of financial institution compiled from details published by the BoE:

<b>Year ended December 31,</b>	<b>Total U.K. retail deposits<sup>(1)</sup></b>	<b>Banks' &amp; Building societies' share of total U.K. retail deposits<sup>(1)</sup></b>	<b>Others<sup>(1)</sup></b>	<b>Our share of total U.K. retail deposits<sup>(1)</sup></b>
<i>(£ billion, except percentages)</i>				
2018.....	1,521.3	89.1%	10.9%	10.1%
2017.....	1,473.0	89.6%	10.4%	10.0%
2016.....	1,427.9	90.0%	10.0%	10.1%

Note:

(1) Source: BoE, except for information regarding our balances which are taken from our own data.

The U.K. 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 U.K. 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.

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 this context our deposit balances grew by £6.0 billion in the year ended April 4, 2019.

## **Competitive Outlook**

Whilst some weaknesses remain, the major banks have now largely completed the process of financial repair upon which they embarked following the financial crisis. Consequently, these are now better placed to compete in their ongoing core businesses, including personal financial services. In recent years, greater public optimism about the U.K. 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, greatly reinforced by the Funding for Lending Scheme and the Term Funding Scheme. For some years these trends allowed financial institutions to grow volumes and improve net interest margins. However, many banks now expect limited scope for this margin improvement to continue, reinforced by slow growth of market volumes and the recent ending of the funding schemes. Though any increases in Base Rate will help ease pressure on net interest margins, this effect may be eroded as there is a possibility that competition for volumes will remain intense as banks with stronger funding seek to grow loan balances.

Competition for deposits also looks set to intensify as institutions prepare to repay funding scheme drawings over the next four years and as some smaller banks with heavy weightings to higher yielding, non-mortgage loan books (i.e. corporate loans or personal unsecured lending) offer competitive deposit pricing.

Competition for personal current accounts also looks set to remain intense 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 will continue at high levels, as major participants look to compete digitally against their existing peers to prevent newer entrants and fintech innovators from establishing a volume base.

## SUPERVISION AND REGULATION

### EUROPEAN UNION LEGISLATION

The framework for supervision and regulation of banking and financial services in the U.K. has been, and continues to be, heavily influenced by European Union 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 Capital Requirements Regulation (575/2013) (“**CRR**”) and the associated directive, the Capital Requirements Directive (2013/36/EU) (the “**CRD**”) (together, the “**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. CRD IV reinforces capital standards and establishes a leverage ratio “backstop.” Full implementation began from January 1, 2014, with particular elements being phased in over a period of time. The requirements largely became effective by 2019, although some minor transitional provisions provide for phase-in until 2024. As CRD IV allows certain national discretion, the final rules and the timetable for its implementation in each jurisdiction may be subject to some level of national variation. The Basel Committee has also published certain proposed revisions to the securitization framework, including changes to the approaches to calculating risk weights and new risk weight floors.

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, the CRD IV prescribes minimum criteria for regulation of the authorization of credit institutions and the prudential supervision applicable to them. The relevant regulators in the U.K. are the PRA and the FCA. For further information about regulation in the U.K. see paragraph “*U.K. Regulation*” below.

CRD IV substantially reflects the Basel III capital and liquidity standards. CRD IV also makes provision for (among other things) 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 technical standards to be drafted by the European Banking Authority.

The CRR gives express recognition for CET1 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 November 23, 2016 the European Commission published an extensive package of reforms to prudential standards proposing amendments to the framework applicable to financial groups. The reforms predominantly amend CRD IV, CRR and BRRD (as well as the Single Resolution Mechanism Regulation (EU) (806/2014)) (the “**Banking Reform Package**”). The Banking Reform Package is part of the on-going upgrade of CRD IV from Basel III to so-called ‘Basel IV’ and seeks to bring the EU’s existing MREL under the BRRD in line with the Financial Stability Board’s Total Loss-Absorbing Capacity standard for global systemically important institutions. The Banking Reform Package was formally approved by the Council of the EU on May 14, 2019 and will be published in the Official Journal of the EU in June 2019. The Banking Reform Package will enter into force 20 days after publication. In advance of the adoption of the full Banking Reform Package, the European institutions adopted the Article 108 Amending Directive, which provides for the insertion of a new class of non-preferred senior debt instruments. This is intended to bring increased flexibility for future MREL

issuance. The Banks and Building Societies (Priorities on Insolvency) Order 2018 (SI 2018/1244) came into force on 19 December 2018 and implements the Article 108 Amending Directive.

On December 7, 2017, the Basel Committee endorsed a package of reforms to the Basel III framework; in particular, the proposal to extend the implementation date of the revised minimum capital requirements for market risk, which were originally set to be implemented in 2019, to January 1, 2022 (which will constitute both the implementation of the revised market risk framework). The reforms endorsed by the Basel Committee also include, amongst others, a revised standardised approach for credit risk and operational risk, revisions to the internal ratings-based approach for credit risk, revisions to the credit valuation adjustment (“CVA”) framework, and revisions to the measurement of the leverage ratio and a leverage ratio buffer for global systematically important banks (“G-SIIBs”). The revisions to the measurement of the leverage ratio and leverage ratio buffer have been implemented through the Banking Reform Package. The European Commission is in the process of consulting with various stakeholders before proposing amendments in respect of the other Basel III reforms (we refer to the Basel Committee’s May 2019 update on the adoption of the Basel regulatory framework).

## U.K. REGULATION

### The U.K. Building Societies Act

The U.K. Building Societies Act, as amended, 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 FSMA, certain sections of the U.K. Building Societies Act were repealed. However, a substantial part of the U.K. Building Societies Act, including the constitutional parts dealing with the principal purpose of building societies, nature limits and general governance, among others, still remain in force. The U.K. Building Societies Act has been amended and supplemented since its introduction by primary and secondary legislation. For further information on the reforms under the FSMA, see below.

On July 6, 2012, HM Treasury published a discussion 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 its intention to amend the U.K. Building Societies Act to widen the opportunities for building societies without compromising their mutuality. As a result, modernizing changes to the U.K. Building Societies Act were made under the Financial Services (Banking Reform) Act 2013 (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 (thereby removing the risk that tier 1 capital would be downgraded to tier 2 capital in the event of such a demutualization).

All of these changes to the U.K. Building Societies Act are in force.

On April 6, 2018, certain changes were made to the restrictions on building societies from trading in currencies and entering into transactions involving derivative investments. The effect of the changes is to

increase the value of a permitted currency transaction which a society or a subsidiary undertaking may enter into from £100,000 to £3 million and to permit a society or a subsidiary undertaking to enter into derivative transactions (in connection with Article 37 of the EU Regulation on OTC derivatives, central counterparties and trade repositories) where required to do so by a central counterparty or a recognized clearing house and thereby permitting a society or subsidiary undertaking to be a member of a clearing house where such a requirement exists.

In the event that the U.K. were to leave the European Union without a deal or implementation period, it is proposed that regulations (The Building Societies Legislation (Amendment) (EU Exit) Regulations 2018, the “**Building Societies EU Exit Regulations**”) would amend the U.K. Building Societies Act and related legislation to equalise the treatment of EEA countries and other third countries after exit day. The proposals would have implications in terms of restricting the Society’s ability to diversify into lending secured on properties in EEA member states (as such loans would no longer count towards the statutory lending limit) and the ability to merge with companies and mutuals in EEA member states. Neither of these restrictions gives rise to any concerns for the Society as they do not impact its current business strategy.

### **Financial Services and Markets Act 2000**

The following sections describe 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 current account, retail savings 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 CMA. The general restriction which used to apply to building societies from creating floating charges was removed by the Banking Reform Act with effect from March 26, 2015.

Building societies have a statutory duty to keep accounting records as well as establish and maintain systems of control. The FCA and the PRA are empowered to request *ad hoc* reports regarding a society’s 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. Deposits in these share accounts are referred to as “U.K. retail member deposits” and people holding U.K. retail member deposits are referred to as “U.K. retail member depositors”. “**Deferred shares**” include our CCDS, Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities and PIBS.

There are restrictions on building societies raising funds from individuals other than in the form of deposits in share accounts or by the issue of deferred shares (including PIBS and the CCDS (see further below)).

The second category of members are “borrowing” members, that is, individuals who have received a loan from the building society (or in certain cases, if the rules of the society allow, from another person who holds the benefit of the loan for 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 U.K. 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 U.K. 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, subject to the Building Societies EU Exit Regulations, the Channel Islands, the Isle of Man or Gibraltar is disregarded. The specified amount in each case is up to 10% of what would have been the building society’s funding but for the exclusion. Deposits with a building society or any of its subsidiaries by small businesses are also disregarded from the calculation up to a maximum of 10% of what would have been the building 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 building society and its subsidiaries, plus provisions for bad or doubtful debts, less liquid assets, fixed assets and certain long-term insurance funds).

### ***Building Societies (Financial Assistance) Order 2010***

On April 7, 2010, the Building Societies (Financial Assistance) Order 2010 (the “**Financial Assistance Order**”) came into force in exercise of certain powers under the U.K. Banking Act 2009 for the purpose of modifying the application of the U.K. Building Societies Act in specified circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain ‘qualifying institutions’. Qualifying institutions for this purpose include HM Treasury, the BoE, another central bank of a Member State of the EEA, the European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance received from such an institution. Most significantly, the Financial Assistance Order permits any qualifying institution to provide such assistance without it counting for the purpose of the 50% limit on the building society’s non-member funding and the Financial Assistance Order also modifies the application of the purpose test and the lending limit.

### ***Nature of capital***

U.K. retail member deposits are classified as shares in a building society’s balance sheet. 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 U.K. retail member depositor has a right to withdraw his or her investment from a building society. The share capital of a building society therefore fluctuates each time U.K. 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 - Nationwide has made an annual profit for over 95 years), any deferred shares that it has issued and tier 2 subordinated debt. Prior to the development of CCDS, the deferred shares issued by the Society were mainly in the form of PIBS, which historically counted towards a society’s ‘core tier 1 capital’ (the predecessor to CET1 capital). Changes to the capital adequacy framework which were implemented in the U.K. at the end of 2010, toughened the requirements for tier 1 capital. PIBS, which were already in existence, retained their capital status but the extent to which such deferred shares count towards regulatory capital is being phased out over a long transitional period. CCDS meet the regulatory criteria for

CET1 capital, while being consistent with the values of mutuality and supporting members' interests. The 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 U.K. Building Societies Act prohibits building societies and their subsidiaries from entering into any transaction involving derivative instruments unless the transaction falls within one of the specified exceptions, including where it is entered for the purpose of limiting the extent to which the society 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 U.K. 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 building 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 favour 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 favour of the requisite shareholding members' resolution. In certain circumstances, where the PRA considers it expedient to do so in order to protect the investments of shareholders or depositors, the PRA may direct that the requisite shareholders' resolution on a takeover may be effective if it is passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution.

### *Mutual society transfers*

The U.K. Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009) 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 Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (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 an 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 favourable 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 U.K. 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 Financial Services Act 2012 also amended the U.K. 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 U.K. 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.

As set out below, the CMA also enjoys certain enforcement powers under the U.K. financial services regime.

### **Authorization under the FSMA**

The FSMA prohibits any person from carrying on a "regulated activity" by way of business in the U.K. unless that person is authorized or exempt under the FSMA. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), consumer credit activities (such as broking, lending, administration and collection), 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, mortgage and certain investment activities. We are also authorized for various consumer credit activities. The FSMA also prohibits financial promotions in the U.K. unless the promotion is issued or approved by an authorized person or is exempt from such requirements.

The FSMA (as amended by the Financial Services Act 2012) imposes an ongoing system of regulation and control on building societies. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of the FCA Handbook and the PRA Rulebook together with guidance in various policy statements and supervisory statements.

## **Lending**

### *Consumer credit*

The regulatory framework in this area consists of the FSMA and secondary legislation and the CCA and secondary legislation, together with the FCA Handbook including the Consumer Credit sourcebook (“**CONC**”). A “regulated credit agreement” is defined as follows:

- For agreements entered into on or after April 1, 2014 article 60B of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the “**RAO**”) provides that a regulated credit agreement is an agreement among: (i) an individual, (ii) a partnership consisting of two or three persons not all of whom are bodies corporate, or (iii) an unincorporated body of persons which does not consist entirely of bodies corporate and is not a partnership, between (“A”) and any other person (“B”) under which B provides A with credit of any amount, and which is not an exempt agreement within the RAO.
- For agreements entered into before April 1, 2014, a credit agreement which was a regulated credit agreement pursuant to section 8 of the CCA at the time the agreement was entered into (or became such an agreement after being varied or supplemented by another agreement before April 1, 2014), excluding those agreements which would now be regulated mortgage contracts or regulated home purchase plans under the RAO.

If requirements under the CCA as to entering into, documenting and servicing a regulated credit agreement are not or have not been met, then the agreement is unenforceable against the borrower without a 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 CCA, 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 the CCA 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.

If prohibitions under FSMA as to authorization or financial promotions are contravened (by credit brokers as well as lenders like us), then the affected regulated credit agreement is unenforceable against the borrower without a validation order from the FCA.

### *Mortgage lending*

FSMA, together with the RAO 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 U.K.; 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. From March 21, 2016, the definition of regulated mortgage contract has changed in line with the United Kingdom’s implementation of the Mortgage Directive (as defined below). Importantly, a mortgage no longer needs to be a first charge mortgage to fall within the definition of a regulated mortgage contract. This and other changes to mortgage regulation as a result of the implementation of the Mortgage Directive are described in the “Mortgage Directive” section below.



If prohibitions under the FSMA as to authorization or financial promotions are contravened (by credit brokers as well as lenders), 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 FCA's Mortgages and Home Finance: Conduct of Business sourcebook (the "**MCOB**") sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorized firm (such as the 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 may instead be wholly or partly regulated by the CCA or treated as such. Any credit agreement intended to be regulated by the CCA or treated as such or unregulated may instead be a regulated mortgage contract. This is because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract under the RAO or within the definition of a regulated agreement under the CCA (described below) and technical rules on changes to credit agreements.

### **Mortgage Directive**

On March 31, 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The Council of the European Union adopted the Mortgage Directive (Directive 2014/17/EU) on January 28, 2014 and it was published in the Official Journal of the European Union on February 28, 2014 (the "**Mortgage Directive**"). It entered into force twenty days after such publication and was implemented by the United Kingdom with effect from March 21, 2016.

The Mortgage Directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a member state of the EU (a "**Member State**") on residential immovable property, or secured by a right relating to residential immovable property and (b) credit agreements the purpose of which is to provide finance to purchase or retain rights in land or in an existing or proposed residential building, and also extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements the purpose of which is to renovate residential immovable property involving a maximum total amount of credit of EUR 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 but does apply to BTL mortgages (amongst other things).

