NATIONWIDE BUILDING SOCIETY

(incorporated in England and Wales under the UK 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, Nationwide Building Society (the "**Issuer**" or the "**Society**"), 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 Base Prospectus has been approved as a base prospectus by the UK Financial Conduct Authority (the "**FCA**"), as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**) (the "**UK Prospectus Regulation"**). The FCA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the issuer or the quality of the notes that are the subject of this Base Prospectus and investors should make their own assessment as to the suitability of investing in the notes.

See the section entitled "*Risk Factors*" herein for a discussion of certain risks that you should consider prior to making an investment in any notes.

Application has been made to the FCA for such notes issued during the period of twelve months after the date hereof to be admitted to the Official List of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such notes to be admitted to trading on the London Stock Exchange's main market. The London Stock Exchange's main market is a UK regulated market for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of domestic law by virtue of the EUWA ("**UK MiFIR**").

This Base Prospectus is valid for 12 months from its date in relation to the notes which are to be admitted to trading on a regulated market (as defined in UK MiFIR) in the UK (as defined in Financial Services and Markets Act 2000, as amended ("**FSMA**"). The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

By its acquisition of any note, each noteholder (including each beneficial owner) acknowledges and accepts that the Amounts Due arising under any and all notes may be subject to the exercise of the UK Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents, and agrees to be bound by: (a) the effect of the exercise of the UK Bail-in Power by the Resolution Authority, that may include and result in (without limitation) any of the following, or some combination thereof: (i) the reduction of all, or a portion, of the Amounts Due; (ii) the conversion of all, or a portion, of the Amounts Due on the notes into shares, deferred shares (including core capital deferred shares), other securities or other obligations of the Issuer or another person (and the issue to or conferral on the noteholder of such shares, deferred shares (including core capital deferred shares), securities or obligations), including by means of an amendment, modification or variation of the terms of the notes; (iii) the cancellation of the notes; and/or (iv) the amendment or alteration of the maturity of the notes or amendment of the amount of interest payable on the notes, and/or the date on which the interest becomes payable, including by suspending payment for a temporary period; and (b) the variation of the terms of the notes and the Indenture, if necessary, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.

For the purposes of any note, "**Amounts Due**" means the principal amount of, and any accrued but unpaid interest on, such notes. References to such amounts will include (but will not be limited to) amounts that have become due and payable, but which have not been paid, prior to the exercise of the UK Bail-in Power by the Resolution Authority; "**Resolution Authority**" means the Bank of England or any successor or replacement thereto and/or such other authority in the UK with the ability to exercise the UK Bail-in Power; and "**UK Bail-in Power**" means any write-down, conversion, transfer, modification, moratorium and/or suspension power (including, without limitation, any write-down or conversion powers which may be exercised by the Resolution Authority independently of resolution proceedings) existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, building societies, financial holding companies, mixed financial holding companies, credit institutions and/or investment firms (and/or any group company of any of the foregoing) incorporated in the UK in effect and applicable in the UK to the Issuer or other members of its group, including but not limited to any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of a resolution regime in the United Kingdom under the Banking Act 2009 and/or the Loss Absorption Regulations (as defined herein), in each case as amended from time to time.

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 UK Bail-in Power by the relevant UK resolution authority with respect to any note.

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 Articles 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, S.A., and Euroclear Bank SA/NV.

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 UK Limited ("**S&P**") and Fitch Ratings Ltd. ("**Fitch**") are established in the UK and are registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**"). None of Moody's, S&P or Fitch is established in the European Union and they have not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The ratings issued by Moody's, S&P and Fitch have been endorsed by Moody's Deutschland GmbH, S&P

Global Ratings Europe Limited and Fitch Ratings Ireland Limited respectively in accordance with the CRA Regulation. Each of Moody's Deutschland GmbH, S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited is established in the European Union and registered under the CRA Regulation. As such each of Moody's Deutschland GmbH, S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation.

Notes issued under the program may be rated or unrated by any one or more of the rating agencies referred to above. Where a tranche of notes is rated, such rating will be disclosed in the Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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, SOFR, 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 FCA pursuant to Article 36 of the Regulation (EU) No. 2016/1011 as it forms part of domestic law by virtue of the EUWA (the "**UK Benchmarks Regulation**"). Transitional provisions in the UK 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. The registration status of any administrator under the UK 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 SECURITIES

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 January 7, 2021.

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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.

Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*"), the information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus and has not been scrutinized or approved by the FCA.

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

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

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

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 Directive 2014/65/EU (as amended, "**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.

UK MiFIR product governance / target market – The Final Terms in respect of any notes will include a legend entitled "UK MiFIR 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") 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 about whether, for the purpose of the UK MiFIR 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 Agent nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR 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), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs 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.

IMPORTANT – UK RETAIL INVESTORS – If the Final Terms in respect of any notes (includes a legend entitled "*Prohibition of Sales to UK 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 UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This Base Prospectus has been prepared on the basis that if any notes are issued with a minimum denomination of less than €100,000 (or equivalent in another currency), such notes will (i) only be admitted to trading on a regulated market (as defined in UK MiFIR), or a specific segment of a regulated market, to which only qualified investors (as defined in the UK Prospectus Regulation) can have access (in which case they shall not be offered or sold to non-qualified investors) or (ii) only be offered to the public pursuant to an exemption under section 86 of the FSMA.

UK 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 FCA pursuant to Article 36 of Regulation (EU) No. 2016/1011 as it forms part of domestic law by virtue of the EUWA (the "**UK Benchmarks**

Regulation"). Transitional provisions in the UK 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. The registration status of any administrator under the UK 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 behavior of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial advisor) 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 advisor) 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 offense.

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 the information contained in this Base Prospectus is in accordance with the facts and this Base Prospectus makes no omission likely to affect its import.

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.

INTERPRETATION

In this Base Prospectus, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

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 advisor.

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, as amended or modified from time to time (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., 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 & Co. LLC, NatWest Markets 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 shall be deemed to be incorporated in, and form part of, this Base Prospectus:

(1) our unaudited condensed consolidated financial statements as of and for the six months ended September 30, 2020 and the auditors' report thereon (contained on pages 73 to 103 (inclusive) of our interim report for the six months ended September 30, 2020);

(2) our audited consolidated financial statements as of and for the year ended April 4, 2020 and the auditors' report thereon (contained on pages 220 to 319 (inclusive) of our annual report for the year ended April 4, 2020);

(3) 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);

(4) 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); and

(5) 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), December 18, 2018, pages 216-266 (inclusive), June 25, 2019, pages 201-253 (inclusive),December 20, 2019, pages 216-268 (inclusive), and August 19, 2020, pages 208 – 267 (inclusive).

in each case prepared by us in connection with the program and available at https://www.nationwide.co.uk/about/investor-relations/funding-programmes/us-mtn-programme.

Any further information incorporated by reference into the documents indicated in (1) – (5) above does not form part of this Base Prospectus.

Following the publication of this Base Prospectus a supplement may be prepared by us and approved by the FCA in accordance with Article 23 of the UK Prospectus Regulation. 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, in the event of any significant new factor, material mistake or material 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 unaudited consolidated financial statements for the six months ended September 30, 2020.

Unaudited consolidated financial statements as of and for the six months ended September 30, 2020	
Independent Review Report	Page 103
Income statement	Page 73
Statements of comprehensive income	Page 74
Balance sheet	Page 75
Statements of movements in members' interests and equity	Page 76
Cash flow statement	Page 77
Notes to the consolidated annual financial statements	Pages 78-101

The table below sets out the relevant page references for our audited consolidated financial statements for the years ended April 4, 2020, 2019 and 2018 and the auditor's reports thereon.

Audited consolidated annual financial statements as of and for the year ended April 4, 2020	
Independent Auditors' Report	Pages 220-232
Income statements	Page 233
Statements of comprehensive income	Page 234
Balance sheets	Page 235
Statements of movements in members' interests and equity	Pages 236-237
Cash flow statements	Page 238
Notes to the consolidated annual financial statements	Pages 239-319

Audited consolidated annual financial statements as of and for the year ended April 4, 2019	
Independent Auditors' Report	Pages 166-174
Income statement	Page 175
Statement of comprehensive income	Page 176
Balance sheet	Page 177
Statement of movements in members' interests and equity	Pages 178-179
Cash flow statement	Page 180
Notes to the consolidated annual financial statements	Pages 181-247

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

Audited consolidated annual financial statements 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

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, 2020, 2019 and 2018 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 (the "**EU**"). The financial information incorporated by reference in the Base Prospectus as of and for the six month period ended September 30, 2020 has been extracted from our unaudited condensed consolidated financial statements prepared in accordance with IAS 34 as adopted by the EU.

The consolidated financial statements as of and for the year ended April 4, 2020 have been audited by Ernst & Young LLP, independent auditors, as stated in their report incorporated by reference herein.

The consolidated financial statements as of and for the years ended April 4, 2019 and 2018 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, 2019 to reflect the adoption on April 5, 2019 of accounting standard, IAS 12 *"Income Taxes"*, as further described in note 1 to the audited consolidated financial statements as of and for the year ended April 4, 2020, which largely impacts our income statement and members' interests and equity. As a result, comparability between such information for the year ended April 4, 2018, which has not been restated to reflect the new accounting standard, and such information for the years ended April 4, 2019 and 2020, which do reflect the new accounting standard, is therefore affected.

The presentation of the cash flow statement involves judgment by management as to the categorization of different transactions between operating, financing and investing activities in a manner which is most appropriate to the business. To provide a better representation of our cash flows from operating, investing and financing activities, a number of reclassifications and adjustments have been made to such information for the year ended April 4, 2019, as further described in note 1 to the audited consolidated financial statements as of and for the year ended April 4, 2020. As a result, comparability between such information for the year ended April 4, 2018, which has not been reclassified and adjusted, and such information for the years ended April 4, 2019 and 2020, which has been reclassified and adjusted, is therefore affected. These changes had no impact on our net assets or members' interests and equity at April 4, 2019.

Certain amounts have been restated in respect of the six months ended September 30, 2020. A summary of such restatements is provided in note 2 to the interim financial statements as at and for the six months ended September 30, 2020. 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 September 30, 2020.

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, we adjust reported profit before tax for certain items which we regard 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 our 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 six months ended September 30, 2020 and the three years ended April 4, 2020, 2019 and 2018.

Underlying and statutory results	**For the six months ended September 30**	**For the year ended April 4,**		
	2020	**2020**	**2019**	**2018**
			(*£ million*)	
Net interest income[(1)]	1,448	2,810	2,915	3,004
Net other income[(1)]	55	236	255	128
Total underlying income	**1,503**	**3,046**	**3,170**	**3,132**
Underlying administrative expenses	(1,033)	(2,312)	(2,254)	(2,024)
Impairment losses	(139)	(209)	(113)	(105)
Underlying provisions for liabilities	(26)	(56)	(15)	(26)
Underlying profit before tax	**305**	**469**	**788**	**977**
Financial Services Compensation Scheme (FSCS)[(2)]	-	4	9	1
Gains/(losses) from derivatives and hedge accounting[(2) (3)]	56	(7)	36	(1)
Statutory profit before tax	**361**	**466**	**833**	**977**

Underlying and statutory results	For the six months ended September 30	For the year ended April 4,		
	2020	2020	2019	2018
			(£ *million*)	
Taxation[4]	(80)	(101)	(197)	(232)
Profit after tax[4]	**281**	**365**	**636**	**745**

Notes:

(1) 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.