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.

For the most part, the U.K. Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Directive in respect of BTL mortgages. The legislation provides that firms do not need to apply the U.K. Government's appropriate framework for BTL mortgages where a borrower is acting wholly or predominantly for the purposes of a business. HM Treasury has stated that they would expect consumer BTL activity to represent a small proportion of total BTL transactions. Generally speaking, the Mortgage Directive does not apply to credit agreements existing before March 21, 2016. However, the U.K.'s implementation of the Mortgage Directive also operates to retrospectively regulate certain credit agreements secured on land that were in existence at March 21, 2016, including existing second charge mortgages (consumer credit back book mortgage contracts). Certain provisions of MCOB are applicable to these consumer credit back book mortgage contracts. These include the rules relating to post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and repossessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in CONC and the CCA that are not contained within MCOB.

Any further changes in the legislative or regulatory framework for mortgage regulation, including as a result of implementation of the Mortgage Directive into U.K. law, or any future review carried out by the FCA, or any changes to the FCA Handbook Rules, may adversely affect our businesses and operations.

## **Insurance**

We are also authorized for carrying out insurance distribution. The Insurance: Conduct of Business sourcebook, which is part of the FCA Handbook, sets out rules in respect of non-investment insurance.

## **Financial Services Compensation Scheme**

The FSMA established the Financial Services Compensation Scheme, or 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 limits of compensation are, generally (i) for deposits, 100% of the first £85,000 per person per firm for claims against firms declared in default from January 30, 2017; (ii) for investments, £50,000 per person per firm for claims against firms declared in default from January 1, 2010 and £85,000 per person per firm for claims against firms in default from April 1, 2019, (iii) for home finance such as mortgage advice and arranging, 100% of the first £50,000 per person per firm for claims against firms declared in default from January 1, 2010 and £85,000 per person per firm for claims against firms in default from April 1, 2019; and (iv) for insurance, for claims against firms declared in default from July 3, 2015, 100% where claims arise (a) in respect of a liability subject to compulsory insurance; (b) in respect of a liability subject to professional indemnity insurance; (c) from the death or in capacity of the policy holder due to injury, sickness or infirmity; and (d) in respect of long-term insurance; and 90% of the claim where claims arise under certain other types of covered policy with no upper limit (certain types of insurance are not covered at all). The FSCS only pays compensation for financial loss.

## **Financial Ombudsman Service**

The Financial Services and Markets Act 2000 established the Financial Ombudsman Service (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. In March 2019, the FCA published Policy Statement PS 19/8 entitled “Increasing the award limit for the Financial Ombudsman Service”. New rules have been introduced with effect from April 1, 2019 which increase the maximum level of compensation which can be awarded by the FOS to (i) £350,000 for complaints about acts or omissions by firms on or after April 1, 2019 and (ii) £160,000 for complaints about acts or omissions by firms before April 1, 2019 and which are referred to the FOS after that date. For claims brought before April 1, 2019 in respect of acts or omissions by firms which also took place before that date, the old limit of £150,000 would still apply. Additionally, the compensation limit will be automatically adjusted each year for inflation (measured by reference to the Consumer Price Index (CPI)) from April 1, 2020 onwards. The FCA has also published final rules in December 2018 extending access to FOS compensation to more SMEs, as well as larger charities and trusts, and a new category of personal guarantors.

## **Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and Consumer Rights Act 2015**

In the U.K., 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 and before October 1, 2015. 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, 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).

Responsibility for enforcing the UTCCR and the Consumer Rights Act (the “**CRA**”) is divided between the CMA and certain other regulatory bodies, with the CMA being the lead regulator. Prior to April 1, 2014, the lead regulator for enforcement of the UTCCR was the Office of Fair Trading. The FCA has powers to enforce the UTCCR and the CRA in relation to agreements concerning financial services and products, including mortgages and other consumer credit agreements. While the CMA and FCA have powers to enforce the UTCCR and the CRA, 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 those terms of the underlying loans.

The CRA, which came into force from an unfair contract terms perspective on October 1, 2015 (the “**CRA Commencement Date**”), provides that, among other things, a term which specifies the main subject matter of the contract, or a price term, is exempt from being reviewed as to its fairness if the term is transparent and prominent and that, in proceedings brought by individual consumers, the court is required to consider the fairness of a term, even if the consumer has not raised the issue of unfairness, where the court has available to it the legal and factual elements necessary for that task.

The CRA reforms and consolidates consumer law in the U.K. The CRA involves the creation of a single regime for unfair contract terms out of the Unfair Contract Terms Act 1977 (the “**UCTA**”) (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR. On the CRA Commencement Date, certain sections of the CRA revoked the UTCCR, and introduced a new regime for dealing with unfair contractual terms with respect to contracts entered into on or after the CRA Commencement Date. The UTCCR will continue to apply to contracts entered into prior to the CRA Commencement Date as described above.

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (a term which has been revised to mean an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). In an additional change from the old regime, from the CRA Commencement Date, an unfair consumer notice will also not be binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends. The CRA also applies substantially the same test of fairness to consumer notices and generally refers to term and notices interchangeably. However, unlike the position under the old regime, the fairness protection under the CRA applies to both non-individually negotiated contracts and those that have been individually negotiated.

Schedule 2 contains an indicative and non-exhaustive “grey list” of terms of consumer contracts that may be regarded as unfair. Three of these “grey list” terms are new, having not been covered by the UTCCR.

Paragraph 11 lists “a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract”. Schedule 2 of the UTCCR contains a substantially similar provision at paragraph 1(j). Although paragraph 22 of the CRA (and paragraph 2(b) of Schedule 2 to the UTCCR) provides that this does not include a term by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A consumer contract may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; and/or (ii) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it; unless it appears on the “grey list” referenced above. A trader must ensure that a written term of a consumer contract, or a consumer notice in writing, is transparent i.e. that it is expressed in plain and intelligible language and is legible. Under the CRA, a trader must also ensure that the term is sufficiently prominent. The CMA considers this to be fully consistent with an interpretation of ‘the core exemption’ as intended to ensure that only those ‘principal obligations’ or price terms which are subject to the correcting forces of competition and genuine decision-making are fully assessable for fairness.

Where a term of a consumer contract is “unfair”, it will not bind the consumer. However, the remainder of the contract will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible of multiple different meanings, the meaning most favourable to the consumer will prevail. In a shift from the old regime, under the CRA it is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings has explicitly raised the issue of fairness.

On December 19, 2018, the FCA published finalised guidance: “*Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015*” (FG18/7), outlining factors the FCA considers firms should have regard to when drafting and reviewing variation terms in consumer contracts. This follows developments in case law, including the Court of Justice of the EU. The finalised guidance relates to all financial services consumer contracts entered into since July 1, 1995. The FCA stated that firms should consider both this guidance and any other rules that apply when they draft and use variation terms in their consumer contracts. The FCA stated that the finalised guidance will apply to FCA authorized persons and their appointed representative in relation to any consumer contracts which contain variation terms.

The provisions in the CRA governing unfair contractual terms apply in respect of contracts entered into on or after the CRA Commencement Date. As stated above, UCTA and UTCCR will continue to apply to contracts entered into prior to the CRA Commencement Date. This new regime does not seem to be significantly different from the regime under the UTCCR and UCTA. However, this area of law is rapidly developing and new regulatory guidance and case law as a result of this new legislation can be expected. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the loans.

### **Distance marketing**

In the U.K., 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 FSMA, if originated by a U.K. lender from an establishment in the U.K., 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 the loans are characterised 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 implemented into U.K. 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 did not initially provide consumers with a private act of redress. Instead, consumers had to rely on existing private law remedies based on the law of misrepresentation and duress. However, amendments to the CPUTR which entered into force on October 1, 2014 have given consumers a right to redress for certain prohibited practices, including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing rules under the FSMA. 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 and regulation**

The EU anti-money laundering regime consists of: (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 “**EU Fourth Money Laundering Directive**”); and (ii) a regulation on information accompanying transfers of funds to secure “due traceability” of these transfers (the “**Fund Transfer Regulation**”). The EU Fourth Money Laundering Directive entered into force on June 25, 2015 and was implemented in the U.K. on June 26, 2017 by the Money

Laundrying, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. The EU Fourth Money Laundering Directive aims to give effect to the updated Financial Action Task Force standards. The EU Fifth Money Laundering Directive entered into force in July 2018 and aims to enhance processes to counter money laundering and terrorist financing. The EU Fifth Money Laundering Directive must be transposed by EU member states by January 2020. The Fund Transfer Regulation updates the rules regarding information on payers and payees accompanying transfers of funds, in any currency, for the purposes of preventing, detecting and investigating money laundering and terrorist financing (the “**ML/TF**”), where at least one of the payment service providers involved in the transfer of funds is established in the EU. The overall objective of transposition is to ensure that the U.K.’s anti-money laundering and counter terrorist financing (the “**AML/CTF**”) regime is kept up to date, is effective and is proportionate. This will enable the U.K. to have a comprehensive AML/CTF regime and ensure that the U.K.’s financial system is an increasingly hostile environment for ML/TF. Whilst continuing to contemplate the terms of the U.K.’s exit from the EU, the U.K. Government continues preparations for a “hard Brexit” or “no-deal Brexit” to minimise the risks for firms and businesses associated with an exit with no transitional agreement. This has included publishing legislation under powers provided in the European Union (Withdrawal) Act 2018 to ensure that there is a functioning statute book on the U.K.’s exit from the EU.

The U.K. Data Protection Act 1998 regulates the processing of data relating to individual customers (which will be replaced on May 25, 2018 by Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)).

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 FSA introduced its Banking Conduct Regime for retail banking. The main constituents of this regime are: (i) extending the FCA’s 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 2017 (“**PSRs 2017**”), which apply to certain payment services made in euro or sterling; and (iii) the FCA’s Banking: Conduct of Business Sourcebook, which applies to deposit-taking in respects not covered by the PSRs 2017. The revised directive on payment services (“**PSD2**”) came into force on January 12, 2016. Member states, including the U.K., were required to transpose it into national law by January 13, 2018. As a result, the PSRs 2017 repealed and replaced the Payment Services Regulations 2009. The PSRs 2017 came into force on January 13, 2018.

On November 1, 2009, the British Bankers’ Association, the Building Societies Association and The U.K. Cards Association launched The Lending Code (“**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. The Lending Code has been revised a number of times since its introduction, most recently in September 2015. Whilst the sections of the Lending Code applicable to micro-businesses remain unchanged, in respect of personal customers the Lending Code was replaced by the Standards of Lending Practice (the “**SLP**”) in July 2016. The SLP has applied to business customers from July 1, 2017. The SLP are voluntary and set the benchmark for good lending practice in the U.K.

Supervisory Statement SS20/15 on supervising building societies’ treasury and lending activities sets out the PRA’s expectations in respect of building societies’ compliance with applicable law and regulation in these areas of activity. The Supervisory Statement was updated on January 23, 2017 and describes the key lending and treasury risks to which societies are exposed, and sets out a framework describing different potential models for managing and controlling these risks.

In September 2016, following a consultation by the PRA earlier that year, the PRA published Policy Statement PS 28/16 and a final Supervisory Statement SS 13/16 both entitled “Underwriting standards for BTL

mortgage contracts”. The Policy Statement applies to all PRA regulated firms that undertake buy-to let lending that are not already subject to FCA regulation. The Supervisory Statement does not apply to regulated mortgage contracts, consumer BTL mortgages, BTL mortgages with corporates or which has a term of 12 months or less or to an application from an existing customer for consent to let. The Supervisory Statement contains the PRA’s minimum standards that firms should follow when underwriting BTL mortgages (affordability testing) (including when dealing with portfolio landlords who have four or more BTL properties), clarifies the PRA’s expectation regarding the application of the small and medium sized (SME) supporting factor on BTL mortgages and details the PRA’s expectations regarding adequate risk management and controls. The PRA expects that regulated firms ensure that the standards are followed by other firms undertaking buy-to-lending within their group. The standards have been implemented by September 30, 2017.

Another area of change which impacts on the U.K. regulatory landscape relates to banking reform. The Banking Reform Act introduced amendments to FSMA which provide 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 entered into force on January 1, 2015 and the full ring-fencing regime applied in January 2019. Further, the Government has carved building societies out of the proposed ring-fencing legislation and, instead, reserves the power to amend the U.K. Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements. The PRA published its policy statement PS21/16 on Operational Continuity in July 2016. The rules applied from January 1, 2019 and support the resolvability and resilience of building societies and banks in seeking to ensure critical shared services are organized to facilitate continuity in the event of failure.

#### ***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 financial services market in the U.K. generally, our particular sector in that market or specifically in relation to it. Any such action or developments or compliance costs may have a material adverse effect on our 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–U.K. Taxation*,” there are currently no U.K. 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–U.K. Taxation*.” There are also no restrictions under our memorandum and rules or under current U.K. 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 preferred notes, senior non-preferred notes, subordinated notes, or indenture, as the case may be.

### General

We will offer the notes under an indenture, dated as at December 19, 2017 and as supplemented and amended from time to time (the “**Indenture**”), between us (the “**Issuer**”) and The Bank of New York Mellon, London Branch as trustee (the “**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, Repurchase, Substitution and Variation.*” 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 Reset Note, which will bear interest at a fixed rate for an initial period, after which the interest rate will be reset by reference to the interest basis plus or minus the relevant Margin (if any) at specified intervals, in each case as specified in the applicable Final Terms; 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 preferred notes

The senior preferred notes are direct, unconditional, unsubordinated and (subject to the provisions of “—*Negative Pledge*”) unsecured obligations of the Issuer and rank (subject to the provisions of “—*Negative Pledge*”) equally among themselves, junior to obligations required to be preferred by law (which includes certain member share accounts which are given preferential status by law) and at least equally with all other Ordinary Non-Preferential Debts of the Issuer.

Accordingly, subject to the Insolvency Act (and any other Ranking Legislation), for so long as they are not secured pursuant to the provisions of “—*Negative Pledge*”, the senior preferred notes form part of the class of Ordinary Non-Preferential Debts of the Issuer under the Insolvency Act (and any other Ranking Legislation).

## **Status and ranking of senior non-preferred notes**

### *Status and ranking*

*The senior non-preferred notes may only be issued on terms such that they (A) have an original contractual maturity of at least one year and (B) are not derivatives and contain no embedded derivatives for the purposes of Section 387A(3)(b)(ii) of the Insolvency Act (and the relevant section of any other Ranking Legislation).*

The senior non-preferred notes are direct and unsecured obligations of the Issuer and, subject to the Insolvency Act (and any other Ranking Legislation), constitute Secondary Non-Preferential Debts under the Insolvency Act (and any other Ranking Legislation), ranking *pari passu* and without any preference among themselves.

Accordingly, subject to the Insolvency Act (and any other Ranking Legislation), claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of the senior non-preferred notes will, in the event of the winding up or dissolution of the Issuer (subject as otherwise provided in an Excluded Dissolution), rank as provided for Secondary Non-Preferential Debts in the Insolvency Act (and any other Ranking Legislation), and therefore:

- (a) junior in right of payment to all Senior Claims;
- (b) *pari passu* with all other Senior Non-Preferred Claims; and
- (c) in priority to all Subordinated Claims.

### *Waiver of set-off*

This provision “—*Waiver of set-off*” applies unless “*Senior Non-Preferred Notes: Waiver of Set-off*” is expressly specified to be not applicable in the applicable Final Terms.

Subject to applicable law, no holder of senior non-preferred 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 senior non-preferred notes and each holder shall, by virtue of being the holder of any such senior non-preferred 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 senior non-preferred notes against the Issuer is discharged by set-off, such holder of senior non-preferred notes will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up or dissolution of the Issuer, the liquidator or other insolvency official of the Issuer and accordingly such discharge will be deemed not to have taken place.

The senior non-preferred notes do not have the benefit of the negative pledge covenant described below under the subsection entitled “—*Negative Pledge*” and, as Secondary Non-Preferential Debts, rank junior to most of our liabilities, including senior preferred notes. For a further discussion of risks relating to junior ranking see the section entitled “*Risk Factors—Risks Related to the Notes—The senior non-preferred notes and subordinated notes rank junior to most of our liabilities.*”

## **Status and subordination of subordinated notes**

### *Status and subordination*

The subordinated notes are direct and unsecured obligations of the Issuer, subordinated as described below, and rank *pari passu* and without any preference among themselves.

Accordingly, subject to the Insolvency Act (and any other Ranking Legislation), the subordinated notes form part of the class of Tertiary Non-Preferential Debts under the Insolvency Act (and any other Ranking Legislation), and claims in respect of principal, interest and any other amount (including, without limitation, any

damages awarded for breach of the Issuer's obligations) in respect of the subordinated notes will, in the event of the winding up or dissolution of the Issuer (subject as otherwise provided in an Excluded Dissolution):

- (a) be subordinated in right of payment in the manner provided in the Insolvency Act (and any other Ranking Legislation) and the Indenture to (x) all Senior Claims, (y) all Senior Non-Preferred Claims, and (z) any Subordinated Claims (if any) which rank, or are expressed to rank, in priority to claims in respect of the subordinated notes;
- (b) rank at least *pari passu* with claims in respect of the Issuer's obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital; and
- (c) rank in priority to claims in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Additional Tier 1 Capital (including, without limitation, the Issuer's PIBS) or CET1 Capital (including the Issuer's core capital deferred shares) and in priority to any other claims ranking, or expressed to rank, junior to the claims in respect of subordinated notes.

#### *Waiver of set-off*

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 or dissolution of the Issuer, the liquidator or other insolvency official 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 (including senior preferred notes and senior non-preferred notes). For a further discussion of risks relating to subordination see the section entitled “*Risk Factors—Risks Related to the Notes—The senior non-preferred notes and subordinated notes rank junior to most of our liabilities.*”

#### **Recovery currency**

To the extent that holders of any 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 (or, if different, the relevant Specified Currency) 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 or

SONIA 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.

“**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 Fixed Rate Note, Reset Note, or Floating Rate Note, as applicable:

- (A) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
  - (ii) 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
  - (iii) 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;
- (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;
- (C) 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);
- (D) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (E) 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;
- (F) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (G) 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;

- (H) 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:

$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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 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; and

- (I) 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:

$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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 (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.

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.

“**deferred share investments**” has the meaning ascribed thereto in the rules of the Issuer (and includes the Issuer’s PIBS and core capital deferred shares).

“**Determination Period**” means the period from (and including) a Determination Date in any year to (but excluding) the next Determination Date.

“**EEA regulated market**” means a market as defined by Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended.

“**Excluded Dissolution**” means each of (i) a winding up or dissolution of the Issuer for the purpose of a reconstruction, union, transfer, merger or amalgamation or the substitution in place of the Issuer of a successor in business the terms of which have previously been approved by the Trustee and (ii) a dissolution of the Issuer by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Building Societies Act 1986, as amended (the “**Act**”), or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended (or any successor provisions thereto).

“**Hierarchy Order**” means The Banks and Building Societies (Priorities on Insolvency) Order 2018, as amended or superseded from time to time.

“**Independent Adviser**” means an independent financial institution of international repute or an independent adviser of recognized standing and with appropriate expertise (which may include the Calculation Agent) appointed by the Issuer at its own expense and approved in writing by the Trustee.

“**Insolvency Act**” means the Insolvency Act 1986, as amended or superseded from time to time (including by the Hierarchy Order).

“**investing members**” has the meaning ascribed thereto in the rules of the Issuer.

“**Loss Absorption Compliant Notes**” means securities that comply with the following (which compliance has been certified to the Trustee in a certificate signed by two authorized signatories of the Issuer and delivered to the Trustee prior to the relevant substitution or variation):

- (a) such securities are issued by the Issuer or any wholly-owned direct or indirect subsidiary of the Issuer with a guarantee of such obligations by the Issuer;

- (b) such securities rank (or, if guaranteed by the Issuer, benefit from a guarantee that ranks) as part of the class of Secondary Non-Preferential Debts;
- (c) (subject to (b) above) such securities have terms not materially less favourable to noteholders than the terms of the relevant senior non-preferred notes (as reasonably determined by the Issuer in consultation with an independent adviser of recognized standing);
- (d) (without prejudice to (c) above) such securities (1) contain terms such that they comply with the then applicable Loss Absorption Regulations in order to be eligible to qualify in full towards the Issuer's minimum requirements (on an individual or consolidated basis) for own funds and eligible liabilities and/or loss absorbing capacity instruments; (2) bear the same rate of interest from time to time applying to the relevant senior non-preferred notes and preserve the same interest payment dates; (3) do not contain terms providing for deferral of payments of interest and/or principal; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the relevant senior non-preferred notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (5) do not contain terms providing for loss absorption through principal write-down or conversion to common equity tier 1 instruments (but without prejudice to any acknowledgement of statutory resolution powers similar to "*—Agreement with Respect to the Exercise of U.K. Bail-in Power*"); and (6) preserve any existing rights to any accrued and unpaid interest and any other amounts payable under the relevant senior non-preferred notes which has accrued to noteholders and not been paid;
- (e) such securities are listed on the same stock exchange or market as the relevant senior non-preferred notes or the London Stock Exchange or any EEA regulated market or any market in an OECD member state selected by the Issuer; and
- (f) where the relevant senior non-preferred notes which have been substituted or varied had a published rating solicited by the Issuer from one or more Rating Agencies immediately prior to their substitution or variation, such securities benefit from (or will, as announced, or otherwise confirmed in writing, by each such relevant Rating Agency, benefit from) an equal or higher published rating from each such Rating Agency as that which applied to the relevant senior non-preferred notes (unless any downgrade is solely attributable to the ranking of the notes under (b) above).

a "**Loss Absorption Disqualification Event**" shall be deemed to have occurred in respect of a series of senior non-preferred notes if, as a result of any amendment to, or change in, any Loss Absorption Regulations, or any change in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective after the Issue Date of such series of senior non-preferred notes, either:

- (i) if "*Loss Absorption Disqualification Event: Full Exclusion*" is specified in the applicable Final Terms, the entire principal amount of such series of senior non-preferred notes; or
- (ii) if "*Loss Absorption Disqualification Event: Full or Partial Exclusion*" is specified in the applicable Final Terms, the entire principal amount of such series of senior non-preferred notes or any part thereof,

is or (in the opinion of the Issuer or the relevant Supervisory Authority) is likely to be excluded from the Issuer's minimum requirements (whether on an individual or consolidated basis) for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer (whether on an individual or consolidated basis) and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the senior non-preferred notes from the relevant minimum requirement(s) is due to the remaining maturity of such senior non-preferred notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss

Absorption Regulations effective with respect to the Issuer on the Issue Date of such series of senior non-preferred notes.

**“Loss Absorption Regulations”** means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the United Kingdom (including, without limitation, any provision of the Insolvency Act or any other Ranking Legislation which relates to the requisite features of Secondary Non-Preferential Debts), any relevant Supervisory Authority and/or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom and applicable to the Issuer (whether on an individual or consolidated basis) including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by any relevant Supervisory Authority from time to time (whether such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to the Issuer).

**“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.

**“Ordinary Non-Preferential Debts”** means ‘ordinary non-preferential debts’ as defined in Section 387A(3)(a) of the Insolvency Act (or, as the case may be, in the relevant section of any other Ranking Legislation).

**“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.

**“Ranking Legislation”** means the Insolvency Act, the Hierarchy Order and, if and to the extent applicable to the Issuer, any other law or regulation which is amended by the Hierarchy Order.

**“Rating Agency”** means any of S&P Global Ratings Europe Limited, Moody’s Investors Service Limited and Fitch Ratings Limited and each of their respective affiliates or successors.

**“Regulatory Capital Requirements”** means, at any time, any requirement contained in the law, regulations, requirements, guidelines and policies then in effect relating to capital adequacy and prudential supervision and applicable to the Issuer, including (without limitation to the generality of the foregoing), those applicable laws, regulations, requirements, guidelines and policies relating to capital adequacy and prudential supervision then in effect of the United Kingdom or the relevant Supervisory Authority and/or any applicable regulation, directive or other binding rules, standards or decisions adopted by the institutions of the EU.

A **“Regulatory Event”** is deemed to have occurred in respect of a series of subordinated notes if there is a change (which has occurred or which the relevant Supervisory Authority considers to be sufficiently certain) in the regulatory classification of such series of subordinated notes which becomes effective after the Issue Date of such series of subordinated notes and that results, or would be likely to result, in:

(i) if *“Regulatory Event (subordinated notes only): Full Exclusion”* is specified in the applicable Final Terms, the entire principal amount of such series of subordinated notes being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis); or

(ii) if *“Regulatory Event (subordinated notes only): Full or Partial Exclusion”* is specified in the applicable Final Terms, the entire principal amount of such series of subordinated notes or any part thereof being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis).

**“Relevant Supervisory Consent”** means, in relation to any action, such permission or waiver of the relevant Supervisory Authority as is then required for such action under prevailing Regulatory Capital Requirements and/or Loss Absorption Regulations, as the case may be.



**“Secondary Non-Preferential Debts”** means ‘secondary non-preferential debts’ as defined in Section 387A(3)(b) of the Insolvency Act (or, as the case may be, in the relevant section of any other Ranking Legislation).

**“Senior Claims”** means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which are:

- (i) claims of depositors of the Issuer;
- (ii) claims of investing members of the Issuer as regards the principal and interest due on share investments other than deferred share investments; and
- (iii) claims of creditors in respect of Ordinary Non-Preferential Debts of the Issuer and all other obligations of the Issuer which are preferred by law to Secondary Non-Preferential Debts.

**“Senior Non-Preferred Claims”** means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which are claims of creditors in respect of Secondary Non-Preferential Debts of the Issuer.

**“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.

**“Subordinated Claims”** means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which are claims in respect of Tertiary Non-Preferential Debts of the Issuer, including (without limitation) claims of creditors in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital, Additional Tier 1 Capital (including, without limitation, the Issuer’s PIBS) or CET1 Capital (including the Issuer’s core capital deferred shares).

**“Supervisory Authority”** means, from time to time, the Prudential Regulation Authority, the BoE and/or such other authority having for the time being primary supervisory authority and/or responsibility with respect to prudential or resolution matters concerning the Issuer and/or its group, as may be relevant in the context.

**“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.

**“Tertiary Non-Preferential Debts”** means ‘tertiary non-preferential debts’ as defined in Section 387A(3)(c) of the Insolvency Act (or, as the case may be, in the relevant section of any other Ranking Legislation).

**“Tier 1 Capital”, “CET1 Capital”, “Additional Tier 1 Capital” and “Tier 2 Capital”** have the respective meanings given thereto (or to a successor or equivalent term) in the Regulatory Capital Requirements.

**“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.

Unless otherwise specified in the Final Terms relating to a particular series of notes, 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 office in New York, which, at the date hereof, is located at 101 Barclay Street, 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, SA (“**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.

Unless otherwise specified in the Final Terms relating to a particular series of notes, The Bank of New York Mellon, London Branch is the paying agent (the “**Paying Agent**”) for the notes 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 preferred notes and senior non-preferred 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 in respect of the relevant series of notes and as specified in the applicable Final Terms, 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, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or 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 at approximately 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment 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.

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 “*Business Day Convention—Adjusted*” is specified to be applicable in the applicable Final Terms, then:

- (a) any Interest Payment Date or the Maturity Date which would otherwise fall on a day which is not a Business Day will be postponed or brought forward (as applicable) in accordance with the relevant business day convention (as described under “*Interest on Floating Rate Notes - Interest Payment Dates*” below) specified in the applicable Final Terms (which, for the avoidance of doubt, shall not be the Floating Rate Convention);
- (b) the amount of interest payable on any Interest Payment Date or the Maturity Date will be the amount accrued during the Fixed Interest Period ending immediately prior to (as the case may be) such Interest Payment Date or the Maturity Date. As used herein, “**Fixed Interest Period**” means 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 succeeding Interest Payment Date (or, if applicable, the Maturity Date); and
- (c) the Calculation Agent will calculate the amount of interest for each Fixed Interest Period and will cause such amount and the relative Interest Payment Date to be notified to us, to the

Trustee and to any listing authority, stock exchange and/or quotation system to which the Fixed Rate Notes have then been admitted to listing, trading and/or quotation and to be published as soon as possible after such determination but in no event later than the fourth Business Day thereafter. Each amount of interest and the relative 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 relevant Fixed 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 Fixed Rate Notes have then been admitted to listing, trading and/or quotation and to the holders in accordance with the Indenture.

If “*Business Day Convention—Non-Adjusted*” is specified to be applicable in the applicable Final Terms, then:

- (a) any Interest Payment Date or the Maturity Date which would otherwise fall on a day which is not a Business Day will be postponed or brought forward (as applicable) in accordance with the relevant business day convention (as described under “*Interest on Floating Rate Notes - Interest Payment Dates*” below) specified in the applicable Final Terms (which, for the avoidance of doubt, shall not be the Floating Rate Convention); and
- (b) there will be no corresponding adjustment of the amount of interest payable on any Interest Payment Date or (as the case may be) the Maturity Date.