(2) 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.

(3) 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. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.

(4) Comparatives have been restated for the change in treatment of taxation relating to distributions on Additional Tier 1 instruments as detailed in note 1 to the financial statements.

Net interest margin

Net interest margin is not a measure of financial performance under IFRS. In determining net interest margin, we divide our 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. We believe 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 six months ended September 30, 2020 and the three years ended April 4, 2020, 2019, and 2018.

	For the six months ended September 30	For the year ended April 4,		
	2020	2020	2019	2018
		(£ *million, except percentages*)		
Net interest income	1,448	2,810	2,915	3,004
Weighted average total assets	256,845	248,549	238,368	230,081
Net interest margin	**1.15%**	**1.13%**	**1.22%**	**1.31%**

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 we consider them to be important supplemental measures of our operating performance and financial position and believe 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 UK prudential regulation regime (the "**UK Prudential Framework**") for banks and building societies, which derives in large part from the EU prudential framework set out under the Capital Requirements Directive (2013/36/EU) as amended ("**CRD**") and, the EU Capital Requirements Regulation (575/2013) as amended ("**CRR**", and together with the CRD, "**CRD IV**"), which implement the Basel III reforms developed in response to the global financial crisis in the European Union. The Society's prudential regulator is the Prudential Regulation Authority (the "**PRA**").

The CRD IV framework, as applicable in the EU as at the end of the transition period (December 31, 2020) relating to the UK's exit from the EU, has broadly been reflected in the United Kingdom, with CRR and related EU regulations (which had direct binding effect in the United Kingdom until expiration of the transition period) being retained as domestic UK law, with certain exceptions and adjustments, primarily through the European Union (Withdrawal) Act 2018, as amended, and ancillary legislation.

These capital and leverage ratios measure our capital adequacy and financial strength, respectively. The capital ratios comprise:

- the Common Equity Tier 1 capital ratio ("**CET1 ratio**"), which expresses Common Equity Tier 1 ("**CET1**") capital as a percentage of risk weighted assets ("**RWA**s"). 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 an end point basis under the UK Prudential Framework.

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 UK leverage ratio (which is calculated in this document as at April 4, 2018, as at April 4, 2019, as at April 4, 2020 and as at September 30, 2020 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, we believe 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 they are available on our website at https://www.nationwide.co.uk/about/investor-relations/funding-programmes/us-mtn-programme.

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	Nationwide Building Society. We are a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended) of the United Kingdom (the "**UK Building Societies Act**"). Our core business is providing personal financial services, including residential mortgage loans, retail savings, general banking services, personal investment products, personal secured and unsecured lending and insurance. We operate through an integrated and diversified distribution network, including branches, automatic telling machines (the "**ATMs**"), call centers, mail and the internet. We have over 16 million members and customers. As a building society, we are a mutual organization managed for the benefit of our "**members**," who are primarily retail savings customers and residential mortgage customers.
Issuer Legal Entity Identifier (LEI) ..	549300XFX12G42QIKN82
Website of the Issuer:	https://www.nationwide.co.uk/ The information on https://www.nationwide.co.uk/ does not form part of this Base Prospectus, except where that information has otherwise expressly been incorporated by reference into this Base Prospectus.
Placement Agents	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 & Co. LLC NatWest Markets Securities Inc. UBS Securities LLC Wells Fargo Securities, LLC
Trustee	The Bank of New York Mellon, London Branch (the "**Trustee**"). 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 "**Indenture**").
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 may 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....	The senior preferred notes will constitute our direct, unconditional, unsubordinated and, subject to the provisions set forth in the section entitled "*Terms and Conditions of the Notes* – Negative Pledge", unsecured obligations without any preference among themselves and will rank, subject to the provisions set forth in the section entitled "*Terms and Conditions of the Notes* – 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), the senior preferred notes will (for so long as they are not secured pursuant to the provisions set forth in the section entitled "*Terms and Conditions of the Notes* – Negative Pledge") form part of the class of Ordinary Non-Preferential Debts of the Issuer under the Insolvency Act (and any other Ranking Legislation). As used herein: "**Hierarchy Order**" means The Banks and Building Societies (Priorities on Insolvency) Order 2018; "**Insolvency Act**" means the Insolvency Act 1986, as amended from time to time (including by the Hierarchy Order); "**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); and "**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.
Ranking of Senior Non-Preferred Notes	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). 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 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 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 "*Terms and Conditions of the Notes—Status and ranking of senior non-preferred notes*". As used herein, "**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).
Ranking of Subordinated Notes.....	The subordinated notes will constitute our direct, subordinated and unsecured obligations and will rank *pari passu* and without any preference among themselves. 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 "*Terms and Conditions of the Notes—Status and subordination of subordinated notes*". As used herein, "**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).
Waiver of set-off……..	Subject to applicable law, no holder of any senior non-preferred note or subordinated note nor the Trustee may exercise or claim any right of set-off in respect of any amount owed to it from us arising under or in connection with the senior non-preferred notes or the subordinated notes, and each noteholder shall, by virtue of its being the holder of (or the holder of any interest in) any senior non-preferred note or subordinated note, be deemed to have waived all such rights of set-off.
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 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.
Substitution and Variation in respect of Senior Non-Preferred Notes	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 UK Bail-in Power.....	Notwithstanding, and to the exclusion of, any other term of any notes or any other agreements, arrangements or understandings between the Issuer and any noteholder (or the Trustee on behalf of any noteholder), by its acquisition of any note (or any interest therein), each noteholder acknowledges and accepts that the amounts due arising under the notes may be subject to the exercise of the UK Bail-in Power, and acknowledges, accepts, consents, and agrees to be bound by the effect of the exercise of the UK Bail-in Power by the Resolution Authority, all in accordance with, and as more fully described in, section "*—Agreement with Respect to the Exercise of UK Bail-in Power*".
Repayment of principal and payment of interest after exercise of UK Bail-in Power.....	No repayment of the principal amount of the notes or payment of interest on the notes will become due and payable after the exercise of any UK Bail-in Power by the relevant UK resolution authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us after the exercise of such UK Bail-in Power.
Interest.....	Interest may accrue at a fixed rate or a floating rate. The floating rate may be determined by reference to a base rate, such as LIBOR, SOFR or SONIA, as we agree with the purchaser and describe in the applicable Final Terms.
Reset Notes.....	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 "*Terms and Conditions of the Notes–Interest–Reset Notes*". The rate of interest may be reset on more than one occasion.
Benchmark discontinuation.....	If so specified in the applicable Final Terms, then in the event that a Benchmark Event or Benchmark Transition Event (as applicable) 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 "*Terms and Conditions of the Notes–Interest–Benchmark discontinuation*".

Interest Payments	We may pay interest monthly, quarterly, semi-annually, annually or at such other intervals as we describe in the applicable Final Terms.
Denominations	We will issue the senior 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 of these amounts in other currencies or composite currencies, and in any other denominations in excess of the minimum denominations as we specify in the applicable Final Terms.
Taxation.....	All payments in respect of the notes will be made without deduction for or on account of United Kingdom withholding taxes, unless the withholding is required by law. In that event, we will (subject to certain exceptions as described in "*Terms and Conditions of the Notes–Payment of additional amounts*") pay such additional amounts: (i) in the case of all senior preferred notes, in respect of interest or principal; or (ii) in the case of all subordinated notes and senior non-preferred notes, in respect of interest only, 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. For the avoidance of doubt, in the case of subordinated notes and senior non-preferred notes, we will not pay any additional amounts in respect of principal (including premium and other payments akin to principal, as more fully described herein).
Events of Default.....	As described in "*Terms and Conditions of the Notes—Events of Default—Senior Preferred Notes"* and "*Terms and Conditions of the Notes—Events of Default—Subordinated Notes and Senior Non-Preferred Notes*".
Rating	The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms.
Form, Clearance and Settlement.....	Notes of a series will initially be represented by a global note or global notes in fully registered form ("**Global Notes**"). Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes ("**U.S. Global Notes**") and notes offered outside the United States in reliance on Regulation S will be represented by one or more international global notes ("**International Global Notes**"). The Global Notes will be issued in fully registered form and, unless specified in any applicable Final Terms, will be held by or on behalf of DTC for the benefit of participants in DTC. No temporary documents of title will be issued. Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with the transfer restrictions set forth therein. Transfers of interests from a U.S. Global Note to an International Global Note are subject to certification requirements.

Governing Law.....	The 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. In addition, there are restrictions on the offer, sale and transfer of the Notes in the United Kingdom, the EEA, Australia, Canada, Hong Kong, Japan, Singapore and Switzerland, and there may be restrictions in other jurisdictions. See the section of this Base Prospectus "*Plan of Distribution*" below.
Listing	Application has been made to the FCA 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 main market.
Risk Factors.....	There are certain risks related to any issue of notes under the program, which investors should ensure they fully understand. See the section "*Risk Factors*" of this Base Prospectus.

RISK FACTORS

We believe that the following factors may affect our ability to fulfill our obligations under the notes. 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 UK mortgage, savings and personal current account markets, which in turn are driven by the UK economy. Consequently, we are subject to inherent risks arising from general economic conditions in the UK.

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

In recent years, we have benefitted from generally positive economic conditions which helped us grow our core lending and savings operations and also beneficially impacted our underlying impairment charges. The outlook for the UK economy is, however, uncertain, particularly in the short and medium term in light of the outbreak of the Covid-19 pandemic, and also the UK's decision to leave the European Union. The UK is experiencing a significant contraction in economic activity during 2020 as a result of the Covid-19 pandemic and associated government intervention to reduce the spread of the virus. In the second quarter of 2020, gross domestic product is estimated to have contracted by 19.8% in the UK. In response to this crisis, the Bank of England has provided significant economic stimulus, including a reduction in its base rate of interest to 0.1% and an increase in the targeted size of its Asset Purchase Facility to £895 billion. Regulators have issued guidance to lenders asking them to act in the best interests of their customers to ease the financial impact on them, as well as releasing counter-cyclical buffer requirements in order to free up resources for lending. While it is difficult to predict the level and duration of the economic impact of Covid-19 on the UK and global economy at this stage, both the direct health impact of the virus and measures adopted with a view to containing its spread (including lock-downs, travel restrictions and temporary business shut-downs or reduction of capacity and output) have had and are expected to continue to have a material adverse effect on economic conditions and financial markets in the UK and globally at least until the pandemic is under control. See further "*Risks relating to the impact of Covid-19*" below.