### ***Interest on Reset Notes***

#### ***Rates of Interest and Interest Payment Dates***

Each Reset Note bears interest:

- (a) from (and including) the Interest Commencement Date specified in the applicable Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;
- (b) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (c) if applicable, from (and including) the Second Reset Date to (but excluding) the first Subsequent Reset Date (if any), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each a “**Subsequent Reset Period**”) at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) payable, in each case, in arrear on the Interest Payment Date(s) in each year and on the Maturity Date so specified if that does not fall on an Interest Payment Date.

The Rate of Interest and the amount of interest (the “**Interest Amount**”) payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in “*Interest—Interest on Fixed Rate Notes*” and, for such purposes, references therein to “Fixed Rate Notes” shall be deemed to be to “Reset Notes” and “*Interest—Interest on Fixed Rate Notes*” shall be construed accordingly.

In this section “*—Interest on Reset Notes*”:

**“Calculation Agent”** means the calculation agent specified in the applicable Final Terms;

**“First Margin”** means the margin specified as such in the applicable Final Terms;

**“First Reset Date”** means the date specified as such in the applicable Final Terms;

**“First Reset Period”** means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

**“First Reset Rate of Interest”** means, in respect of the First Reset Period and subject to *“Interest—Interest on Reset Notes—Fallbacks”* and (if applicable) *“—Benchmark discontinuation”* the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted (if not already on the same basis) from a basis equivalent to the Fixed Leg Swap Duration or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the First Margin;

**“Fixed Leg Swap Duration”** has the meaning specified in the applicable Final Terms;

**“Floating Leg Swap Duration”** has the meaning specified in the applicable Final Terms;

**“Initial Rate of Interest”** has the meaning specified in the applicable Final Terms;

**“Mid-Market Swap Rate”** means, subject to *“Interest – Interest on Reset Notes – Fallbacks”* and (if applicable) *“—Benchmark discontinuation,”* for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Floating Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent);

**“Mid-Market Swap Rate Quotation”** means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

**“Mid-Swap Floating Leg Benchmark Rate”** means (subject to *“—Benchmark discontinuation,”* if applicable) EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

**“Mid-Swap Rate”** means, in relation to a Reset Determination Date and subject to *“Interest—Interest on Reset Notes—Fallbacks”* and (if applicable) *“—Benchmark discontinuation”* either:

- (i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page or such replacement page on that service which displays the information; or

- (ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001% (0.0005% being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page or such replacement page on that service which displays the information,

in either case, as at approximately 11.00 a.m. in the Principal Financial Center of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent provided, however, that if there is no such rate appearing on the Relevant Screen Page for a term equal to the relevant Reset Period, then the Mid-Swap Rate shall be determined through the use of straight-line interpolation by reference to two rates, one of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next shorter than the length of the actual Reset Period and the other of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next longer than the length of the actual Reset Period;

**“Mid-Swap Reference Banks”** means the principal office in the Relevant Financial Centre of four major banks in the swap, money, securities or other market most closely connected with the Subsequent Reset Reference Rate as selected by the Issuer on the advice of an investment bank of international repute;

**“Rate of Interest”** means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

**“Reference Bond”** means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the notes and of a comparable maturity to the relevant Reset Period.

**“Reference Bond Price”** means, with respect to any Reset Determination Date, (A) if the Calculation Agent obtains four or five Reference Government Bond Dealer Quotations, the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest (or, in the event of equality, one of the highest) and lowest (or, in the event of equality, one of the lowest) such Reference Government Bond Dealer Quotations, or (B) if the Calculation Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations, or (C) if the Calculation Agent obtains one such Reference Government Bond Dealer Quotation, the amount of such quotation, or (D) if the Calculation Agent obtains no such Reference Government Bond Dealer Quotations, the Reference Bond Price determined on the immediately preceding Reset Determination Date or, in the case of the first Reset Determination Date, the Reference Bond Fallback Price specified in the applicable Final Terms;

**“Reference Bond Reset Rate Time”** means the time specified in the applicable Final Terms;

**“Reference Bond Yield”** means the yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond;

**“Reference Government Bond Dealer”** means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;



**“Reference Government Bond Dealer Quotations”** means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Reference Bond Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Calculation Agent by such Reference Government Bond Dealer;

**“Relevant Screen Page”** means the screen page specified in the applicable Final Terms (or any successor or replacement screen displaying the relevant information);

**“Reset Business Day”** means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Business Centre specified in the applicable Final Terms;

**“Reset Date”** means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

**“Reset Determination Date”** means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

**“Reset Period”** means the First Reset Period or a Subsequent Reset Period, as the case may be;

**“Reset Reference Rate”** means either (i) if Mid-Swaps is specified in the applicable Final Terms the Mid-Swap Rate, or (ii) if Reference Bond is specified in the applicable Final Terms, the Reference Bond Yield, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

**“Second Reset Date”** means the date specified in the applicable Final Terms;

**“Subsequent Margin”** means the margin specified as such in the applicable Final Terms;

**“Subsequent Reset Date”** means the date or dates specified in the applicable Final Terms; and

**“Subsequent Reset Rate of Interest”** means, in respect of any Subsequent Reset Period and subject to *“Interest—Interest on Reset Notes—Fallbacks”* and (if applicable) *“Interest – Benchmark discontinuation”*, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted (if not already on the same basis) from a basis equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the relevant Subsequent Margin.

#### *Fallbacks for Mid-Swap Rate*

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Mid-Swap Reference Banks to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the Principal Financial Center of the Specified Currency on the Reset Determination Date in question.

If two or more of the Mid-Swap Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum (converted as set out in the definition of such term above) of the arithmetic mean (rounded, if necessary, to the nearest 0.001% (0.0005% being rounded upwards)) of the

relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Mid-Swap Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum (converted as set out in the definition of such term above) of (rounded, if necessary, to the nearest 0.001% (0.0005% being rounded upwards)) of the relevant Mid-Market Swap Rate Quotation and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Mid-Swap Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of “*Interest—Interest on Reset Notes—Fallbacks*”, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined by the Calculation Agent as if, and on the assumption that, the relevant Reset Reference Rate were equal to (i) the Mid-Swap Rate determined as at the last preceding Reset Date or, (ii) for the purpose of determining the First Reset Rate of Interest on the first Reset Determination Date, the Mid-Swap Fallback Rate specified in the applicable Final Terms.

#### *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount*

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the Paying Agent, the Trustee and any competent authority or stock exchange by or on which the relevant Reset Notes are for the time being listed and notice thereof to be published in accordance with “*—Notices*”) as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in “*Interest—Interest on Floating Rate Notes—Determination of Rate of Interest and calculation of Interest Amount; Percentages*”) thereafter.

#### *Determination or Calculation by an agent appointed by the Trustee*

If for any reason the Calculation Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with “*Interest—Interest on Reset Notes—Rates of Interest and Interest Payment Dates*”), the Trustee may (at the expense of the Issuer) appoint an agent to do so and such determination shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this section “*Interest—Interest on Reset Notes*”) with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

#### *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 section “*Interest—Interest on Reset Notes*”) by the Calculation Agent or any agent appointed by the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Calculation Agent, the other paying agents and all noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the noteholders or the Couponholders shall attach to the Calculation Agent or the Trustee or any agent appointed by the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### ***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 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;
- Compounded Daily SONIA;
- 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, LIBOR or SONIA 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 (or other Interest Accrual 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, LIBOR and Compounded Daily SONIA, 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 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;
- Compounded Daily SONIA will be the first London Banking Day falling after the last day of the relevant Observation Period; 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:

“**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 website 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 (and subject to “*—Benchmark discontinuation*” if applicable):

- (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 (and subject to “*Benchmark discontinuation*” if applicable), 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.

#### *Compounded Daily SONIA*

With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined on the basis of Compounded Daily SONIA, the rate of interest for an Interest Accrual Period



will, subject as provided below, be Compounded Daily SONIA with respect to such Interest Accrual Period plus or minus (as indicated in the applicable Final Terms) the applicable Margin.

“**Compounded Daily SONIA**” means with respect to an Interest Accrual Period, the rate of return of a daily compounded interest investment during the Observation Period corresponding to such Interest Accrual Period (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) as calculated by the Calculation Agent as at the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded if necessary to the nearest fifth decimal place, with 0.000005 being rounded upwards):

$$\left[ \prod_{i=1}^{d_o} \left( 1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

“**d**” is the number of calendar days in the relevant Interest Accrual Period;

“**d<sub>o</sub>**” is the number of London Banking Days in the relevant Interest Accrual Period;

“**i**” is a series of whole numbers from one to d<sub>o</sub>, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Accrual Period;

“**London Banking Day**” or “**LBD**” means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

“**n<sub>i</sub>**”, for any London Banking Day “**i**”, means the number of calendar days from (and including) such London Banking Day “**i**” up to (but excluding) the following London Banking Day;

“**Observation Period**” means the period from (and including) the date falling “**p**” London Banking Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling “**p**” London Banking Days prior to (A) (in the case of an Interest Period) the Interest Payment Date for such Interest Period or (B) (in the case of any other Interest Accrual Period) the date on which the relevant payment of interest falls due;

“**p**” is the number of London Banking Days by which an Observation Period precedes the corresponding Interest Accrual Period, being the number of London Banking Days specified as the “SONIA Lag Period (**p**)” in the applicable Final Terms (or, if no such number is so specified, five London Banking Days);

the “**SONIA reference rate**”, in respect of any London Banking Day (“**LBD<sub>x</sub>**”), is a reference rate equal to the daily Sterling Overnight Index Average (“**SONIA**”) rate for such LBD<sub>x</sub> as provided by the administrator of SONIA to authorized distributors and as then published on the Relevant Screen Page (or, if the Relevant Screen Page is unavailable, as otherwise published by such authorized distributors) on the London Banking Day immediately following LBD<sub>x</sub>; and

“**SONIA<sub>i-pLBD</sub>**” means the SONIA reference rate for the London Banking Day (being a London Banking Day falling in the relevant Observation Period) falling “**p**” London Banking Days prior to the relevant London Banking Day “**i**”.

If, in respect of any London Banking Day in the relevant Observation Period, the applicable SONIA reference rate is not made available on the Relevant Screen Page or has not otherwise been published by the relevant authorized distributors, then (unless the Calculation Agent has been notified of any Successor Rate or Alternative Rate (and in either case, the related Adjustment Spread and the Benchmark Amendments, if any)) pursuant to “– *Benchmark discontinuation*”, if applicable) the SONIA reference rate in respect of such London Banking Day shall be:

- (1) the sum of (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at 5.00 p.m. (or, if earlier, close of business) on such London Banking Day; and (ii) the mean of the spread of the SONIA reference rate to the Bank Rate over the previous five London Banking Days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads); or
- (2) if the Bank Rate under (1)(i) above is not available at the relevant time, either (A) the SONIA reference rate published on the Relevant Screen Page (or otherwise published by the relevant authorized distributors) for the first preceding London Banking Day on which the SONIA reference rate was published on the Relevant Screen Page (or otherwise published by the relevant authorized distributors) or (B) if this is more recent, the latest rate determined under (1) above.

In the event that the rate of interest cannot be determined in accordance with the foregoing provisions, the rate of interest shall be:

- (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin, Maximum Rate of Interest and/or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as the case may be) relating to the relevant Interest Accrual Period, in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Accrual Period); or
- (ii) if there is no such preceding Interest Determination Date, the initial rate of interest which would have been applicable to such Floating Rate Notes for the first scheduled Interest Period had the Floating Rate Notes been in issue for a period equal in duration to the first scheduled Interest Period but ending on (and excluding) the Interest Commencement Date (applying the Margin and, if applicable, any Maximum Rate of Interest and/or Minimum Rate of Interest, applicable to the first scheduled Interest Period).

As used herein, an "**Interest Accrual Period**" means (i) each Interest Period and (ii) any other period (if any) in respect of which interest is to be calculated, being the period from (and including) the first day of such period to (but excluding) the day on which the relevant payment of interest falls due (which, if the relevant Floating Rate Notes becomes due and payable in accordance with "*Terms and Conditions of the Notes – Events of Default—Senior Preferred Notes and Unrestricted Default Senior Non-Preferred Notes*" or "*Terms and Conditions of the Notes – Events of Default—Subordinated Notes and Restricted Default Senior Non-Preferred Notes*" (as applicable), shall be the date on which such Floating Rate Notes become due and payable).

If the Floating Rate Notes become due and payable in accordance with "*Terms and Conditions of the Notes – Events of Default—Senior Preferred Notes and Unrestricted Default Senior Non-Preferred Notes*" or "*Terms and Conditions of the Notes – Events of Default—Subordinated Notes and Restricted Default Senior Non-Preferred Notes*" (as applicable), the final rate of interest shall be calculated for the Interest Accrual Period to (but excluding) the date on which the Floating Rate Notes become so due and payable, and such rate of interest shall continue to apply to the Floating Rate Notes for so long as interest continues to accrue thereon as provided in the Indenture.

#### *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 (and subject to "*Benchmark discontinuation*" if applicable), 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 (subject to “*Benchmark discontinuation*” if applicable) 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 or, in the case of notes with an Interest Basis that converts from a fixed rate to a floating rate, the fixed rate applicable to such notes immediately prior to the conversion of the Interest Basis.

“**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 (and subject to “—*Benchmark discontinuation*” if applicable), 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 (subject to “—*Benchmark discontinuation*” if applicable) 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 or, in the case of notes with an Interest Basis that converts from a fixed rate to a floating rate, the fixed rate applicable to such notes immediately prior to the conversion of the Interest Basis.

**“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 (and subject to “*Benchmark discontinuation*” if applicable), 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 (and subject to “*Benchmark discontinuation*” if applicable), 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 (or other Interest Accrual Period).

The Calculation Agent will calculate the amount of interest (each an “**Interest Amount**”) for the relevant Interest Period (or other Interest Accrual 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)).

#### *Notification of Rate of Interest and Interest Amounts*

Except where the Interest Rate Basis in respect of the Floating Rate Notes is specified in the applicable Final Terms as being “Compounded Daily SONIA”, the Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to us, 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.

Where the Interest Rate Basis in respect of the relevant Floating Rate Notes is specified in the applicable Final Terms as being “Compounded Daily SONIA”, the Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Accrual Period and the relevant Interest Payment Date to be notified to the Issuer and 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 second London Banking Day thereafter. Each Rate of Interest, Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the relevant Interest Accrual 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.

#### *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this subsection, whether by the Paying Agent or the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on us, the Paying Agent, the Calculation Agent, the Trustee, any other paying agents and all holders and (in the absence as aforesaid) no liability to us 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.

### **Benchmark discontinuation**

This provision “—*Benchmark discontinuation*” applies only if “*Benchmark Replacement*” is specified to be applicable in the applicable Final Terms.

If a Benchmark Event occurs in relation to an Original Reference Rate at any time when any rate of interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the following provisions shall apply.

#### *Independent Adviser*

We shall use reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to our determining a Successor Rate, failing which an Alternative Rate and, in either case, the applicable Adjustment Spread and any Benchmark Amendments.

If, notwithstanding our reasonable endeavours, we are unable to appoint and consult with an Independent Adviser in accordance with the foregoing paragraph, we shall nevertheless be entitled, acting in good faith and in a commercially reasonable manner, to make any and all determinations expressed to be made by us pursuant to this provision “—*Benchmark discontinuation*”, notwithstanding that such determinations are not made following consultation with an Independent Adviser. If, however, we are unable to determine a Successor Rate or an Alternative Rate and (in either case) the applicable Adjustment Spread and any Benchmark Amendments in accordance with this provision “—*Benchmark discontinuation*”, the provisions of “—*Benchmark discontinuation – Fallbacks*” below shall apply.

An Independent Adviser appointed pursuant to this provision “—*Benchmark discontinuation*” shall act in good faith. In the absence of bad faith or fraud, neither we nor any Independent Adviser shall have any liability whatsoever to the Trustee, the Paying Agents, any calculation agent or the noteholders for any determination made by us or any Independent Adviser or (in the case of the Independent Adviser) for any advice given to us in connection with any determination made by us.

#### *Successor Rate or Alternative Rate*

If we, following consultation with such Independent Adviser (if appointed), determine in good faith that:

- (A) there is a Successor Rate, then such Successor Rate, as adjusted by the applicable Adjustment Spread determined as provided below under “*Adjustment Spread*”, shall subsequently be used in place of the Original Reference Rate to determine the relevant rate(s) of interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the notes (subject to the further operation of this provision “—*Benchmark discontinuation*”); or
- (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate as adjusted by the applicable Adjustment Spread determined as provided below under “*Adjustment Spread*”, shall subsequently be used in place of the Original Reference Rate to determine the relevant rate(s) of interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the notes (subject to the further operation of this provision “—*Benchmark discontinuation*”).

#### *Adjustment Spread*

If a Successor Rate or Alternative Rate is determined in accordance with the foregoing provisions, we, following consultation with the Independent Adviser (if appointed) will determine in good faith the Adjustment Spread to be applied to such Successor Rate or Alternative Rate (as the case may be) for each subsequent



determination of a relevant Rate of Interest (or a relevant component part thereof) by reference to such Successor Rate or Alternative Rate (as applicable).

#### *Benchmark Amendments*

If any Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread is determined in accordance with this provision “—*Benchmark discontinuation*” and we, following consultation with the Independent Adviser (if appointed) determine in good faith (A) that amendments to these terms and conditions and/or the Indenture (including, without limitation, amendments to the definitions of Day Count Fraction, Business Days, Reset Determination Date, or Relevant Screen Page) are necessary to ensure the proper operation (having regard to prevailing market practice, if any) of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (B) the terms of the Benchmark Amendments, then (subject to “—*Regulatory capital / eligible liabilities*” below) we shall, subject to giving notice thereof in the manner specified below, without any requirement for the consent or approval of noteholders, vary these terms and conditions and/or the Indenture to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At our request, but subject to receipt by the Trustee of a certificate signed by two of our authorized signatories pursuant to the provisions below, the Trustee shall (at our expense), without any requirement for the consent or approval of the noteholders, be obliged to concur with us in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Indenture) and the Trustee shall not be liable to any party for any consequences thereof, provided that the Trustee shall not be obliged so to concur if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or the protective provisions afforded to the Trustee in these terms and conditions or the Indenture (including, for the avoidance of doubt, any supplemental indenture) in any way.

In connection with any such variation in accordance with this provision “—*Benchmark discontinuation*”, we shall comply with the rules of any stock exchange on which the notes are for the time being listed or admitted to trading.

#### *Notices, etc.*

We shall notify the Trustee, the Calculation Agent, the Paying Agents and, in accordance with “-*Notices*”, the noteholders, promptly of any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this section “—*Benchmark discontinuation*”. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, we shall deliver to the Trustee a certificate signed by two authorized signatories:

- (A) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this section “—*Benchmark discontinuation*”;
- (B) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread; and
- (C) certifying that (i) we have duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why we have not done so.

The Trustee shall be entitled to rely on such certificate (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and (in either case) the applicable

Adjustment Spread and Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on us, the Trustee, the Calculation Agent, the Paying Agents and the noteholders.

#### *Survival of Original Reference Rate*

Without prejudice to our obligations under the provisions of this section "*Benchmark discontinuation*", the Original Reference Rate and the fallback provisions provided for in "*Interest—Interest on Floating Rate Notes*" and "*Interest—Interest on Reset Notes*", as applicable, will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be) and (in either case) of the applicable Adjustment Spread and the relevant Benchmark Amendments (if any).

#### *Regulatory capital / eligible liabilities*

Notwithstanding any other provision of this section "*Benchmark discontinuation*", no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any Benchmark Amendments be effected, if and to the extent that, in our determination, the same could reasonably be expected either (i) to prejudice the qualification of the relevant series of notes as Tier 2 Capital and/or as eligible liabilities or loss absorbing capacity instruments for the purposes of any Loss Absorption Regulations or (ii) (in the case of Senior Non-Preferred Notes only) to result in the relevant Supervisory Authority treating the Interest Payment Date or the Reset Date, as the case may be, as the effective maturity date of the Notes, rather than the relevant maturity date.

#### *Fallbacks*

If, following the occurrence of a Benchmark Event and in relation to the determination of the Rate of Interest on the immediately following Interest Determination Date or Reset Determination Date (as applicable), no Successor Rate or Alternative Rate (as applicable) is determined pursuant to this provision or (as the case may be) a Successor Rate or Alternative Rate (as applicable) is determined, but no Adjustment Spread is determined pursuant to this provision, the original benchmark or screen rate (as applicable) will continue to apply for the purposes of determining such Rate of Interest on such Interest Determination Date or Reset Determination Date (as the case may be), with the effect that the fallback provisions provided in "*Interest—Interest on Floating Rate Notes*" or "*Interest—Interest on Reset Notes*", as applicable, will continue to apply to such determination.

In such circumstances, we will be entitled (but not obliged), at any time thereafter, to elect to re-apply the provisions of "*Benchmark discontinuation*", *mutatis mutandis*, on one or more occasions until a Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread and any Benchmark Amendments have been determined and notified in accordance with this provision "*Benchmark Discontinuation*" (and, until such determination and notification (if any), the fallback provisions provided in "*Interest—Interest on Floating Rate Notes*" or "*Interest—Interest on Reset Notes*", as applicable, will continue to apply).

Our intention is that, in circumstances where we have been unable to determine a Successor Rate or Alternative Rate (as applicable) and (in either case) Adjustment Spread pursuant the provision "*Benchmark discontinuation*", we will elect to re-apply such provisions if and when, in our sole determination, there have been such subsequent developments (whether in applicable law, market practice or otherwise) as would enable us successfully to apply such provisions and determine a Successor Rate or Alternative Rate (as applicable) and (in either case) the applicable Adjustment Spread and the applicable Benchmark Amendments (if any).

#### *Preparation in anticipation of a Benchmark Event*

If we anticipate that a Benchmark Event will or may occur, nothing in these provisions shall prevent us (in our sole discretion) from taking, prior to the occurrence of such Benchmark Event, such actions as we

consider expedient in order to prepare for applying the provisions of “—*Benchmark discontinuation*” (including, without limitation, appointing and consulting with an Independent Adviser, and seeking to identify any Successor Rate, Alternative Rate, Adjustment Spread and/or Benchmark Amendments), provided that no Successor Rate, Alternative Rate, Adjustment Spread and/or Benchmark Amendments will take effect until the relevant Benchmark Event has occurred.

#### *Definitions*

In this section “—*Benchmark discontinuation*”:

“**Adjustment Spread**” means either a spread (which may be positive, negative or zero), or the formula or methodology for calculating a spread, in either case which is to be applied to the Successor Rate or the Alternative Rate (as the case may be), being the spread, formula or methodology which:

- (A) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (B) in the case of an Alternative Rate (or in the case of a Successor Rate where (A) above does not apply), we, following consultation with the Independent Adviser (if appointed) and acting in good faith, determine is in customary market usage (or reflects an industry-accepted rate, formula or methodology) in the international debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Alternative Rate (or, as the case may be, the Successor Rate); or
- (C) if no such recommendation or option has been made (or made available) under (A) above and if we, following consultation with the Independent Adviser (if appointed), determine there is no such spread, formula or methodology in customary market usage or which is industry-accepted under (B) above, we, in our discretion, following consultation with the Independent Adviser (if appointed) and acting in good faith and in a commercially reasonable manner, determine to be appropriate having regard to the objective, so far as is reasonably practicable in the circumstances, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the noteholders;

“**Alternative Rate**” means an alternative benchmark or screen rate which we, following consultation with the Independent Adviser (if appointed), determine in accordance with this section “—*Benchmark discontinuation*” has replaced the Original Reference Rate in customary market usage, or is an industry-accepted rate, in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the notes;

“**Benchmark Event**” means, with respect to an Original Reference Rate, any one or more of the following:

- (A) the Original Reference Rate ceasing to exist or to be published or administered on a permanent or indefinite basis;
- (B) the making of a public statement by the administrator of the Original Reference Rate that it has ceased or will cease to publish the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate);
- (C) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued;

- (D) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will be prohibited from being used, is no longer (or will no longer be) representative of its underlying market or that its use will be subject to restrictions or adverse consequences, in each case in circumstances where the same shall be applicable to the notes; or
- (E) it has or will prior to the next Interest Determination Date or Reset Determination Date, as applicable, become unlawful for us, the Calculation Agent, or any Paying Agent to calculate any payments due to be made to any noteholder using the Original Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable),

provided that in the case of paragraphs (B) to (D) above, the Benchmark Event shall occur on:

- (i) in the case of (B) above, the date of the cessation of the publication of the Original Reference Rate;
- (ii) in the case of (C) above, the discontinuation of the Original Reference Rate; or
- (iii) in the case of (D) above, the date on which the Original Reference Rate is prohibited from use, is deemed no longer to be representative or becomes subject to restrictions or adverse consequences (as applicable),

and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (i), (ii) or (iii) above, as applicable).

**“Original Reference Rate”** means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant rate of interest (or any relevant component part(s) thereof) on the notes (provided that if, following one or more Benchmark Events, such originally specified Reference Rate (or any Successor Rate or Alternative Rate which has replaced it) has been replaced by a (or a further) Successor Rate or Alternative Rate and a Benchmark Event subsequently occurs in respect of such Successor Rate or Alternative Rate, the term “Original Reference Rate” shall be deemed to include any such Successor Rate or Alternative Rate);

**“Relevant Nominating Body”** means, in respect of a benchmark or screen rate (as applicable):

- (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (iii) a group of the aforementioned central banks or other supervisory authorities or (iv) the Financial Stability Board or any part thereof; and

**“Successor Rate”** means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

#### **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, the first interest payment date, initial interest accrual date and the 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**

In the event of any 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, in respect of any payments in respect of any note:

- (i) in the case of (A) all senior preferred notes and (B) each series of senior non-preferred notes unless the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as not applicable, we will (subject as follows) pay to the holder of such note such additional amounts as may be necessary in order that every net payment of the principal of (including premium or final redemption amount or early redemption amount, if any, or other amount payable in respect thereof) and interest, if any, on such note, will not be less than the amount provided for in such note as then due and payable; and
- (ii) in the case of (A) all subordinated notes and (B) each series of senior non-preferred notes for which the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as not applicable, we will (subject as follows) pay to the holder of such note such additional amounts as may be necessary in order that every net payment of interest, if any, on such note, will not be less than the amount provided for in such note as then due and payable. However, we will not pay any such additional amounts in respect of any principal of (including premium or final redemption amount or early redemption amount, if any, or other amount payable in respect thereof) any such note.

Furthermore, and without prejudice to the foregoing, no such additional amounts shall, however, be payable on any note for or 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 (in the case of senior preferred notes or any senior non-preferred notes falling within paragraph (i) above) principal (including premium or final redemption amount or early redemption amount, if any, or other amount payable in respect thereof) or (in the case of any notes) 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 (in the case of senior preferred notes or any senior non-preferred notes falling within paragraph (i) above) principal (including premium or final redemption amount or early redemption amount, if any, or other amount payable in respect thereof) or (in the case of any notes) interest, if any, in respect of such note;
- (4) by reason of any estate, excise, inheritance, gift, sales, transfer, wealth, personal property tax or any similar assessment or governmental charge;
- (5) 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;

- (6) 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;
- (7) owing to a combination of clauses (1) through (6) above; or
- (8) pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

“**Relevant Date**” means the date on which the payment of principal (including premium or final redemption amount or early redemption amount, if any, 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 or early redemption amount, if any, 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, Repurchase, Substitution and Variation**

### ***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***

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that:

- (1) (in the case of senior preferred notes) on the occasion of the next payment due in respect of the notes, the Issuer will or would be required to pay additional amounts as described under “—*Payment of additional amounts*” or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable in respect of the notes) calculated by reference to any amount payable in respect of the notes; or
- (2) (in the case of subordinated notes and senior non-preferred notes) a Tax Event has occurred;

and, in any such case, the Issuer cannot avoid the same by taking reasonable measures available to it, then the Issuer may in its sole discretion (and, in the case of subordinated notes, in accordance with “—*Preconditions to Redemption and Purchase of Subordinated Notes*” or, in the case of senior non-preferred notes, in accordance with “—*Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes*”), having given notice of not more than 30 days nor less than 15 days prior to the date of redemption to the Trustee and, in accordance with “—*Notices*”, the noteholders (which notice shall be irrevocable), redeem at any time (if such notes are not Floating Rate Notes) or on any Interest Payment Date (if such notes are Floating Rate Notes) all (but not some only) of the notes at their early redemption amount as provided under “—*Early Redemption Amounts*” together, if applicable, with interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice the Issuer shall be bound to redeem the notes accordingly.

Prior to the publication of any notice of early redemption pursuant to the provisions set forth above, the Issuer shall deliver to the Trustee a certificate signed by any two authorized signatories of the Issuer confirming that the relevant circumstances in (1) above (in the case of senior preferred notes) or (2) above (in the case of subordinated notes and senior non-preferred notes) have occurred and are continuing. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the noteholders.

A “**Tax Event**” will be deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making any payments on the subordinated notes or the senior non-preferred notes, the Issuer has paid or will or would on the next payment date be required to pay additional amounts as described under “—*Payment of additional amounts*”;
- (ii) the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of any payments in respect of the subordinated notes or the senior non-preferred notes in computing its taxation liabilities or the amount of such deduction is or will be materially reduced;
- (iii) the subordinated notes or the senior non-preferred notes are, or will be, prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iv) the Issuer is not, or will not be, able to have losses or deductions set against any profits or gains, or profits or gains offset by any losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the subordinated notes or senior non-preferred notes or any similar system or systems having like effect as may from time to time exist).