Adverse changes and uncertainty in UK 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. In light of the Covid-19 pandemic, for the purposes of preparing our financial statements for the six months ended September 30, 2020, revised economic forecasts have been used to model losses in the residential mortgage, consumer banking and commercial portfolios, which resulted in an additional Covid-19 related provision of £64 million. See further "*Risks relating to the impact of Covid-19*" below.

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 despite the existence of certain government support schemes, such as the Coronavirus Job Retention Scheme and the Self-Employment Support Scheme, which provided support to over 25% of the workforce in mid-2020, unemployment may rise substantially. While these schemes have been extended, they are due to be phased out from the second quarter of 2021 and so there is a risk that unemployment will increase substantially once phased out, which could lead to lower consumer spending, loss of income and weak wage growth. These pressures on households may lead to an increase in arrears in our residential mortgage and unsecured lending portfolios, 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 UK economic recovery, along with its concomitant impacts on our profitability, remains a risk. The economic outlook is particularly uncertain following the outbreak of the Covid-19 pandemic and the UK decision to leave the European Union. This uncertainty extends to the interest rate outlook, where there are plausible scenarios with rates being increased, remaining unchanged or being lowered (including, potentially, to a negative interest rate) in the period ahead, depending on economic developments. However, our central expectation is that interest rates are likely to stay on hold for several years ahead. There is also uncertainty about the UK's future trading relationships. There is potential for activity and asset prices to decline should the labor 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, including as a result of Covid-19. 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 or prospects.

Worsening economic conditions in the UK 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.

Further 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 UK economy. Adverse changes in global growth may pose the risk of a further slowdown in the UK's principal export markets, which would have an adverse effect on the broader UK 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 UK 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 UK, 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. Conversely, significant falls in house prices, as a result of the direct or indirect effects of Covid-19 or otherwise, may reduce the overall amount of equity in our mortgage portfolio. See further, "*—We are exposed to future changes in UK house prices*" below.

Risks relating to the impact of Covid-19.

The Covid-19 pandemic has resulted in unprecedented restrictions on individuals and businesses all around the world, and materially impacted the global economy. Despite significant government intervention, the Covid-19 pandemic has severely impacted both the UK and global economies and the economic environment in which we operate. Any such economic downturn, particularly in the UK housing market, has the potential to impact the Society's principal risks. The pandemic is having far-reaching impacts on our financial performance, credit profile, the way we interact with customers and our business operations. We consider that the financial performance framework which has guided our decisions in the past is no longer appropriate in the current environment and we are focusing instead on maintaining strong capital and liquidity positions through the economic cycle.

The pandemic is likely to cause interest rates to remain at historically low levels (and there is increasing speculation about the possibility for the UK Bank Rate to move to a negative rate), and will result in longer term economic effects, potentially putting pressure on our financial performance. The potential introduction of negative interest rates may place further pressure on the Society's margins. Our operating environment is expected to remain highly competitive, and further increases in competition would increase our level of business risk.

With the spread of Covid-19 and the accompanying restrictions, we have modified certain operational practices and may take further actions, as required or as we determine necessary, in order to protect the best interests of our employees, customers, third party providers and other stakeholders. Throughout the Covid-19 outbreak, we have implemented the following modifications in relation to the following key internal risks:

- *People risk* –We have implemented measures to ensure that our colleagues remain safe and supported at work, including transitioning our workplace to comply with Government Covid-19 guidance and, where appropriate, enabling colleagues to work from home. We continue to monitor the impact of any restructuring and business transformation activities to ensure that impacted colleagues are appropriately supported, however, with the evolving government regulations and heightened compliance risk associated with working from home, there can be no assurance that we will be able to continue to mitigate the risks posed by Covid-19 in relation to working from home.

- *Third parties' risks*– The Covid-19 pandemic has resulted in additional constraints and risks for several of our third-party providers. Throughout the pandemic we have worked closely with our suppliers to identify and manage these risks and ensure customer services are maintained and uninterrupted, however, there can be no assurance that we will be able to continue to mitigate the risk of interruptions to third party services posed by Covid-19.

- *Model risk* – The severity of the economic shock, combined with the introduction of government support measures and new regulatory requirements, highlights the importance of effective model controls and regular review of their use to reflect current circumstances. We continue to monitor model performance rigorously and to strengthen our model suite to ensure it supports key business and risk management activities, however the degree to which Covid-19 impacts our business, results of operations and financial position will depend on future developments, which are uncertain and cannot be predicted.

As well as increased credit risk, including through unemployment and corporate insolvencies which could adversely impact our members and customers and their ability to meet their obligations to us, there are likely to be heightened operational risks as we respond to the pandemic, including in the areas of cyber, fraud, people, technology and operational resilience. While we have initiated an ongoing program of model surveillance and extended monitoring of key models to understand the short term effects, apply appropriate mitigating actions and develop long term plans to improve model resilience, there can be no assurance that we will be able accurately to model or adequately address the impacts of Covid-19.

In addition, there is an increased risk of material misstatement of expected credit losses under IFRS 9 due to the degree of judgment and inherent uncertainty in the assumptions underlying the reported provisions as a result of the impact of Covid-19. For the purposes of preparing our financial statements for the six months ended September 30, 2020, revised economic scenarios and probability weights have been used to model losses in the residential mortgage, consumer banking and commercial portfolios.

This has resulted in an increase in balance sheet provisions of £89 million at September 30, 2020 (comprising provisions of £50 million, £37 million and £2 million, respectively, in residential mortgage, consumer banking and commercial portfolios). The residential mortgage provision includes estimated credit losses associated with payment holidays granted to borrowers as a result of Covid-19, recognizing that in some cases borrowers will experience longer term financial difficulty as a result of the pandemic. Payment holidays or other similar concessions have been offered on all retail products. Unlike other concessions granted to borrowers in financial difficulty, these payment holidays have not been subject to detailed affordability assessments, and therefore the level of financial difficulty of the members and customers who apply for them requires estimation. The increase in the reported provisions for the six months ended September 30, 2020 to reflect the risk associated with borrowers who requested payment holidays as a result of Covid-19 was £25 million. Given the significant uncertainties regarding the level and duration of the impact of Covid-19 and the responses thereto by government and regulators in the UK and globally, there can be no assurance that the estimates and modeling by us will prove accurate or be sufficient to cover actual losses or impairments as a result of Covid-19.

The UK is likely to experience an unprecedented contraction in economic activity during 2020 as a result of the pandemic and associated government intervention to reduce the spread of the virus. The average independent forecast for the UK economy, as collated by HM Treasury in November 2020, expects GDP to contract by 10.6% in 2020. For further information, see "*—Our business and prospects are largely driven by the UK mortgage, savings and personal current account markets, which in turn are driven by the UK economy. Consequently, we are subject to inherent risks arising from general economic conditions in the UK.*".

We are working with the Government and the wider industry in response to the threat posed by Covid-19. This includes offering payment holidays to impacted borrowers in accordance with the requirements of FCA guidance. Initially published in March, the regulator's "Mortgages and coronavirus: guidance for firms" has been adapted in June, September and November in response to changing needs of mortgage borrowers as the pandemic has progressed. The latest November guidance means that we are required to continue to offer payment holidays to borrowers until March 31, 2021, with a hard stop of July 31, 2021 for borrowers already on one. Total support will be limited to 6 months per borrower. For further information, see "*Supervision and Regulation-Covid-19 relevant legislation and regulation.*"

The financial impact on us from these and any further measures taken to support our members could have a material adverse effect on our profitability, financial condition and results of operations.

Any and all such events and measures described above could have a material adverse effect on our business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings (including potential changes of outlooks or ratings), as well as on our customers, borrowers, counterparties, employees and suppliers.

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 UK and other economies, particularly the Eurozone. The outbreak of the Covid-19 pandemic is causing widespread disruption to global financial markets not seen since the global financial crisis of 2007-2008, with the impact on interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices resulting in the potential for significant market falls, reduced liquidity and rises in volatility. Any future disruptions could again pose systemic risks that negatively affect, among other things:

- consumer confidence;

- levels of unemployment;
- the state of the UK 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 or 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 UK's own economic recovery, given the extensive economic and financial linkages between the UK and the Eurozone. The UK's trade and current account balances with the Eurozone would be likely to deteriorate further, negatively affecting UK 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 "*The relationship of the United Kingdom with the European Union after the United Kingdom's withdrawal from the European Union may affect our business*" below.

Although, globally and in the UK, economic and financial market conditions had generally stabilized in the years following the global financial crisis, there have been periods of significant volatility in financial markets around the world, which has generally led to more difficult business conditions for the financial sector. The Covid-19 pandemic has recently had a significant adverse effect on the UK and global economies and financial markets, and could result in further downward pressures and/or increased volatility.

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 or 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 UK 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 totaled £161 billion as at September 30, 2020, £160 billion as at April 4, 2020, £154 billion as at April 4, 2019, and £148 billion as at April 4, 2018, equal to 69.5%, 70.8%, 70.8% and 71.0%, respectively, of our total shares and borrowings (for the purposes of the UK 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 UK 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 continue or be exacerbated, including in the event that the UK base rate of interest moves to a negative rate, 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 or 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
- fulfill our commitments to lend.

In such extreme circumstances we may not be in a position to continue to operate without additional funding support. Inability to access such support could have a material impact on our solvency. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding, changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that the funding structure employed by us may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for us to grow our business or even maintain it at current levels. Our ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of our control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

The UK government (the "**Government**") has in recent years provided significant support to UK financial institutions, including the Bank of England's Term Funding Scheme ("**TFS**") which opened on September 19, 2016 and closed on February 28, 2018. In addition, in response to the Covid-19 pandemic, the Government and the Bank of England have introduced various measures designed to encourage and support the

banking sector to continue lending to customers. These measures include, amongst other things, the introduction of: (i) a new Term Funding scheme with additional incentives for Small and Medium-sized Enterprises ("**TFSME**") (with the express intention, over a 12 month period, to offer four-year funding of at least 10% of participants' stock of real economy lending at interest rates at, or very close to, the base rate, with additional funding available for banks that increase lending, especially to small and medium-sized enterprises); and (ii) other corporate funding facilities, including the UK Covid Corporate Financing Facility ("**CCFF**"), the UK Coronavirus Business Interruption Loan Scheme ("**CBILS**") and the UK Coronavirus Large Business Interruption Loan Scheme ("**CLBILS**").

The continuation and extension of Government schemes designed to support lending 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 also expect to face continued competition in the retail lending market driven by certain ring-fenced banks as they deploy surplus liquidity in lending markets.

We expect to face continuing competition for funding, particularly retail funding on which we are reliant, in the future. Deposit market competition is being driven by smaller lenders with largely non-mortgage loan books whose high asset yields enable them to offer attractive deposit rates. These potential pressures could be exacerbated over time once the sector seeks to replace the funding it obtains from the Bank of England funding schemes. This competition could further increase, impacting our funding costs and adversely affecting our financial position.

Changes to interest rates or monetary policy, whether by the UK, 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 UK and international political and economic conditions, affect our results of operations, financial condition and return on capital.

Stimulus measures in the UK 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 March 2023). More recently, in response to the Covid-19 pandemic, the Government and the Bank of England have introduced additional stimulus measures, including a reduction in the Bank of England base rate of interest to 0.1%. 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.*" The relatively long period of stimulus in the UK 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 UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. As a result of, among other factors, increases and decreases in the Bank of England 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 Bank of England 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. While the Covid-19 pandemic is likely to cause interest rates to remain at historically low levels in the near term (and there is increasing speculation about the possibility for the UK base rate to move to a negative rate), over time general interest rates may 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.

Further, 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 UK or other major developed economies, including if the Bank of England 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 UK 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 UK house prices.

The value of our mortgage portfolio is influenced by UK house prices, and a significant portion of our revenue is derived from interest and fees paid on our mortgage portfolio. As at September 30, 2020, £151.3 billion, or 75%, of our loans and advances to customers were UK prime residential mortgages. A decline in house prices in the UK 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 Covid-19 pandemic and the UK's exit from the EU are both sources of considerable uncertainty about the near-term prospects for UK house prices and significant downwards pressure cannot be discounted.

In addition, we also have a significant portfolio of specialist mortgages, which amounted to £39.3 billion, or 19%, of our total loans and advances to customers as at September 30, 2020. BTL mortgages constitute the vast majority of our specialist mortgages portfolio. The BTL market in the UK 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 has been fully in place since April 6, 2020. So far, the measures have had no noticeable impact on BTL market arrears. The Bank of England 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, and any future changes resulting in a higher SDLT rate, 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, stamp duty holidays (such as the holiday announced in June 2020 to increase the threshold to £500,000), enforced or recommended payment holidays or other concessions or allowances on mortgage payments, 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.

The future impact of these initiatives on the UK housing market and other regulatory changes or Government programs is difficult to predict. Volatility in the UK 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 or results of operations.

Given the relatively point-in-time approach used by us for modeling residential mortgage RWAs by comparison with other large UK banking institutions, a reduction in UK 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 modeling approaches, which the PRA requires to be in place by the end of January 2022. The results of the concurrent stress testing undertaken by the Bank of England, available on the Bank of England's website, illustrate the impact that certain economic scenarios are projected to have on our capital position.

The relationship of the United Kingdom with the European Union after the United Kingdom's withdrawal from the European Union may affect our business.

On June 23, 2016, the UK held a referendum (the "UK EU Referendum") on its membership of the EU, in which a majority voted for the UK to leave the EU ("Brexit"). Immediately following the result, the UK and global stock and foreign exchange markets commenced a period of significant volatility, including a steep devaluation of the pound sterling.

On January 31, 2020, the United Kingdom ceased to be a member of the EU and the EEA. By virtue of the European Union (Withdrawal) Act 2018 and the Withdrawal Agreement, EU law and EU-derived domestic legislation continued to apply to and in the UK during a transition period lasting until December 31, 2020. During the transition period the UK continued to be treated as a member state under EU law unless otherwise specified. On December 24, 2020, an agreement in principle was reached in relation to the EU-UK Trade and Cooperation Agreement (the "Trade and Cooperation Agreement"), to govern the future relations between the EU and UK following the end of the transition period. The Trade and Cooperation Agreement has provisional application from January 1, 2021 until the European Parliament gives its consent by February 28, 2021.

The continuing effects of the UK's departure from the EU are difficult to predict and there remains both short-term and long-term political and economic uncertainty around the departure that may have a negative impact on the UK economy, affecting its growth. Accordingly, no assurance can be given that the UK's withdrawal from the EU 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 the Society and the financial services sector and the UK may have an adverse effect on our performance.

The Society and the financial sector

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 material 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 UK financial services institutions, including us.

Our senior preferred ratings are currently "A (stable)" from S&P, "A1 (stable)" from Moody's and "A+ (negative)" from Fitch (December 2019: "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 "F-1" from Fitch (February 2019: "A-1", "P-1" and "F1", respectively). The long-term ratings assigned by each of Moody's and S&P are senior preferred ratings, whereas the long-term rating assigned by Fitch is a senior non-preferred rating. For further information see the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations External Credit Ratings."*

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.

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 or 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 UK financial institutions, including us, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including us. 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 September 30, 2020 we would have needed to provide additional collateral amounting to £1.3 billion in the event of a one notch downgrade by external credit rating agencies or £3.7 billion in the event of a two notch downgrade (subject to management actions that could be taken to reduce the impact of the downgrades).

Market sentiment and ratings downgrades in respect of the UK

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

As at the date of this Base Prospectus, the UK's long-term ratings are "AA (stable)" from S&P, "Aa3 (stable)" from Moody's and "AA- (Negative)" from Fitch. Any downgrade of the UK 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 or financial condition. In addition, a UK 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 general market turmoil, slowing global growth, and trade tensions. Instability within global financial markets might lead to instability in the UK, which could have a material adverse impact on our performance.

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

We are currently the fifth largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 9.3% (as calculated by us based on Bank of England data) and 12.8% (according to Bank of England data), respectively, as at September 30, 2020.

We operate in an intensely competitive UK 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. See *"Competition"* below.

As a consequence, there is a risk that this 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 among our competitors.

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 six months ended September 30, 2020, we estimate that benefit at £140 million. In the years ended April 4, 2020, 2019, and 2018, we estimated that benefit at £715 million, £705 million, and £560 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.

Open banking and regulatory changes to the way in which the personal financial services markets operate could make it harder for us to retain customers and could adversely impact the viability of its business model.

Regulatory action might also increase competitive pressures. For example, the Competition and Markets Authority (the "**CMA**") and the FCA have undertaken a market investigation and consultations into competition and conduct in the markets in which we operate – see "*Supervision and Regulation—UK Regulation.*" 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 such investigation and consultations.

These measures, together with other changes arising from the implementation of the second payment services directive (EU Directive (2015/2366) ("**PSD2**")) in January 2018, are commonly referred to as "open banking". While 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. While 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. In December 2019, the FCA launched a consultation to explore the opportunities and risks associated with open banking; the call for input closed on October 1, 2020. In July 2020, HM Treasury launched a call for evidence as part of the payment landscape review, which closed on October 20, 2020.

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. For example, under PSD2, we are required to provide third-party providers ("**TPPs**") access to customer accounts provided the customer has provided its consent. 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 our business successfully*."

Additionally, the implementation of the Independent Commission on Banking's recommendation to separate retail banking activities from wholesale and investment banking activities was carried out by large banking groups operating in the UK in 2019 and could reduce the distinctiveness of the building society model, which we consider to be a competitive advantage. We are not currently subject to the ring-fencing requirements but this framework is likely to alter the business models of ring-fenced banks and may therefore alter adversely our competitive position and that of other mutual institutions. We believe that ring fencing has trapped surplus deposits on the balance sheets of several major UK retail banks which seek to deploy this liquidity in lending markets, which in the medium term is driving further price competition, particularly in mortgages.

In addition, if our customer service levels were perceived by the market to be materially below those of competitor UK financial institutions, we could lose existing and potential new business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on our business, financial condition or 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 UK, 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 our 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 behavior. 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. Unanticipated economic changes or Government interventions could expose us to increased liquidity and funding risk, credit risk, market risks or operational risk, which could have a material adverse effect on our business prospects or results of 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 our 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 internal 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, pandemics, 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 our 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.

Increased digital interconnectivity across our 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. We consider that, within the operation and conduct risks profile, IT resilience and cyber security present the main risks, and we focus on striving to protect service availability and customer data. 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 significant 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 continues to increase and has 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, among 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.

Further, the Covid-19 pandemic is likely to result in heightened operational risk as we respond to the pandemic, including in the areas of cyber, fraud, people, technology and operational resilience.

Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to technology, developing efficient procedures and staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above. If such operational risks are not effectively controlled, we may lose market share or, in extreme cases, risk regulatory sanction or reputational damage.

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, among 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.

As a member-owned mutual organization, we aim to make the right level of profit to maintain our financial strength and invest for the future, and we balance these longer-term priorities with delivering value to our members through better rates, incentives and propositions. In recent years, our financial performance framework has focused on parameters that have allowed us to calibrate future performance with a view to achieving the right balance between distributing value to members, investing in the business and maintaining financial strength, including a target profitability range that would enable sustainable capital strength. Upon publication on May 29, 2020 of our preliminary results for the financial year ended April 4, 2020, we announced that we consider that the financial performance framework which has guided our decisions in the past is no longer appropriate in the current environment, and that we are instead focusing on maintaining strong capital and liquidity positions through the economic cycle.

We have cut our costs by £92 million to £1,033 million (September 30, 2019: £1,125 million) as we continue to make the Society more efficient in serving our members. The reduction is primarily the result of our

planned lower spend relating to strategic investment, with business as usual costs also reducing. However, restructuring costs have increased in line with actions taken to reduce our future cost base. This has been achieved through a range of initiatives that are focused on the development of digital capabilities, organizational 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 make sufficient profits to maintain our financial strength and invest for the future 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 changes in market prices or rates, including interest rates or foreign exchange rates. 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 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. Unanticipated market risks could have a material adverse effect on our financial performance or results of operations.

Concentration risks may adversely impact our business.

Our business activities are concentrated in the UK and our banking and financial products and services are offered to UK 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 UK 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 behavior;
- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered;
- a failure to identify and respond appropriately to the challenges and threats presented by climate change; and
- generally poor business performance.

In addition, as with other businesses, how we are perceived to have supported our members, customers, employees and suppliers through the challenges presented by the Covid-19 pandemic could have a material effect on our brand and reputation.

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 our relationships with our regulators. We cannot ensure that we will be successful in avoiding damage to our 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 Bank of England, 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 UK 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 favor 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 UK 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. Our customer redress charge was £26 million for the six months ended September 30, 2020 (six months ended September 30, 2019: £52 million charge) primarily due to changes relating to PPI. The remainder of the charge relates to remediation costs for other redress issues, including issues relating to the administration of customer accounts.

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 our 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, which could have a material adverse effect on our ability to raise new funding, financial condition, results of operations, liquidity or business prospects.

We are exposed to risks related to the LIBOR transition.

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate ("**LIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued.

We are exposed to a range of LIBOR-linked assets, liabilities and derivatives that will be impacted by the phasing out of LIBOR in 2021. A delay or failure by us to manage the transition across our balance sheet in a consistent and timely manner could have a material adverse effect on our business, financial performance and results of operation, and may result in regulatory fines or other action. In addition, where the transition affects our products with our customers, in particular our retail members, a failure to manage the transition in a fair and transparent manner could result in additional compliance and conduct risks, which could result in regulatory action and/or adversely affect our reputation.

We have established a Libor Transition Working Group, which reports to our Assets and Liabilities Committee ("**ALCO**"), to manage the full range of transition-related issues, including the conversion of existing

contracts and the impact on valuations and systems. While we have used basis swaps, which convert one benchmark rate to another, to reduce the economic exposure to affected benchmark rates within the portfolio of existing contracts and, for new transactions which mature after an expected discontinuation date, we are avoiding the use of affected benchmark rates, there can be no assurance this will fully mitigate the economic impact or risks to us from the LIBOR transition.