As used herein, “**Tax Law Change**” means any change in, or amendment to, the laws or regulations of the United Kingdom (including any treaty to which it is a party) or any political subdivision or any authority thereof or therein having power to tax, or any change in the official interpretation thereof by the relevant tax authority or in the application of such laws or regulations by a decision of any court or tribunal that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or any pronouncement of a tax authority in the United Kingdom, which change or amendment becomes effective or, in the case of a change in law, if such change is enacted by a U.K. Act of Parliament or by Statutory Instrument, on or after the Issue Date.

### ***Redemption at Our Option***

If so specified in the applicable Final Terms, the notes of a series will be redeemable at our option (but subject, in the case of subordinated notes, to compliance with “—*Preconditions to Redemption and Purchase of Subordinated Notes*” or, in the case of senior non-preferred notes, to compliance with “—*Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes*”) prior to the stated Maturity Date.

If so specified, and subject to the terms set forth in the applicable Final Terms, the notes will be subject to redemption at our option on the applicable Early Redemption Date(s) specified in the applicable Final Terms, in whole or from time to time in part in minimum increments of \$200,000 for senior preferred notes and senior non-preferred notes and \$250,000 for subordinated notes, or the minimum denomination specified in such Final Terms (provided that, in the case of any redemption in part, any remaining principal amount thereof shall be at least \$200,000 for senior preferred notes and senior non-preferred notes and \$250,000 for subordinated notes, or such minimum denomination), at the Redemption Price specified in the applicable Final Terms. Any such redemption will be subject to notice being given not more than the maximum period specified in the applicable Final Terms (or, if no maximum period is specified in the applicable Final Terms, 60 days, if the notes are being redeemed in whole, or 45 days, if the notes are being redeemed in part), nor less than the minimum period

specified in the applicable Final Terms (or, if no minimum period is specified in the applicable Final Terms, 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.

#### ***Regulatory Event Redemption of Subordinated Notes***

This provision “—*Regulatory Event Redemption of Subordinated Notes*” applies only to subordinated notes.

Subject to compliance with “—*Preconditions to Redemption and Purchase of Subordinated Notes*”, the Issuer may, in its sole discretion, if a Regulatory Event has occurred, having given notice of not more than 30 days nor less than 15 days prior to the date of redemption to the Trustee and, in accordance with “—*Notices*”, the noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem at any time (if such notes are not Floating Rate Notes) or on any Interest Payment Date (if such notes are Floating Rate Notes) all (but not some only) of the subordinated notes at their early redemption amount as provided under “—*Early Redemption Amounts*” together, if applicable, with interest accrued to (but excluding) the date fixed for redemption.

Prior to the publication of any notice of early redemption pursuant to the paragraph above, the Issuer shall deliver to the Trustee a certificate signed by any two authorized signatories of the Issuer confirming that a Regulatory Event has occurred. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the noteholders. Upon the expiry of such notice the Issuer shall be bound to redeem the subordinated notes accordingly.

#### ***Loss Absorption Disqualification Event Redemption of Senior Non-Preferred Notes***

This provision “—*Loss Absorption Disqualification Event Redemption of Senior Non-Preferred Notes*” applies to all senior non-preferred notes except for any series where “*Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption*” is expressly specified to be not applicable in the applicable Final Terms.

Subject to compliance with “—*Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes*”, the Issuer may, in its sole discretion, if a Loss Absorption Disqualification Event has occurred, having given notice of not more than 30 days nor less than 15 days prior to the date of redemption to the Trustee and, in accordance with “—*Notices*”, the noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem at any time (if such notes are not Floating Rate Notes) or on any Interest Payment Date (if such notes are Floating Rate Notes) all (but not some only) of the senior non-preferred notes at their early redemption amount as provided under “—*Early Redemption Amounts*” together, if applicable, with interest accrued to (but excluding) the date fixed for redemption.

Prior to the publication of any notice of early redemption pursuant to the paragraph above, the Issuer shall deliver to the Trustee a certificate signed by any two authorized signatories of the Issuer confirming that a Loss Absorption Disqualification Event has occurred. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the noteholders. Upon the expiry of such notice the Issuer shall be bound to redeem the senior non-preferred notes accordingly.

#### ***Repayment at the Option of the Holders***

This provision “—*Repayment at the Option of the Holders*” does not apply to subordinated notes.

If so specified in the applicable Final Terms, the notes will be repayable by the Issuer 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 the maximum period specified in the applicable Final Terms (or, if no maximum period is specified in the applicable Final Terms, 30 days), nor less than the minimum period specified in the applicable Final Terms (or, if no minimum period is specified in the applicable Final Terms, 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 Date. Any repayment in part will be in increments of \$200,000, or the minimum denomination specified in the applicable Final Terms (provided that any remaining principal amount thereof shall be at least \$200,000 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 or following (in respect of subordinated notes) a Regulatory Event or (in respect of senior non-preferred notes) a Loss Absorption Disqualification Event and, in any case, redemption upon the occurrence of any Event of Default under the Indenture, each note will be redeemed at an amount calculated as follows, together with interest, if any, to the date fixed for redemption (the amount in (a) or, as the case may be, (b) below being the “**early redemption amount**”):

- (a) (in the case of notes other than Zero Coupon Notes) at 100% of the principal amount (and premium, if any, thereon); or
- (b) in the case of Zero Coupon Notes, at an 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 (subject, in the case of subordinated notes, to compliance with “—*Preconditions to Redemption and Purchase of Subordinated Notes*” and prevailing Regulatory Capital Requirements or, in the case of senior non-preferred notes, to compliance with “—*Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes*” and prevailing Loss Absorption Regulations) at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased may be held or resold or, at our discretion, notes may be surrendered to the Trustee for cancellation.

### ***Preconditions to Redemption and Purchase of Subordinated Notes***

Any redemption or purchase of subordinated notes in accordance with any applicable subsection of this section “—*Redemption, Repurchase, Substitution and Variation*” is subject to:

- (a) the Issuer having obtained Relevant Supervisory Consent therefor;
- (b) either: (A) the Issuer having replaced the subordinated notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; and
- (c) in the case of any redemption prior to the fifth anniversary of the Issue Date, (A) in the case of redemption upon a Tax Event, the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the change in tax treatment is material and was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Notwithstanding the foregoing, if, at the time of any redemption or purchase, the prevailing Regulatory Capital Requirements permit a repayment or purchase only after compliance with one or more additional or alternative preconditions to those set out above in this subsection, the Issuer shall comply (in addition or in the alternative, as the case may be) with such additional and/or alternative precondition(s).

### ***Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes***

Any redemption, purchase, substitution or variation of senior non-preferred notes in accordance with any applicable subsection of this section “—*Redemption, Repurchase, Substitution and Variation*” is subject to:

- (a) the Issuer having obtained Relevant Supervisory Consent therefor (if and to the extent required by a relevant Supervisory Authority or the Loss Absorption Regulations); and
- (b) compliance with any other pre-conditions to, or requirements applicable to, such redemption, purchase, substitution or variation as may be required by the relevant Supervisory Authority or the Loss Absorption Regulations at such time.

### ***Substitution and Variation in Respect of Senior Non-Preferred Notes***

This provision “*Substitution and variation in respect of senior non-preferred notes*” applies to each series of senior non-preferred notes unless “*Senior Non-Preferred Notes: Substitution and Variation*” is expressly specified to be not applicable in the applicable Final Terms.

Upon the occurrence of a Loss Absorption Disqualification Event, the Issuer (in its sole discretion but subject to “—*Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes*”), having given notice of not more than 30 days nor less than 15 days prior to the date of substitution or variation (as the case may be) to the Trustee and, in accordance with “—*Notices*”, the noteholders (which notice shall be irrevocable and shall specify the date fixed for substitution or variation, as applicable) may, without any requirement for the consent or approval of the noteholders, either substitute all (but not some only) of the senior non-preferred notes for, or vary the terms of the senior non-preferred notes so that they remain or, as appropriate, become, Loss Absorption Compliant Notes. Upon the expiry of the notice referred to above, the Issuer shall either substitute or, as the case may be, vary the terms of the senior non-preferred notes.

In connection with any substitution or variation in accordance with this provision “*Substitution and Variation in Respect of Senior Non-Preferred Notes*”, the Issuer shall comply with the rules of any stock exchange on which the relevant senior non-preferred notes are for the time being listed or admitted to trading.

Any substitution or variation in accordance with this provision is subject to the following conditions:

- (A) the Issuer complying with “—*Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes*” above;
- (B) such substitution or variation not resulting in any event or circumstance which at or around that time gives the Issuer a redemption right in respect of the resulting notes; and
- (C) prior to the publication of any notice of substitution or variation, the Issuer having delivered to the Trustee a certificate signed by two authorized signatories of the Issuer stating that the Loss Absorption Disqualification Event giving rise to the right to substitute or vary the senior non-preferred notes has occurred as at the date of the certificate and that the conditions set out (A) and (B) immediately above have been satisfied and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof, and such certificate shall be conclusive and binding on the Trustee and all noteholders.

The Trustee shall, subject to the Issuer’s compliance with the foregoing conditions and the provision of the certificate signed by two authorized signatories of the Issuer as referred to in the definition of ‘Loss Absorption Compliant Notes’ and at the expense and cost of the Issuer, use reasonable endeavours to assist the Issuer in any substitution or variation of the relevant senior non-preferred notes in accordance with this provision, except that the Trustee shall not be obliged to assist in any such substitution or variation if either such substitution or variation itself or the terms of the proposed Loss Absorption Compliant Notes would impose, in the Trustee’s sole determination, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured and/or pre-funded to its sole satisfaction.

### **Agreement with Respect to the Exercise of U.K. 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 U.K. bail-in power (as defined below) by the relevant U.K. resolution authority (as defined below) that may result (without limitation) 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 U.K. resolution authority of such U.K. bail-in power, and the rights of the holders of the notes will be subject to the provisions

of any U.K. 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 U.K. resolution authority of such U.K. bail-in power. Without prejudice to the generality of the foregoing, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents that the Issuer and the Trustee for the notes of any and all series shall, at any time and from time to time, without any requirement for the consent or approval of any holders of any notes, be entitled to amend the terms of the Indenture and any notes in order to ensure the effectiveness and enforceability of the provisions of this section “*Agreement with Respect to the Exercise of U.K. Bail-in Power*” and Article 13 of the Indenture (including, without limitation, changing the governing law of Article 13 of the Indenture from New York law to English law). Any such amendment shall be subject to the Issuer having obtained Relevant Supervisory Consent and to compliance with any applicable Regulatory Capital Requirements and/or Loss Absorption Regulations, but in each case only if and to the extent then required by the relevant Supervisory Authority or under any applicable Regulatory Capital Requirements and/or Loss Absorption Regulations. The Issuer will notify holders of the relevant notes of any such amendments, in accordance with “—*Notices*”, as soon as reasonably practicable, and in any event not later than 15 days following such amendments taking effect (provided that any delay or failure in giving such notice shall not nullify or invalidate such amendments).

For purposes of the notes, a “**U.K. 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 U.K. Banking Act 2009, as the same may be amended from time to time (whether pursuant to the U.K. 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 (as amended) 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, as the same may be amended from time to time (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 U.K. resolution authority” is to any authority with the ability to exercise a U.K. bail-in power). “**Group**” means the Issuer together with its subsidiaries consolidated in accordance with International Financial Reporting Standards.

By its acquisition of the Notes, each holder acknowledges and agrees that no repayment of the principal amount (including any premium or final redemption amount or early redemption amount, if any, or other amount payable in respect thereof) of the notes or payment of interest on the notes shall become due and payable after the exercise of any U.K. bail-in power by the relevant U.K. 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 U.K. 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 U.K. bail-in power by the relevant U.K. resolution authority with respect to the notes.

Upon the exercise of the U.K. bail-in power by the relevant U.K. resolution authority with respect to the notes, we will provide a written notice to DTC as soon as practicable regarding such exercise of the U.K. 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.

By its acquisition of the Notes, each holder acknowledges and agrees that the exercise of the U.K. bail-in power by the relevant U.K. resolution authority with respect to the notes will not be an Event of Default (as defined in the Indenture) with respect to such notes.

Our obligations to indemnify the Trustee shall survive the exercise of the U.K. bail-in power by the relevant U.K. resolution authority with respect to any notes.

By its acquisition of the notes, each noteholder acknowledges and agrees that, upon the exercise of any U.K. bail-in power by the relevant U.K. 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 U.K. bail-in power by the relevant U.K. resolution authority. Notwithstanding the foregoing, if, following the completion of the exercise of the U.K. bail-in power by the relevant U.K. resolution authority, any notes remain outstanding (for example, if the exercise of the U.K. 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 any notes following such completion to the extent that the issuer and the Trustee shall agree pursuant to another supplemental indenture or an amendment to the Indenture; provided, however, that notwithstanding the exercise of the U.K. bail-in power by the relevant U.K. 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 U.K. 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 U.K. bail-in power as it may be imposed without any prior notice by the relevant U.K. 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 U.K. 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 U.K. bail-in power, see “*Risk Factors—Risks Related to the Notes.*”

## **Negative Pledge**

The negative pledge applies to the senior preferred notes only.

So long as any of the senior preferred 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 preferred notes equally and rateably therewith to the satisfaction of the Trustee or providing such other security for the senior preferred notes which the Trustee in its absolute discretion shall deem to be not materially less beneficial to the holders of senior preferred notes or which shall be approved by a majority of the holders of senior preferred 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 preferred 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 equal to 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 Preferred Notes and Unrestricted Default Senior Non-Preferred Notes

The following shall constitute “**Events of Default**” with respect to:

- (i) each series of senior preferred notes; and
- (ii) each series of senior non-preferred notes for which the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Restricted Events of Default*” as being not applicable (“**Unrestricted Default Senior Non-Preferred Notes**”),

and references to “notes” shall be construed accordingly:

- (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 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 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, 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; 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 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*”), 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).

“**Material Subsidiary**” means a Subsidiary of ours who’s 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).

If an Event of Default (other than an Event of Default specified in sections (5) or (6) above) with respect to notes of any series of senior preferred notes or Unrestricted Default Senior Non-Preferred Notes at the time outstanding occurs and is continuing, then in every such case the Trustee or the holders of not less than 25% in principal amount of the outstanding notes of such series may declare all of the notes of that series to be due and payable immediately at their early redemption amount together with accrued interest by a notice in writing to us. If an Event of Default specified in section (5) or (6) above with respect to notes of any series of senior preferred notes or Unrestricted Default Senior Non-Preferred Notes at the time outstanding occurs, then all of the notes of that series shall, without any act by the Trustee or the holders, become immediately due and payable without presentment, demand, protest or other notice of any kind at their early redemption amount together with accrued interest.