At this time, it is not possible to predict the overall effect (including financial impacts) of any such reforms and changes, any establishment of alternative reference rates or any other reforms to these reference rates that may be enacted, including the potential or actual discontinuance of LIBOR publication, any transition away from LIBOR or ongoing reliance on LIBOR for some legacy products.

Uncertainty as to the nature of such potential changes, alternative reference rates (including risk-free rates) or other reforms may adversely affect a broad array of financial products, including any LIBOR-based securities, loans and derivatives that are included in our financial assets and liabilities, that use these reference rates and may impact the availability and cost of hedging instruments and borrowings. If any of these reference rates are no longer available, we may incur additional expenses in effecting the transition from such reference rates, and may be subject to disputes, which could have an adverse effect on our results of operations. In addition, it can have important operational impacts through our systems and infrastructure as all of our systems will need to be adapted for the changes in the reference rates. Any of these factors may have a material adverse effect on our results of operations, financial condition or prospects.

Risks related to climate change.

The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose a significant threat to our business without a coordinated and timely response.

Climate change, and businesses' response to the emerging threats, are under increasing scrutiny by governments, regulators and the public alike. These include physical risks resulting from changing climate and weather patterns and extreme weather-related events, as well as transition risks resulting from the process of adjustment towards a lower carbon economy. Governments and regulators may introduce increasingly stringent rules and policies designed to achieve targeted outcomes, which could increase compliance costs for us, drive asset impairments and result in regulatory fines or other action if we are unable to implement adequate reforms sufficiently quickly. How we assess and respond to these developments and challenges could increase our costs of business, and a failure to identify and adapt our business to meet new rules or evolving expectations, or any perception that we are under-performing relative to our peers, could result in reputational damage and/or risk of legal claims.

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**") proposes changes to the IFRS, as adopted by the European Commission for use in the European Union. These standards 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.

Among other changes, IFRS 9 replaced the incurred loss approach to impairment under IAS 39 with a forward-looking model 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 by way of amendments to the recast Capital Requirements Regulation.

Similarly, IFRS 16: *"Leases"* is the new standard that replaced IAS 17: *"Leases"* and related interpretations. IFRS 16 has changed the classification of leases as either operating leases or finance leases. Instead, lessees capitalize leases through the recognition of assets representing the contractual rights of use and the present value of contractual payments are recognized as a lease liability. We have adopted the requirements of IFRS 16 from April 5, 2019. The adoption of IFRS 9 and IFRS 16 have created new and more demanding requirements for financial reporting and disclosures, which require further development of our internal controls.

In addition, in response to the Covid-19 pandemic, on April 28, 2020 the European Commission announced a proposed banking package of reforms which includes (amongst other things) a two-year extension of these current transitional arrangements for mitigating the impact of IFRS 9 provisions on regulatory capital. These measures allow banks and building societies to add back to their regulatory capital any increase in new ECL provisions incurred as of January 1, 2020 and recognized in 2020 and 2021 for financial assets which have not defaulted. The proposals will become applicable on the day following their publication in the Official Journal of the EU.

In light of the Covid-19 pandemic, there is increased risk of material misstatement of ECL provisions due to the degree of judgment and inherent uncertainty in the assumptions underlying the Covid-19 related addition to the modeled provision. The European Commission and the PRA have also provided guidance as to the interpretation and flexibility of certain prudential and accounting requirements with respect to non-performing loans and other assets in the context of Covid-19 generally and also specifically in the context of payment holidays and other allowances and concessions afforded to borrowers, including guidance on how banks and building societies might approach key judgment as to whether and when borrowers should be treated as having suffered a significant increase in credit risk (SICR) or credit impaired for accounting purposes under the expected credit loss assessments under IFRS 9.

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 we determined to be appropriate, 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.

We have identified certain accounting policies in the notes to the audited consolidated financial statements for the year ended April 4, 2020 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, 2020), 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, 2020) 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, 2020).

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.

Furthermore, in light of the Covid-19 pandemic, there is increased risk of material misstatement of ECL under IFRS 9 due to the degree of judgment and inherent uncertainty in the assumptions underlying the Covid-19 related addition to the modeled provision, as further described under "*Risks relating to the impact of Covid-19*" above. See also "*Changes in our accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations.*" above.

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 surplus in our defined benefit pension scheme does not contribute to our CET1 capital and any future payments to the scheme may reduce our CET1 capital.

We have funding obligations to several defined benefit pension schemes. Pension risk is defined as the risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit. Pension risk can negatively impact our capital position and may result in increased cash funding obligations to the pension schemes.

In the six months ended September 30, 2020, the Nationwide Pension Fund (the "**Fund**") completed its March 31, 2019 Triennial Valuation. Subsequently, in November 2020, Nationwide and the Trustee of the Fund entered into an arrangement whereby Nationwide has agreed to provide collateral in the form of retained Silverstone notes to provide additional security to the Fund. The Fund would have access to these notes in the case of certain events such as insolvency of Nationwide. This contingent asset supports a small funding deficit, therefore annual employer deficit recovery contributions are not required at this time. Employer contributions in respect of ongoing employee benefit accrual will be paid in line with an agreed Schedule of Contributions.

On February 17, 2020, the Group announced that it would close the Fund to future accrual on March 31, 2021, with affected employees being moved to the defined contribution Nationwide Group Personal Pension Plan (GPP) for future pension savings. From April 1, 2021, members will move from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index (CPI). The retirement benefit position on our balance sheet as at September 30, 2020 was a £233 million IAS19 accounting surplus within assets (compared with a £125 million IAS19 accounting deficit as at September 30, 2019 within liabilities).

Any change in the contributions which we are required to pay in respect of our defined benefit pension schemes, including as a result of a future Triennial Valuation of the Fund, could have a negative impact on our results of operations. In addition, any IAS19 accounting deficit in our defined benefit pension scheme would be reflected in our CET1 capital. Accordingly, an increase in 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 UK and we are therefore subject to a range of UK 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 material adverse effect on our business.

The Senior Managers and Certification Regime (the "**SM&CR**") came into force for UK banks, building societies, credit unions, PRA-designated investment firms and branches of foreign banks operating in the UK on March 7, 2016, and is intended to govern the individual accountability and conduct of senior persons within such entities. 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 organization's activities; (ii) a new senior persons regime governing the conduct of bank staff approved by the PRA or the 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) by the FCA of conduct rules (generally 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 in-scope staff other than those undertaking purely ancillary functions; and (v) the introduction of a criminal offense for reckless misconduct by senior bank staff. Rules regarding regulatory references for persons who are to be appointed as Senior Managers or to perform a certification function 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. On November 19, 2019, the FCA published its supervisory expectations in relation to SM&CR for firms which are transitioning away from LIBOR and other Benchmarks. Complying with new regulations imposes costs on our business, including legal costs to implement new policies and procedures, as well as the time and attention of senior management. In addition, any violation of the SM&CR could result in disciplinary action against us or our employees, financial penalties as well as reputational damage, any of which could have a material adverse effect on our business, financial position or results of operations. As a result of Covid-19, changes may need to be implemented to our business, for example to take account of modifications which may be required to the responsibilities of senior managers (for example, on April 3, 2020 the regulators published "*Joint FCA and PRA statement Senior Managers and Certification Regime (SM&CR) and coronavirus (Covid-19): our expectations of dual-regulated firms*". This statement was updated on April 6, 2020 and sets out the PRA and FCA's expectations in relation to compliance with certain obligations under SM&CR). All of these developments could result in additional costs on our business and require additional time and the attention of senior management.

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 (including those referred to in "*Supervision and Regulation*" below) have been made or proposed 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.

As at the date of this Base Prospectus it is difficult to predict the effect that these changes and proposals will have on our operations, business and prospects. Up to the end of 2020, the UK regulatory regime was closely aligned with the EU regime. Following the UK's departure from the EU and the end of the Brexit transition period at the end of 2020, the extent to which the UK may elect to implement or mirror future changes in the EU regulatory regime, or to diverge from the current EU-influenced regime over time, remains to be seen. To the extent that the UK and EU trading relationship is premised on or influenced by the level of equivalence or convergence, or where initiatives are jointly designed on the basis of cooperation and shared outcomes, the EU regulatory regime may continue to have a significant effect on the regime which the UK Government and regulators elect to implement. 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. While the scope and nature of any such changes are unpredictable, any interventions or regulations designed to increase the protections for UK 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 proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). While we are committed to operating a business that prevents, deters and detects money laundering and terrorist financing in accordance with such requirements, 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 or 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, 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 UK, the Banking Act 2009 as amended (the "**Banking Act**") provides for a package of minimum early intervention and resolution-related tools and powers which the UK resolution authorities may apply in respect of in-scope UK financial institutions, including the Society and our group, and provides for special rules for cross-border groups. These tools and powers broadly align with those applicable to relevant financial institutions in the EEA under Directive (EU) 2014/59 ("**BRRD**"), although HM Treasury and the Bank of England have already elected to diverge from certain changes to BRRD which were recently implemented in the EU or are required to be implemented in the EU in the near future. Under the Banking Act, substantial powers have been granted to HM Treasury, the Bank of England (including the PRA) and the FCA (together, 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 likely and a resolution is considered to be in the public interest. In respect of UK building societies, the relevant tools include:

(i) modified property transfer powers which also refer to cancelation 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 (among other things) arranging for deferred shares in a building society to be publicly owned, cancelation 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 our property, rights or liabilities to a company.

In each case, the Banking Act grants additional powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

The Banking Act also provides that the UK as a last resort, after having assessed and used the resolution tools set out above to the maximum extent practicable while maintaining financial stability, and where certain other mandatory conditions of the Banking Act 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 state aid framework, and there can be no assurance that investors in any notes would benefit from such support even if it were provided.

Secondary legislation which defines the scope for application of the Stabilization Options under the SRR to certain "banking group companies" came into force on August 1, 2014. The definition of "banking group company" encompasses certain of our subsidiaries and affiliates. The amendments to the Banking Act 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."

The Banking Act contains a separate power, often referred to as the "write-down and conversion tool", enabling the Authorities – independently of, or in conjunction with, the use of resolution powers – to cancel or transfer CET1 instruments away from the original owners, or write down (including to nil) an institution's AT1 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 write-down and conversion 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. Additionally, in respect of building societies, the resolution authority may write-down or convert instruments issued by the building society itself or a successor entity formed through exercise of Stabilization Options. Subordinated notes issued under the program may be Tier 2 capital instruments, and any such subordinated notes would be subject to the write-down and conversion tool. For more information see: "*The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to us or any notes could materially adversely affect the value of any notes and/or the rights of noteholders*".

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 PRA is satisfied that a relevant entity is failing or is likely to fail;

(ii) having regard to timing and other relevant circumstances, the Bank of England determines that it is not reasonably likely that (ignoring the Stabilization Options) action will be taken that will result in the relevant entity no longer failing or being likely to fail;

(iii) the Bank of England considers the exercise of the Stabilization Options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors); and

(iv) the Bank of England 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 by supervisors and resolution authorities as "failing or likely to fail" within the meaning of BRRD. While the EBA guidelines are not binding on the Authorities when considering their powers under the Banking Act, the Authorities may continue to have regard to them as part of their deliberations. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

Although the Banking Act provides for conditions to the exercise of any resolution powers and the EBA guidelines set out objective elements which the Authorities may elect to consider when 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 are subject to regulatory capital and liquidity requirements which may change.

We are subject to extensive and evolving regulatory capital and liquidity requirements, as further described in "*Supervision and Regulation*".

Changes to the regulatory capital and liquidity requirements, and/or the prudential framework, under which we operate could hinder growth by prescribing more stringent requirements than those with which we currently comply. Our capital ratios may be adversely affected not only by a reduction in our capital (including if we suffer financial losses) but also by changes in the manner in which we are required to calculate our capital and/or the risk-weightings applied to our assets. For example, we are currently authorized to apply an 'internal ratings based' ("**IRB**") approach to calculating our risk-weighted assets. An IRB approach enables an institution to tailor more closely risk-weights to its particular assets than standardized risk-weights, and accordingly in many cases can be expected to be lower than risk-weights which would apply under a standardized approach. Changes to how we apply our IRB model, or which may require us to calculate our risk-adjusted assets on the basis of standardized or loan-to-value-based standardized risk-weights, could have a material adverse impact on our capital ratios, even if we remain profitable. In particular, as further described in "*Supervision and Regulation—European Union Legislation—RWA floors and IRB modeling*", RWA output floors are due to be implemented through a transitional period from 2023 to 2028, and other reforms for the calculation of risk-weights are also due to be implemented, including a number of PRA reforms for IRB calibration expected to take effect from January 1, 2022. The introduction of these RWA floors and IRB calibration changes will lead to a significant increase in our RWA over time and we currently expect the consequential impact on our reported CET1 ratio ultimately to be a reduction of approximately 45-50% relative to our current position (although organic earnings through the transition are expected to mitigate the impact such that our reported CET1 ratio will in practice remain in excess of the pro forma levels implied by these changes). For further information, please refer to the "*Supervision and Regulation—European Union Legislation—RWA floors and IRB modeling*" section.

In addition, a failure adequately to manage capital, liquidity and MREL requirements could have a material adverse effect on us. While 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, there can be no assurance that our assumptions will be accurate in all respects or that we will not be required to take additional measures to strengthen our capital or liquidity position.

Effective management of our capital and regulatory authorizations is critical to our ability to operate and grow our business and to pursue our strategy. Any change that limits our ability to manage our balance sheet and capital resources effectively (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 framework, 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.

Furthermore, if we fail, or are perceived to be likely to fail, to meet our minimum regulatory capital, leverage or, liquidity requirements, or our minimum requirement for own funds and eligible liabilities ("**MREL**") including in connection with any stress tests performed by the Bank of England or any other relevant authority, this may result in administrative actions or regulatory sanctions. In addition, 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 on for lending and which could have a material adverse effect on our business, financial position or results of operations.

Impact of Covid-19

The future impact of Covid-19 on our capital ratios is not yet clear, although it is likely to lead to some RWA inflation and therefore a lower CET1 ratio in the short to medium term. While, based on our current estimates and projections, we currently expect to maintain, over the short to medium term horizon, a surplus above combined buffer requirements that we are expected to meet by the PRA and the threshold at which a maximum distributable amount ("**MDA**") would be imposed, there is significant uncertainty as to the duration and degree of impact of Covid-19. If this is significantly worse than our base-case estimates, further erosion in the CET1 ratio cannot be discounted.

Further specific measures may also be taken by our regulators to address potential capital and liquidity stress, which could limit our flexibility to manage our business and our capital position, including in the event of restrictions on distributions and capital allocation. For example, on March 31, 2020 the PRA wrote to the CEOs of the large UK high street lenders (including Nationwide) to outline, among other things, its expectations with respect to payments of dividends on equity and cash bonuses to senior staff, including all material risk takers. While the PRA in its letter to Nationwide confirmed that (in contrast to its expectations with respect to the declaration or payment of dividends by banks in the near-term) it was not requesting that we halt payments on its CCDS at that time, there can be no assurance that further measures or expectations may be implemented or outlined by our regulators over time, which could affect our capital position, our ability to raise further capital or the costs of new capital, and/or our business operations.

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

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—UK 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.

There can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by us. Any such increases in our costs and liabilities related to the levy may have a material adverse effect on our results of operations. Further costs and risks 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.

The EU Directive on deposit guarantee schemes (the "**DGSD**") requires EU Member States (including, at the time the DGSD was required to be transposed, the UK) 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 UK 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. The UK requirements implementing DGSD provide, among other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the FSCS including the introduction of temporary high balance deposit protection, up to £1 million, for up to twelve months (protection temporarily extended from six to twelve months in response to the impact of Covid-19) 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 as implemented in the UK, 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 our business, financial conditions and/or results of operations. The DGSD requirements were implemented in the UK before the UK's exit from the EU and the regime was subsequently amended to reflect the UK's exit from the EU. We refer to the "*Supervision and Regulation – European Union Legislation – Impact of Brexit*" section for a description of the changes implemented to retained EU legislation so that it works effectively after the end of the transition period on December 31, 2020.

Our principal business is providing residential mortgages in the UK. As such, we are susceptible to changes in UK mortgage rules and regulation which could impact our ability to retain current mortgage customers and/or attract new mortgage customers.

The FCA published its Mortgages Market Study Final Report (MS16/2) in March 2019. While 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 October 28, 2019, the FCA published Policy Statement PS 19/27 entitled "*Changes to mortgage responsible lending rules and guidance – feedback on CP19/14 and final* rules" setting out detailed proposals to remove regulatory barriers to changing mortgages for "mortgage prisoners". 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**") set out in PS19/27, which came into force on October 28, 2019, 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. The rules, based on pre-coronavirus conditions, require firms to write to those who may be eligible letting them know they may be able switch their mortgage. However, the FCA decided that given lenders' inability to offer new switching options to mortgage prisoners in view of Covid-19 it would be wrong to require letters to be sent to consumers at this time. The FCA therefore extended the window during which it expects firms to contact consumers about switching options by 3 months to December 1, 2020. On January 31, 2020 the FCA published Policy Statement PS 20/1 "*Mortgage advice and selling standards: feedback to CP 19/17 and final rules*" the final rules on mortgage advice and selling standards are aimed at giving consumer more choice in how they buy a mortgage. The changes include expanding the perimeter on what is mortgage advice and requiring advisors to explain why they have not recommended a cheaper mortgage (where other products meet the customer needs). The changes came in to force on January 31, 2020. To

allow firms time to adapt their process to accommodate the changes, some of the rules are subject to transitional provisions until July 30, 2020. It is possible that further changes may be made to the MCOB as a result of current and future reviews, studies and regulatory reforms which could have a material adverse effect on our business, finances or 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.

Risks Related to the Notes

The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to us or any notes could materially adversely affect the value of any notes and/or the rights of noteholders.

Under the Banking Act, substantial powers are granted to HM Treasury, the PRA, the FCA and the Bank of England (together, the "**Authorities**") as part of the SRR. These powers enable the relevant Authority, being the Bank of England as UK resolution authority, to deal with, among other entities, a UK bank or building society (each a "**relevant entity**") in circumstances in which that Authority considers that the resolution conditions are satisfied, through a series of stabilization options. For further information in relation to our regulatory environment and capital requirements see "*Risks Related to Regulations/the Regulatory Environment – 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*" and "*Risks Related to Regulations/the Regulatory Environment – We are subject to regulatory capital and liquidity requirements which may change*".

Various actions may be taken under the SRR in relation to the notes without the express consent of the noteholders, and by acquiring the notes each noteholder agrees to be bound by such actions

If we were made subject to the SRR, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) over us and/or our securities (subject to certain protections).

Exercise of these powers could involve taking various actions in relation to any securities issued by us (including any notes issued under the program) without the express consent of the noteholders, including (among other things):

- transferring the notes out of the hands of the noteholders;
- 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, including by suspending payment for a temporary period), 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.

By acquiring the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK Bail-in Power by the 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 UK Bail-in Powers.

The Relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalize a relevant entity in resolution by allocating losses to (among 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 favorable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the "no creditor worse off" principle, although this may not apply in relation to an application of the write-down and conversion power in circumstances where a stabilization power is not also used; holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation). 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. For further information with respect to the ranking of notes, see "*The notes rank junior to most of our liabilities*" below.

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. There is also the power to convert a building society into a company in connection with a bail-in. The exercise of such powers may result in the cancelation 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 CCDS) or other securities or other obligations of ours 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 Banking Act. However, such compensation will be limited to the return the noteholder might otherwise have received in an insolvency (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 Banking Act in respect of us or any of our securities (including any notes issued under the program), 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 and relevant internal liabilities may affect the subordinated notes, including outside of formal resolution proceedings

As noted above, in addition to the stabilization options which may be used in a resolution of an institution, the Banking Act contains a write-down and conversion tool which enables (and, if the institution enters into resolution, requires) the relevant Authority to permanently write-down, or convert into CET1 instruments (which, in our case, could be CCDS), any Tier 1 capital instruments, Tier 2 capital instruments (including subordinated notes issued under the program) and certain relevant internal liabilities at the point of non-viability of the relevant entity independently of (or in conjunction 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 determines that the relevant entity or its group will no longer be viable unless the relevant capital instruments and relevant internal liabilities 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 UK economy and to preserve financial stability.

Subordinated notes issued under the program may therefore be subject to write-down or conversion into equity on application of such powers (without requiring the consent of the holders thereof) independently of

whether we are in, or subsequently enter into, resolution. This may result in the holders losing some or all of their investment even if we are not put into resolution. 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 Banking Act 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 our ability to satisfy our obligations under the notes, and/or may adversely affect liquidity and/or volatility in any market for such subordinated notes.

The circumstances under which the relevant Authorities would exercise resolution powers 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 Authorities would consider in deciding whether to exercise the Banking Act resolution powers with respect to the relevant financial institution and/or securities, such as the notes, issued by that institution. While the Banking Act provides guidance as to how and when the resolution powers may be utilized by the relevant Authorities, it allows for a considerable amount of discretion and there is no certainty as to how the relevant Authorities will exercise any resolution powers with respect to a given financial institution and/or securities 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 resolution powers.

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

The conditions of the notes contain provisions that may permit their modification without the consent of investors.