At any time after such an acceleration or declaration of acceleration with respect to any series of senior preferred notes or Unrestricted Default Senior Non-Preferred Notes has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in principal amount of the outstanding notes of that series, by written notice to us and the Trustee, may rescind and annul such acceleration or declaration of acceleration and its consequences if:

- (a) we have paid or deposited with the Trustee a sum sufficient to pay:
  - (i) all overdue interest, if any, on all notes of that series;
  - (ii) the principal of and premium, if any, on any notes of that series which have become due otherwise than by such acceleration or declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such notes;
  - (iii) to the extent that payment of such interest is lawful, interest upon any overdue interest at the rate or rates prescribed therefor in such notes; and
  - (iv) all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and
- (b) all Events of Default with respect to notes of that series, other than the non-payment of the principal of and accrued interest on notes of that series which have become due solely by such acceleration, have been cured or waived.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

If any series of Zero Coupon Notes shall have been accelerated and become due and payable, then, from and after such acceleration, unless such acceleration has been rescinded and annulled, the principal amount

of such Zero Coupon Notes shall be deemed to be such portion of the principal thereof as shall be due and payable as a result of such acceleration, and payment of such portion of the principal thereof as shall be due and payable as a result of such acceleration, together with interest, if any, thereon and all other amounts owing thereunder, shall constitute payment in full of such Zero Coupon Notes.

#### **Events of Default—Subordinated Notes and Restricted Default Senior Non-Preferred Notes**

The following shall apply with respect to:

- (i) each series of subordinated notes; and
- (ii) each series of senior non-preferred notes unless the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Restricted Events of Default*” as being not applicable (“**Restricted Default Senior Non-Preferred Notes**”),

and references to “notes” shall be construed accordingly:

- (a) *Non-payment when due*: If default is made for a period of seven days or more in the payment of any principal due on the notes or any of them or for a period of 14 days or more in the payment of any interest due on the notes or any of them, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of notes then outstanding shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), institute proceedings for the winding up of the Issuer in England (but not elsewhere) to enforce the obligations of the Issuer in respect of the notes and the Indenture in so far as it relates to the notes, but may take no other action in respect of such default (except as provided in paragraph (b) below).
- (b) *Winding up or dissolution*: In the event of a winding up or dissolution of the Issuer (subject as otherwise provided in an Excluded Dissolution), whether or not instituted by the Trustee pursuant to paragraph (a) above, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of notes then outstanding shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer (or the relevant official presiding over such winding up or dissolution) that the notes are, and they shall accordingly immediately become, due and repayable at their early redemption amount together with accrued interest as provided in the Indenture, and shall claim and/or prove in such winding up or dissolution in respect of the notes (such claim ranking as provided in “—*Status and ranking of senior non-preferred notes*” or “—*Status and subordination of subordinated notes*”, as applicable).
- (c) *Enforcement*: Without prejudice to paragraphs (a) and (b) above, the Trustee may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Indenture or the notes (other than any payment obligation of the Issuer under or arising from the notes or the Indenture, including, without limitation, payment of any principal or interest in respect of the notes, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Indenture, nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Issuer.
- (d) *Rights of holders*: No noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, (i) fails to do so, or (ii) is unable for any reason to do so, in which case any such holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No such holder shall be entitled to institute proceedings for the winding up of the Issuer, or to prove in any winding up or dissolution of



the Issuer, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so or is unable for any reason to do so, or being able to prove in any winding up or dissolution of the Issuer, fails to do so, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) itself institute proceedings for the winding up in England (but not elsewhere) of the Issuer and/or prove in any winding up or dissolution of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of such notes held by him.

- (e) *Extent of remedy:* No remedy against the Issuer, other than the institution of proceedings for the winding up in England of the Issuer and/or the proving or claiming in any winding up or dissolution of the Issuer, shall be available to the Trustee or the noteholders for the recovery of amounts owing in respect of such notes or under the Indenture in so far as it relates to the notes.
- (f) *Rights of the Trustee:* The Trustee may at its discretion institute such proceedings as are contemplated by this subsection against the Issuer to enforce the obligations of the Issuer under the Indenture in so far as it relates to the notes, but it shall not be bound to institute any such proceedings unless (a) it shall have been so requested in writing by noteholders holding at least one-quarter in nominal amount of the notes then outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

#### **Collection of Indebtedness and Suits for Enforcement by the Trustee**

If any Event of Default has occurred and is continuing with regard to senior preferred notes or Unrestricted Default Senior Non-Preferred 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 notes. However, the Trustee will not be bound to take any action with respect to such series of senior preferred notes or Unrestricted Default Senior Non-Preferred 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 preferred notes or Unrestricted Default Senior Non-Preferred Notes; and
- (2) it shall have been indemnified to its satisfaction.

If any Event of Default (which, for these purposes, shall mean that default is made for a period of seven days or more in the payment of any principal due on the notes or any of them or for a period of 14 days or more in the payment of any interest due on the notes or any of them) has occurred and is continuing with regard to subordinated notes or Restricted Default Senior Non-Preferred 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 such notes and the Indenture insofar as it relates to such notes. However, we may not make any payment of principal in respect of subordinated notes or Restricted Default Senior Non-Preferred 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 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 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 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 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 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 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 satisfaction and discharge provisions described below do not apply to subordinated notes or senior non-preferred notes unless the Issuer has obtained Relevant Supervisory Consent therefor.

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 Date, 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 Date (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 Date (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.

**“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 Date 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 Date, 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 any subordinated notes or any senior non-preferred notes, change in any manner adverse to the interests of the holders of such Outstanding Notes the subordination or ranking provisions of such notes.

The foregoing paragraph is without prejudice to our rights and the rights of the Trustee, without any requirement for the consent or approval of any holders of any notes, to make any other amendments to the Indenture and/or the terms of any notes as may be expressly provided for in the Indenture and under this section “*Terms and Conditions of the Notes*” (including, without limitation, as provided under “*-Benchmark Amendments*”, “*-Substitution and Variation in Respect of Senior Non-Preferred Notes*” and “*Agreement with Respect to the Exercise of U.K. Bail-in Power*”).

In addition, variations in the terms and conditions of the subordinated notes or senior non-preferred notes of any series, which may include modifications relating to the status, subordination, ranking, redemption, repurchase or Events of Default with respect to such notes, may require 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 preferred 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 U.K. resolution authority of the U.K. 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 Section 11.1 of the Indenture (which contains the subordination provisions in respect of the subordinated notes) and Section 12.1 of the Indenture (which explains the priority of the senior non-preferred notes under the Insolvency Act and any other Ranking Legislation) and the corresponding subordination and ranking provisions, respectively, of each series of such notes pursuant to Section 3.1 of the Indenture and in the terms of such notes will be governed by and construed in accordance with the laws of England, with the intention that such provisions be given full effect in any insolvency proceeding relating to us in England.

**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 (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 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 and only such duties as are specifically set forth in the Indenture and no implied covenants or obligations shall be read into the Indenture against the Trustee. If an event of default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

## DESCRIPTION OF THE GLOBAL NOTES

Unless otherwise specified in the Final Terms for a particular series of Notes, DTC will act as securities depository for the Notes. The following discussion relates solely to DTC and Notes for which it is the securities depository.

### 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

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 medium-term note program described in this Base Prospectus.*

**[MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]<sup>3</sup>

**[Prohibition of sales to EEA retail investors** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU (“**MiFID II**”)]**[MiFID II]**; or (ii) a customer within the meaning of Directive EU 2016/97 (as amended or superseded, the “**Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]<sup>4</sup>

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined the classification of the Notes as [prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)]/[ ].

[Date]

**Nationwide Building Society**

**Legal Entity Identifier (LEI): 549300XFX12G42QIKN82**

**[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 [date] [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

<sup>3</sup> This legend to be included only where it accurately reflects the determination of the manufacturer(s) for the relevant series of notes.

<sup>4</sup> Legend to be included on front of the Final Terms if the Notes potentially constitute “packaged” products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

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 [date]. 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 [date] [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. Status of the Notes: [Senior Preferred / Senior Non-Preferred / Subordinated]
- (a) [Senior Non-Preferred Notes: [Applicable/specify if Not Applicable]
- Waiver of Set-off:
- (b) Senior Non-Preferred Notes: [Applicable/specify if Not Applicable]
- Restricted Events of Default:
- (c) Senior Non-Preferred Notes: Gross-up of principal: [Applicable/ specify if Not Applicable]]
2. Interest Basis: [Fixed Rate/Reset/Floating Rate/Zero Coupon/Combination]
3. Change of Interest Rate Basis: [Fixed/Floating Rate/Floating/Fixed Rate][Not Applicable]

## DESCRIPTION OF THE NOTES

4. (a) Series Number: [ ]
- (b) Tranche Number: [ ]
5. (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]
6. Issue Price: [ ]
7. Issue Date: [ ]
8. Original Issue Date: [ ]
9. Interest Commencement Date: [ ] [Issue Date] [Not Applicable]
10. Automatic/optional conversion from one Interest Basis to another: [ ] [Not Applicable]
11. Additional Business Center(s): [ ] [Not Applicable]

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

12. Fixed Rate Note Provisions: [Applicable/Not Applicable]

- (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) Business Day Convention: [Following Business Day/Modified Following Business Day/Preceding Business Day]
- (i) Adjusted: [Applicable/Not Applicable]
- (ii) Non-Adjusted: [Applicable/Not Applicable]
- (e) Calculation Agent responsible for calculating the amount of interest (if not the Agent): [ ]
- (f) Determination Date(s): [ ] [Not Applicable]
13. Zero Coupon Note Provisions: [Applicable/Not Applicable]
- (a) Accrual Yield: [ ]
- (b) Reference Price: [ ]
- (c) Calculation Agent (if any): [ ]
14. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (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: [CMT Rate/Commercial Paper Rate/Compounded Daily SONIA/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) Relevant Screen Page in respect of Compounded Daily SONIA: [Not Applicable] [ ]
- (l) SONIA Lag Period (*p*): [5 / [ ] London Banking Days] [Not Applicable]
- (m) Initial Interest Rate: [ ]
- (n) Initial Interest Reset Date: [ ]
- (o) Interest Reset Period: [ ]
- (p) Interest Reset Dates: [ ]
- (q) Index Maturity: [Not Applicable] [ ]
- (r) Designated CMT Maturity Index: [Not Applicable] [ ]
- (s) Margin(s): [plus/minus] [ ]% per annum
- (t) Minimum Interest Rate (if any): [ ]% per annum
- (u) Maximum Interest Rate (if any): [ ]% per annum
- (v) 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)]]
15. Reset Note Provisions: [Applicable/Not Applicable]
- (a) Initial Rate of Interest: [ ]% per annum payable in arrear on each Interest Payment Date]
- (b) First Margin: [+/-][ ]% per annum
- (c) Subsequent Margin: [[+/-][ ]% per annum] [Not Applicable]
- (d) Interest Payment Date(s): [[ ] [and [ ]]] in each year up to and including the Maturity Date
- (e) Fixed Coupon Amount to (but excluding) the First Reset Date: [ ] per Calculation Amount
- (f) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
- (g) Reset Reference Rate: [Mid-Swaps/Reference Bond]
- (h) First Reset Date: [ ]
- (i) Second Reset Date: [ ]/[Not Applicable]
- (j) Subsequent Reset Date(s): [ ] [and [ ]]] [Not Applicable]
- (k) Relevant Screen Page: [ ]

- (l) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate] [Not Applicable]
- (m) Mid-Swap Fallback Rate in respect of the first Reset Determination Date: [[ ] per cent.] [Not Applicable]
- (n) Fixed Leg Swap Duration: [12 months / 6 months / [ ]] [Not Applicable]
- (o) Floating Leg Swap Duration: [12 months / 6 months / 3 months / [ ]] [Not Applicable]
- (p) Reference Bond Reset Rate Time: [ ]/[Not Applicable]
- (q) Reference Bond Fallback Price in respect of the first Reset Determination Date: [ ]/[Not Applicable]
- (r) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (s) Reset Determination Date(s): [[ ] in each year][Not Applicable]
- (t) Business Centre(s): [ ]
- (u) Business Day Convention: [Following Business Day/Modified Following Business Day/Preceding Business Day]
- Adjusted: [Applicable]/[Not Applicable]
  - Non-Adjusted: [Applicable]/[Not Applicable]
- (v) Calculation Agent: [ ]
16. Benchmark Replacement: [Applicable/Not Applicable]

## PROVISIONS REGARDING REDEMPTION/MATURITY

17. Maturity Date: [ ]
18. Redemption at Issuer's option: [Applicable/Not Applicable]
- (a) Early Redemption Date(s): [ ]
- (b) Redemption Price of each Note: [[ ] per Note of [ ] Specified Denomination]
- (c) Notice Periods: Minimum period: [ ] days  
Maximum period: [ ] days
19. (a) Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption: [Applicable/specify if Not Applicable]
- (b) Loss Absorption Disqualification Event: [Full Exclusion / Full or Partial Exclusion / Not Applicable]
- (c) Senior Non-Preferred Notes: Substitution and Variation: [Applicable/specify if Not Applicable]

20. Repayment at holder's option: [Applicable/Not Applicable]
- (a) Optional Repayment Date(s): [ ]
- (b) Repayment price of each note: [ ] per Note of [ ] Specified Denomination
- (c) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
21. Minimum Denomination for early redemption/repayment: [ ]
22. Regulatory Event (subordinated notes only): [Full Exclusion / Full or Partial Exclusion / Not Applicable]

### 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: [ ]]
- [S&P Global Ratings 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 Placement Agent(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) CFI: [[ ]/Not Applicable]
- (e) FISN: [[ ]/Not Applicable]
- (f) Any clearing system(s) other than The Depository Trust Company and the relevant identification number(s): [ ][Not Applicable]
- (g) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (h) Relevant Benchmark[s]: [[specify benchmark] is provided by [administrator legal name]]. As at the date hereof, [[administrator legal name][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the



Benchmarks Regulation]/[As far as the Society is aware, as at the date hereof, *[specify benchmark]* does not fall within the scope of the Benchmarks Regulation]/[Not Applicable]

6. **DISTRIBUTION**

- (a) Prohibition of Sales to EEA Retail [Applicable/Not Applicable]  
Investors:

7. **U.S. FEDERAL INCOME TAX CONSIDERATIONS**

[Not applicable]/[For notes issued in compliance with Rule 144A that are contingent payment debt instruments or which are otherwise issued with original issue discount for U.S. federal income tax purposes:][For U.S. federal income tax purposes, the Issuer intends to treat the notes as [Original Issue Discount Notes/fixed-rate debt/fixed-rate debt issued with original issue discount/contingent payment debt instruments, [for which purpose, the comparable yield relating to the notes will be [●]% compounded [semi-annually/quarterly/monthly], and that the projected payment schedule with respect to a note consists of the following payments: [●]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [●] at [●]]/Floating Rate Notes/Floating Rate Notes issued with original issue discount/Foreign Currency Notes/Foreign Currency Notes issued with original issue discount/Short-Term Notes.]]