Where we encounter, or are likely to encounter, financial difficulties that are affecting, or will or may affect, our ability to carry on business as a going concern, we may propose a restructuring plan (a "**Plan**") with our creditors under Part 26A of the Companies Act 2006 (introduced by the Corporate Insolvency and Governance Act 2020) to eliminate, reduce, prevent or mitigate the effect of any of those financial difficulties. Should this happen, creditors whose rights are affected are organized into creditor classes and can vote on any such Plan (subject to any classes being excluded from the vote by the English courts for having no genuine economic interest in Nationwide). Provided that one class of creditors (who would receive a payment, or have a genuine economic interest in Nationwide) has approved the Plan, and in the view of the English courts any dissenting class(es) who did not approve the Plan are no worse off under the Plan than they would be in the event of the "relevant alternative" (such as, broadly, liquidation or administration), then the English court can sanction the Plan where it would be a proper exercise of its discretion. A sanctioned Plan is binding on all creditors and members, regardless of whether they approved it. Any such sanctioned Plan in relation to us may, therefore, adversely affect the rights of noteholders and the price or value of their investment in the notes, as it may have the effect of modifying or disapplying certain terms of the notes (by, for example, writing down the principal amount of the Notes, modifying the interest payable on the Notes, the maturity date or dates on which any payments are due or substituting the Issuer). The Secretary of State has the power, by secondary legislation, to exclude certain companies providing financial services from the scope of Part 26A and it may well be that, in practice, the special

resolution regime under the Banking Act is more likely to be used to resolve our finance difficulties rather than the Plan.

Further issuances may negatively 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 negatively affect the market value of the original notes if the additional notes are not otherwise distinguishable from the original notes.

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.

The notes rank junior to most of our liabilities.

The notes rank behind liabilities which are preferred by law

A substantial portion of claims against us in the event of a winding up or dissolution will rank ahead of claims in respect of the notes. Holders of notes and other unsubordinated creditors will, in an insolvency, rank junior to member share accounts, which are given preferential status under law.

The English insolvency regime applicable to us at the date of this Base Prospectus provides for:

(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 (being, as at the date of this Base Prospectus, £85,000)); 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 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 unsecured creditors that are not afforded preferential status in the event of an insolvency.

In a winding-up or dissolution, a substantial portion of the claims against us would be claims of our retail members, whose claims will rank ahead of claims in respect of the notes.

Relative ranking of notes issued under the program

On a winding-up or dissolution, claims in respect of senior preferred notes issued under the program will rank ahead of claims in respect of senior non-preferred notes (notwithstanding that senior preferred notes and senior non-preferred notes both share the 'senior' designation under the program, investors should note that the latter ranks behind the former), which in turn will rank ahead of claims in respect of subordinated notes.

Therefore, in a winding-up or dissolution, our assets available for distribution would be expected to be distributed:

1. firstly, in satisfaction of all claims which are preferred by law to claims in respect of senior preferred notes;

2. secondly, only if and to the extent any assets remain after the distributions above, in satisfaction of all claims in respect of senior preferred notes and any other ordinary non-preferential debts (as that term is defined in Section 387A of the Insolvency Act) on a *pro rata* basis;

3. thirdly, only if and to the extent any assets remain after the distributions above, in satisfaction of all claims in respect of senior non-preferred notes and any other secondary non-preferential debts (as that term is defined in Section 387A of the Insolvency Act) on a *pro rata* basis; and

4. fourthly, only if and to the extent any assets remain after the distributions above (and, if applicable, after distributions in respect of our subordinated liabilities which rank ahead of subordinated notes, if any), in satisfaction of all claims in respect of subordinated notes and any other tertiary non-preferential debts (as that term is defined in Section 387A of the Insolvency Act) which rank *pari passu* with subordinated notes, on a *pro rata* basis.

Accordingly, we may not have enough assets remaining after paying higher-priority creditors to pay amounts due under the relevant notes, and in such circumstances noteholders could lose some or all of their investment in the notes.

Relevance of ranking to recovery and resolution under the Banking Act

The ranking of notes in a winding up or dissolution can also be expected to have a direct impact on the relative losses imposed on noteholders in a resolution of the Society or upon use of the write-down and conversion powers under the Banking Act, as such resolution and write-down and conversion powers ought to be used in a manner that respects the hierarchy of claims in an ordinary insolvency. See "*The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to us or any notes could materially adversely affect the value of any notes and/or the rights of noteholders*" above.

In addition, the senior non-preferred notes and subordinated notes are intended to contribute towards the our MREL meaning that they are specifically intended to be available to resolution authorities for write-down, write-off or conversion to equity under the Banking Act in order to absorb losses and recapitalize us if we are failing, and before more senior-ranking creditors suffer losses. Accordingly, investors in our senior non-preferred notes and subordinated notes may lose all or substantially all of their investment while investors in our senior preferred notes suffer lower (or no) losses (although there can be no assurance that investors in senior preferred notes will not also suffer substantial losses). The market value of our senior non-preferred notes and subordinated 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 the program), and holders of our subordinated notes may bear significantly greater risk than holders of our senior non-preferred notes.

In the event of 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.

Noteholders agree to be bound by the exercise of any UK Bail-in Power by the Resolution Authority

In recognition of the resolution powers granted by law to the Resolution Authority, by acquiring any notes, each noteholder will acknowledge and accept that the Amounts Due (as defined in "*Terms and Conditions of the Notes*") arising under the notes may be subject to the exercise of the UK Bail-in Power (as defined in "*Terms and Conditions of the Notes*") and will acknowledge, accept, consent and agree to be bound by the effect of the exercise of any UK Bail-in Power by the Resolution Authority, that may result in (i) the reduction of all, or a portion, of the Amounts Due; (ii) the conversion of all, or a portion, of the Amounts Due on the notes into shares, deferred shares (including core capital deferred shares) or other securities or other of our obligations or another person (and the issue to or conferral on the noteholder of such shares, deferred shares or other securities or obligations), including by means of an amendment, modification or variation of the terms of the notes; (iii) the cancellation of the notes; (iv) the amendment or alteration of the maturity of the notes or amendment of the amount of interest payable on the notes, or the dates on which interest becomes payable, including by suspending payment for a temporary period. Each noteholder will further acknowledge, accept, consent and agree to be bound by the variation of the terms of the notes and Indenture, if necessary, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.

Accordingly, the UK Bail-in Power may be exercised in such a manner as to result in noteholders losing all or a part of the value of their investment in the notes, having payment on the notes suspended for a period of time or receiving a different security from the notes, which may be worth significantly less than the notes and which may have significantly fewer protections than those typically afforded to debt securities. Moreover, the Resolution Authority may exercise the UK Bail-in Power without providing any advance notice to, or requiring the consent of, the noteholders. In addition, the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Notes is not an Event of Default under the notes or the Indenture or a breach or default thereunder, or an event of default or default for any other purpose.

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

The credit ratings of our medium-term note program may not reflect the potential impact of all risks relating to the value of the notes. In addition, real or anticipated changes in our credit ratings or the credit ratings of the notes will generally affect the market value of the notes. These credit ratings could change due to a wide range of factors, including but not limited to those discussed under "*—Risks Related to Our Business—Rating downgrade and/or market sentiment with respect to us, our sector, the UK and/or other sovereign issuers may have an adverse effect on our performance and/or the marketability and liquidity of the notes*." In general, EU regulated investors are restricted from using a rating for regulatory purposes in the EEA if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the EU or in the UK before June 7, 2010 which has submitted an application for registration in accordance with the EU CRA Regulation and such registration has not been refused. Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances).

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the notes changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the notes may have a different regulatory treatment, which may impact the value of the notes and their liquidity in the secondary market.

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. Any credit rating downgrade, suspension or withdrawal could negatively impact the value of the notes.

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 or there is a perception that we are able 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 or there is a perception that we are able 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. Our exercise of these rights 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 our opinion 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 MREL regime and the requisite features of eligible liabilities instruments under that regime continue to evolve, it may not be possible to predict accurately if and when any of our senior non-preferred notes may be fully or partially excluded from our MREL requirements in the future. 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 favorable to noteholders than the terms of the relevant senior non-preferred notes (as we reasonably determine in consultation with an independent advisor 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.

Limitation on gross-up obligation under the subordinated notes and 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 each series of subordinated notes and senior non-preferred notes 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 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 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.

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 we substitute 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—US 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.

Benchmarks Regulation and Reform

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 recent and ongoing reform. Some of these reforms are already effective while 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 " **EU 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 EU 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 UK Benchmarks Regulation (Regulation (EU) No.2016/1011 as it forms part of domestic law by virtue of the EUWA), among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorized by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognized or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, 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 EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. 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.

IBOR replacement

The FCA has publicly announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021, and accordingly the continuation of LIBOR on the current basis will not be guaranteed after 2021. As a result, there is significant regulatory scrutiny of continued use of LIBOR and other inter-bank offered rates ("**IBORs**") and increasing pressure and momentum for banks and other financial institutions to transition relevant products to replacement rates.

Different currency LIBORs are expected to transition to different rates which, in contrast to LIBOR rates (which include an interbank lending risk margin) may be (or may be derived from) risk-free rates, which may perform very differently from the relevant LIBOR rate.

For example, in the case of floating rate notes:

- bonds which would traditionally have referenced GBP-LIBOR are increasingly referencing the Sterling Overnight Index Average ("**SONIA**");
- bonds which would traditionally have referenced USD-LIBOR are increasingly referencing the Secured Overnight Financing Rate ("**SOFR**"); and
- bonds which would traditionally have referenced EURIBOR are expected to move towards referencing the new Euro Short-term Rate ("**€STR**") (although a reformed EURIBOR rate will continue to be published).

The replacement risk-free rates referenced above operate on a backward-looking basis (predominantly on the basis of a daily compounding calculation, although weighted average alternatives have been seen in certain rates), rather than forward-looking term rates. While forward-looking term rates based on certain of these risk-free rates have been or are being developed, it is uncertain whether the capital markets will move to referencing those term rates for public bond issues, or whether regulators would be content to allow such adoption.

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. Specifically, 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 benchmark reforms) for market participants to continue contributing to such benchmarks. The FCA has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

Separately, the euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, amongst

other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, LIBOR and/or EURIBOR (including on its reformed basis) 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, USD LIBOR to SOFR and/or EURIBOR to €STR, or any other currency LIBOR to a new rate, 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 referencing 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 a 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.

Benchmark replacement under the Terms and Conditions of the Notes

If "*Benchmark Replacement*" is specified to be "Applicable" in the applicable Final Terms, the Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event or, as the case may be, a Benchmark Transition Event, occurs in respect of the Original Reference Rate for the relevant series of notes, including (without limitation) if an inter-bank offered rate (such as LIBOR, EURIBOR, SONIA, SOFR or €STR) 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 of the market it is supposed to represent, or if we, or any other relevant party, are no longer permitted lawfully to calculate interest on any notes by reference to such benchmark under the UK Benchmarks Regulation and/or the EU Benchmarks Regulation, as applicable, 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 or, as the case may be, a Benchmark Replacement (in each case as defined in the Terms and Conditions), with (in either case) application of an Adjustment Spread or, as applicable, a Benchmark Replacement Adjustment (which could be positive, negative or zero), and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the Successor Rate or Alternative Rate, Benchmark Replacement, Adjustment Spread and/or Benchmark Replacement Adjustment, as applicable, all as determined by us (acting in good faith and in consultation with an Independent Advisor). However, we will not determine or implement a Successor Rate, an Alternative Rate, Benchmark Replacement, Adjustment Spread, Benchmark Replacement Adjustment, or any Benchmark Amendments or any Benchmark Conforming Changes (as the case may be) 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 under "*Terms and Conditions of the Notes*". It is possible that the adoption of a Successor Rate, Alternative Rate or Benchmark Replacement and (in either case) the applicable Adjustment Spread or Benchmark Replacement Adjustment may result in a rate of interest less favorable to holders than the Original Reference Rate.