[For a Qualified Reopening of notes issued in compliance with Rule 144A:][Qualified Reopening. The issuance of the notes should be treated as a “qualified reopening” of the notes issued on [●] within the meaning of the Treasury regulations governing original issue discount on debt instruments (the “**OID Regulations**”). Therefore, for purposes of the OID Regulations, the notes issued in this offering should be treated as having the same issue date and the same issue price as the notes issued on [●] and should [not] be considered to have been issued with original issue discount for U.S. federal income tax purposes.]

## 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 holders 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 dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, individual retirement accounts and other tax-deferred accounts, insurance companies, persons holding notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, entities or arrangements treated as partnerships 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 U.S. Holders (as defined below) 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, as amended (the “Code”), its legislative history, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, published 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.

The discussion set forth below only covers notes issued pursuant to the medium-term note program that will 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 types of notes 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 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. A “**Non-U.S. Holder**” is a beneficial owner of notes that is neither a U.S. Holder nor a partnership.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner in such entity or arrangement will generally depend upon the status of the partner and the activities of the partnership. An entity or arrangement treated as a partnership for U.S. federal income tax purposes considering holding notes should consult its tax advisers 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 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.

### ***Tax Treatment under the Tax Cuts and Jobs Act***

Pursuant to recent legislation, Section 451(b) of the Code has been amended to provide that the "all events" test for the realization of income for accrual method taxpayers is treated as being met no later than when the item is taken into account as revenue by the taxpayer in certain financial statements (including any GAAP financial statement filed with any federal agency for non-tax purposes). This rule may require the accrual of income earlier than would otherwise be the case under the general tax rules described below, although the precise application of this rule is unclear at this time. Prospective investors should consult their tax advisors regarding the application of amended Section 451(b) to their investment in notes.

### ***Payments of Interest***

Except as set forth below, interest (including the payment of any additional amounts) on a note, other than interest on an "**Original Issue Discount Note**" that is not "qualified stated interest" (each as defined below), 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 amortizable bond premium, if any (discussed below). Interest income (including original issue discount ("**OID**"), if any, as discussed below) on the notes will generally be treated as foreign source income. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the notes.

### ***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) and were previously included in income as OID. Notes issued with OID will be referred to as "**Original Issue Discount Notes.**" The pricing term sheet that is provided to investors in connection with the confirmation of the purchase of their securities and the applicable Final Terms will specify if a series of notes should be treated 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 payments of qualified stated interest) will be issued with OID unless such difference is *de minimis* (i.e., less than 0.25% 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 includable in income will be treated as capital gain.

Certain notes may be redeemed prior to their maturity at the option of the Issuer and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. In the case of notes that provide for alternative payment schedules, OID is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder's yield and (ii) the Issuer will exercise or not exercise options in a manner that minimizes the holder's yield.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includable in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the "daily portions" of OID with respect to the 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. The pricing term sheet that is provided to investors in connection with the confirmation of the purchase of their securities and the applicable Final Terms will specify if a series of notes should be treated as contingent payments 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.

THE COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE WILL NOT BE DETERMINED FOR ANY PURPOSE OTHER THAN FOR THE DETERMINATION OF INTEREST ACCRUALS AND ADJUSTMENTS THEREOF IN RESPECT OF CONTINGENT NOTES FOR U.S. FEDERAL INCOME TAX PURPOSES AND WILL NOT CONSTITUTE A PROJECTION OR REPRESENTATION REGARDING THE ACTUAL AMOUNTS PAYABLE TO THE HOLDERS OF THE NOTES.

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, exchange 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. Gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a note that is treated as a contingent payment debt instrument generally will be treated as foreign source gain or 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. Such interest is deductible when paid or incurred to the extent of income from the note for the year. If the interest expense exceeds such income, such excess is currently deductible only to the extent that such excess exceeds the portion of the market discount allocable to the days during the taxable year on which such note was held by the U.S. Holder.

Any market discount will be considered to accrue rateably 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 may elect to include market discount in income currently as it accrues (on either a rateable 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 tax 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 or Other Disposition of Notes***

Upon the sale, exchange, retirement or other disposition of a 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 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 notes with 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. Except with respect to notes that are treated as contingent payment debt instruments as described above, gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other disposition 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 (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part within each taxable year). 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 or other disposition such Foreign Currency Note, the receipt of proceeds that include amounts attributable to accrued interest previously included in income), the accrual basis 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, regardless of whether the payment is in fact converted into U.S. dollars.

### *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 an accrual basis holder, as described above. Additionally, a U.S. Holder will recognize exchange gain or loss (which will be treated as ordinary income or loss) when the OID is paid (including, upon the sale, exchange, retirement or other disposition 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 taxable as 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 market loss which may be offset or eliminated by exchange gain.

### *Sale, Exchange and Retirement or Other Disposition of Foreign Currency Notes*

Upon the sale, exchange, retirement or other disposition 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, retirement or other disposition 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. For purchases and sales of Foreign Currency Notes traded on an established securities market as defined in applicable U.S. 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 U.S. 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 treated as 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 taxable 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 (including any exchange gain or loss attributable to interest or OID realized in connection with the disposition) 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. Accordingly, no foreign currency gain or loss will result from currency fluctuations between the trade date and settlement date of a sale. 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.

#### ***Non-U.S. Holders***

Subject to the discussion of backup withholding and the Foreign Account Tax Compliance Act below, Non-U.S. Holders generally should not be subject to U.S. federal income or withholding tax on any payments on the notes and gain from the sale, exchange, retirement or other disposition of the notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States; (ii) in the case of any gain realized on the sale, exchange, retirement or other disposition of a note by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met; or (iii) the Non-U.S. Holder is subject to tax pursuant to provisions of the Code applicable to certain persons that have ceased to be U.S. citizens or lawful permanent residents of the United States.

Non-U.S. Holders should consult their own tax advisers regarding the U.S. federal income and other tax consequences of owning notes.

## ***Information Reporting and Backup Withholding***

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, exchange, retirement or other disposition of, the notes, 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, including payments of accrued OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding.

## ***Tax Return Disclosure Requirements***

U.S. 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 characterised 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 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 Financial Asset Reporting***

Certain U.S. Holders that own “specified foreign financial assets” that meet certain U.S. dollar value thresholds generally are required to file an information report with respect to such assets with their tax returns. The notes generally will constitute specified foreign financial assets subject to these reporting requirements unless the notes are held in an account at certain financial institutions (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the notes.

## ***Foreign Account Tax Compliance Act***

Pursuant to certain provisions of the Code, commonly known as FATCA (“**FATCA**”), a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under “*Terms and Conditions of the Notes—Additional Notes*”) that are not distinguishable from previously issued notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all notes, including the notes

offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the notes, no person will be required to pay additional amounts as a result of the withholding.

## **U.K. Taxation**

The following is a summary of our understanding of current United Kingdom (“**U.K.**”) law and HM Revenue and Customs (“**HMRC**”) published practice (which may or may not be binding on HMRC) relating to the U.K. 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 U.K. 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 U.K. 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 U.K. 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 U.K.

The references to “interest” in this U.K. Taxation summary mean “interest” as understood in U.K. 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 Condition of the Notes or any related documentation. This description of the U.K. withholding tax position assumes that there will be no substitution of the Issuer of the notes pursuant to the Terms and Condition of the Notes and does not consider the tax consequences of any such substitution.

### ***U.K. Withholding Tax on Interest***

#### *Notes which are listed on a Recognized Stock Exchange*

Notes issued by Nationwide which carry a right to interest will constitute “**quoted Eurobonds**” provided they are and continue to be listed on a recognized stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognized stock exchange for those purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided that the notes are and continue to be quoted Eurobonds, payments of interest on the notes may be made without withholding or deduction for or on account of U.K. income tax.

#### *Other Cases*

If the notes do not qualify as quoted Eurobonds, as described in “—*Notes which are listed on a Recognized Stock Exchange*”, and are capable of being listed on a recognized stock exchange at the time the interest on the notes becomes payable, interest on the notes will generally (subject to certain other exemptions which may be available in certain circumstances) be paid under deduction of U.K. 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 U.K. 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. Notes which are issued at a discount for these purposes will not generally constitute a payment of interest. Payments of interest are subject to U.K. withholding tax as outlined above.

In addition to the above, in relation to U.K. withholding tax, where interest has been paid under deduction of U.K. income tax, holders of notes who are not resident in the U.K. may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

## 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 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., BofA Securities, Inc., Deutsche Bank Securities Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, NatWest Markets Securities Inc., UBS Securities LLC and Wells Fargo 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 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 re-allow, 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.

The Placement Agents and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financial and brokerage activities. 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.

In the ordinary course of their various business activities, the Placement Agents and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer or its affiliates. If the Placement Agents or their affiliates have a lending relationship with us, certain of the Placement Agents or their affiliates may hedge their credit exposure to us consistent with their customary risk management policies. Typically, the Placement Agents and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short position in our securities or the securities of our affiliates, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The Placement Agents and certain of their affiliates may also communicate independent investment recommendations, market colour or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

#### **United States**

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.

#### **United Kingdom**

Each Placement Agent subscribing for or purchasing notes agrees and each further placement 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 U.K. Financial Services and Markets Act 2000 with respect to anything done by it in relation to any notes in, from or otherwise, involving the U.K.; 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 U.K. 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 U.K. Financial Services and Markets Act 2000 would not, if Nationwide was not an authorized person, apply to Nationwide.

## Prohibition of sales to EEA retail investors

Unless the Final Terms in respect of any notes specifies “*Prohibition of Sales to EEA Retail Investors*” as “*Not Applicable*”, each Placement Agent has represented and agreed, and each further placement agent appointed under the medium-term note program described in this Base Prospectus will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression “**retail investor**” means a person who is one (or more) of the following:

- (1) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
- (2) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

## Australia

This Base Prospectus and offers of Notes are only made available in Australia to persons to whom a disclosure document such as a prospectus or product disclosure statement is not required to be given under either Chapter 6D or Part 7.9 of the Australian Corporations Act 2001 (Cth) (the Australian Corporations Act). This document is not a prospectus, product disclosure or any other form of formal “disclosure document” for the purposes of Australian law, and is not required to, and does not, contain all the information which would be required in a product disclosure statement or prospectus under Australian law. No prospectus or other disclosure document (as defined in the Australian Corporations Act) in relation to the medium-term note program described in this Base Prospectus or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission (ASIC), or the ASX Limited or any other regulatory body or agency in Australia. The persons referred to in this document may not hold Australian financial services licenses. No cooling off regime applies to an acquisition of the Notes. In no circumstances is this document to be used by a “retail client” (for the purposes of the Australian Corporations Act) for the purposes of making a decision about a financial product.

This Base Prospectus contains general advice only and does not take into account the investment objectives, financial situations or needs of any particular person.

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 that, unless the relevant Final Terms (or a relevant supplement to this Base Prospectus) otherwise provides, it:

- (a) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this Base Prospectus or any other offering material or advertisement relating to the Notes in Australia,

unless:

- (i) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;

- (ii) the offer or invitation does not constitute an offer to a “retail client” for the purposes of section 761G and 761GA of the Australian Corporations Act;

(iii) such action complies with any applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Australian Corporations Act) in Australia; and

(iv) such action does not require any document to be lodged with ASIC.

There may be restrictions on the offer for re-sale of any Notes in Australia for a period of 12 months after their issue. Because of these restrictions, investors are advised to consult legal counsel prior to making any offer for re-sale of any Notes in Australia.

## **Canada**

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 that the Notes may be sold only to purchasers in Canada purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

## **Hong Kong**

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 that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) other than (a) to “professional investors” as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the C(WUMP)O) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the FIEA). Accordingly, 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 that it has not and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## Singapore

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 acknowledged that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, 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 that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has, unless otherwise specified before an offer of Notes, determined the classification of all Notes to be issued under the medium-term note program described in this Base Prospectus as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## Switzerland

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156

of the Swiss Code of Obligations, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering, nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority FINMA (FINMA), and investors in the Notes will not benefit from protection or supervision by such authority.

## **SETTLEMENT**

Unless otherwise agreed between the relevant Placement Agents and Nationwide, you must pay the purchase price of the notes in immediately available funds in the applicable specified currency in New York City five U.S. business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”)) after the trade date (such settlement cycle being referred to as “T+5”). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the securities initially will settle in T+5 to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the securities who wish to make such trades should consult their own advisers.

## **INDEPENDENT AUDITORS**

The financial statements as at April 4, 2019, 2018 and 2017, 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. Our principal office is Nationwide House, Pipers Way, Swindon SN38 1NW, England.
2. The admission of the medium-term note program described in this Base Prospectus to trading on the regulated market of the London Stock Exchange is expected to take effect on or around July 1, 2019. 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 Placement Agents 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, 2019, 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 and 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 Treasury, 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 as of and for the years ended April 4, 2019, 2018 and 2017;
  - (f) the audit report of PricewaterhouseCoopers LLP in respect of our audited consolidated financial statements as of and for the year ended April 4, 2019; 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 medium-term note program described in this Base Prospectus 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 December 1, 2016.



## GLOSSARY OF FINANCIAL TERMS

Certain financial terminology used by building societies in the U.K. 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>U.K. 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
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 (U.K. 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.

**BofA Securities, Inc.**  
One Bryant Park  
New York, New York 10036  
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.

**Morgan Stanley & Co. LLC**  
1585 Broadway, 29th Floor  
New York, New York 10036  
U.S.A.

**NatWest Markets Securities Inc.**  
600 Washington Boulevard  
Stamford, CT 06901  
U.S.A.

**UBS Securities LLC**  
1285 Avenue of the Americas  
New York, New York 10019  
U.S.A.

**Wells Fargo Securities, LLC**  
550 South Tryon Street  
Charlotte, NC 28202  
U.S.A.

## **TRUSTEE**

**The Bank of New York Mellon, London Branch**  
One Canada Square  
London E14 5AL  
England

## **PAYING AGENT**

**The Bank of New York Mellon, London Branch**  
One Canada Square  
London E14 5AL  
England

## 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 and English law:*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
England

## AUDITORS TO NATIONWIDE

**PricewaterhouseCoopers LLP**  
1 Embankment Place  
London WC2N 6RH  
England