There is also a risk that the relevant fallback provisions may not operate as expected or as intended at the relevant time, which could increase uncertainty and negatively impact the market value of the notes.

Floating Rate Notes issued under the Program could effectively become Fixed Rate Notes

Furthermore, in certain circumstances, the ultimate fallback for the purposes of calculation of the Rate 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, or for the First Reset Rate of Interest, 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, which could adversely affect the market value of an investment in the notes.

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

The market continues to develop in relation to SOFR and SONIA as reference rates

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 SOFR or SONIA, the Rate of Interest will be determined on the basis of the relevant reference rate as described in the terms and conditions of the notes. SOFR and SONIA differ from LIBOR in a number of material respects, including (without limitation) that SOFR and SONIA are backwards-looking, risk-free overnight rates, 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 SOFR or SONIA may behave materially differently than LIBOR rates historically used in issues of floating rate notes under this Program. The use of SOFR or SONIA as reference rates for Eurobonds is subject to continued 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 SOFR or SONIA.

Accordingly, prospective investors in any notes referencing SOFR or SONIA should be aware that the market continues to develop in relation to SOFR and SONIA as reference rates in the capital markets and their adoption as alternatives to USD LIBOR and Sterling LIBOR, respectively. For example, in the context of backwards-looking SOFR and SONIA rates, market participants and relevant working groups have explored different methodologies, such as daily compounding rates and weighted average rates, and forward-looking 'term' SOFR and SONIA reference rates (which seek to measure the market's forward expectation of an average SOFR or SONIA rate over a designated term) have also been, or are being, developed. The adoption of SOFR or SONIA may also see component inputs into swap rates or other composite rates transferring from LIBOR or another reference rate to SOFR or SONIA, as applicable.

The market or a significant part thereof may adopt an application of SOFR or SONIA that differs significantly from that set out in "*Terms and Conditions of the Notes*" as applicable to notes referencing a SOFR or SONIA rate that are issued under this Base Prospectus. In addition, the methodology for determining any overnight rate index by reference to which the Rate of Interest in respect of certain Notes may be calculated could change during the life of any Notes. Furthermore, we may in future issue notes referencing SOFR or SONIA that differ materially in terms of interest determination when compared with any previous SOFR or SONIA-referenced notes that we issue under the medium-term note program described in this Base Prospectus. The nascent development of SOFR and SONIA as interest reference rates for the Eurobond markets, as well as continued development of SOFR and 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 SOFR or SONIA-referenced notes issued under the medium term note program described in this Base Prospectus.

Furthermore, the Rate of Interest on notes which reference SOFR or 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 SOFR or 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 SOFR or 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 "*Terms and Conditions of the Notes—Events of Default—Subordinated Notes and 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 SOFR or SONIA reference rates in the bond markets may differ materially compared with the application and adoption of SOFR or SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR or 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 SOFR or SONIA.

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

SOFR may be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in the notes.

SOFR is published by the Federal Reserve Bank of New York and is intended to be a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Federal Reserve Bank of New York reports that the Secured Overnight Financing Rate includes all trades in the Broad General Collateral Rate, plus bilateral Treasury repurchase agreement transactions cleared through the delivery-versus-payment service offered by the Fixed Income Clearing Corporation (the "FICC"), a subsidiary of the Depository Trust and Clearing Corporation ("DTCC"). The Secured Overnight Financing Rate is filtered by the Federal Reserve Bank of New York to remove a portion of the foregoing transactions considered to be "specials".

The Federal Reserve Bank of New York reports that the Secured Overnight Financing Rate is calculated as a volume-weighted median of transaction-level tri-party repurchase agreement data collected from The Bank of New York Mellon as well as General Collateral Finance repurchase agreement transaction data and data on bilateral Treasury repurchase transactions cleared through the FICC's delivery-versus-payment service. The Federal Reserve Bank of New York notes that it obtains information from DTCC Solutions LLC, an affiliate of DTCC. The Federal Reserve Bank of New York notes on its publication page for the Secured Overnight Financing Rate that use of the Secured Overnight Financing Rate is subject to important limitations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of the Secured Overnight Financing Rate at any time without notice.

Because the Secured Overnight Financing Rate is published by the Federal Reserve Bank of New York based on data received from other sources, we have no control over its determination, calculation or publication. There can be no guarantee that the Secured Overnight Financing Rate will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in notes linked to SOFR. If the manner in which the Secured Overnight Financing Rate is calculated is changed, that change may result in a reduction of the amount of interest payable on the notes linked to SOFR and the trading prices of such notes. If the rate at which interest on the notes linked to SOFR accrues on any day declines to zero or becomes negative, no interest will be payable on such notes in respect of that day.

The Federal Reserve Bank of New York began to publish the Secured Overnight Financing Rate in April 2018. The Federal Reserve Bank of New York has also begun publishing historical indicative Secured Overnight Financing Rates going back to 2014. Investors should not rely on any historical changes or trends in the Secured Overnight Financing Rate as an indicator of future changes in the Secured Overnight Financing Rate. Also, since the Secured Overnight Financing Rate is a relatively new market index, notes linked to SOFR will likely have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to the Secured Overnight Financing Rate, such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of notes linked to SOFR may be lower than those of later-issued indexed debt securities as a result. Similarly, if the Secured Overnight Financing Rate does not prove to be widely used in securities like the notes linked to SOFR, the trading price of such notes may be lower than those of bonds linked to indices that are more widely used. Investors in notes linked to SOFR may not be able to sell such notes at all or may not be able to sell such notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

If the notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, or are Reset Notes, 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 favorable than then prevailing spreads on comparable floating rate notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other notes. 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.

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, which 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. This price volatility could adversely affect the market value of an investment in the notes.

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.

An active secondary market in respect of the notes may never be established or may be illiquid and this would adversely affect the value at which investors could sell their 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's main market, we cannot guarantee that the notes will be accepted for listing or admitted to trading or that an active trading market will develop. Accordingly, we cannot guarantee the development or liquidity of any trading market for the notes. If a

market for the notes does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This may in particular be the case should we be in financial distress, which may result in any sale of the notes having to be at a substantial discount to their principal amount.

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.

If investors hold notes which are not denominated in the investors' home currency, they will be exposed to movements in exchange rates adversely affecting the value of their holding. In addition, the imposition of exchange controls in relation to any notes could result in an investor not receiving payments on those notes.

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 or our ability to make payments in respect of the notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

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 or as otherwise specified in the applicable Final Terms in respect of any notes. 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 September 30, 2020:

	September 30, 2020
	(£ million)
Consolidated Indebtedness[(1)]	
Deposits from banks	28,225
Amounts due to customers and other deposits	7,671
Debt securities in issue	37,422
Total Senior Debt	**73,318**
Subordinated Debt[(1)(2)(6)]	**8,348**
Total Subordinated Debt	**8,348**
Permanent Interest Bearing Shares[(1)(3)(4)]	**252**
Total Permanent Interest Bearing Shares	**252**
Members' Funds	
CCDS[(1)]	1,329
Other equity instruments[(1)]	1,336
General reserve	10,936
Revaluation reserve	36
Cash flow hedge reserve	261
Fair value through other comprehensive income reserve	44
Other hedging reserve	(43)
UK retail member deposits[(1)(4)]	160,953
Total members' funds	**174,852**
Total capitalization	**256,770**

Notes:

(1) If we were to go into liquidation, the claims in respect of senior preferred notes and other unsubordinated creditors would rank junior to obligations required to be preferred by law (which includes certain member share accounts which are given preferential status by law), but would rank before those of senior non-preferred and subordinated debt holders. The claims of holders of permanent interest bearing shares ("**PIBS**") rank behind those of all other creditors, including subordinated debt holders. The claims of the holders in respect of our AT1 instruments would rank behind those in respect of our PIBS, and the claims in respect of our CCDS would rank behind claims in respect of our AT1 instruments.

(2) For consistency with other indebtedness, accrued interest of £95 million 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 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.

(6) Subordinated debt comprises of one issue maturing in 2023, three issues maturing 2024, four issues maturing 2026, two issues maturing 2028, three issues maturing 2029, two issues maturing 2030, and one issue maturing in 2031, a number of which are callable ahead of maturity.

On December 8, 2020 we issued 27,500 additional CCDS, bringing the total number of our CCDS outstanding to 10,555,500. Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalization, indebtedness, guarantees or contingent liabilities since September 30, 2020.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been extracted from our unaudited consolidated financial statements as at and for the six months ended September 30, 2020, with comparatives for the six months ended September 30, 2019 and audited consolidated financial statements as at and for the years ended April 4, 2020, 2019 and 2018.

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

	For the six months ended September 30,			For the year ended April 4,			
	2020[1]	**2020**	**2019**	**2020[2]**	**2020**	**2019**	**2018**
	($ million)	*(£ million)*		*($ million)*	*(£ million)*		
Income Statement Data:							
Interest receivable and similar income	2,591	2,006	2,544	6,291	5,130	5,118	4,811
Interest expense and similar charges	(721)	(558)	(1,159)	(2,845)	(2,320)	(2,203)	(1,807)
Net interest income	**1,871**	**1,448**	**1,385**	**3,446**	**2,810**	**2,915**	**3,004**
Fee and commission income	233	180	216	538	439	449	449
Fee and commission expense	(146)	(113)	(126)	(331)	(270)	(248)	(244)
Other operating income	(16)	(12)	66	82	67	54	(77)
Gains/(losses) from derivatives and hedge accounting	72	56	2	(9)	(7)	36	(1)
Total income	**2,014**	**1,559**	**1,543**	**3,726**	**3,039**	**3,206**	**3,131**
Administrative expenses	(1,334)	(1,033)	(1,125)	(2,835)	(2,312)	(2,254)	(2,024)
Impairment losses on loans and advances to customers	(180)	(139)	(57)	(256)	(209)	(113)	(107)
Provisions for liabilities and charges	(34)	(26)	(52)	(64)	(52)	(6)	(25)
Impairment recoveries/(losses) on investment securities	-			-	-	-	2
Profit before tax	**466**	**361**	**309**	**571**	**466**	**833**	**977**
Analyzed as:							
Underlying profit before tax	394	305	307	575	469	788	977
Financial Sector Compensation Scheme and Bank Levy	-			5	4	9	1
Gains/(losses) from derivatives and hedge accounting	72	56	2	(9)	(7)	36	(1)
Statutory profit before tax	**466**	**361**	**309**	**571**	**466**	**833**	**977**
Taxation[3]	(103)	(80)	(75)	(124)	(101)	(197)	(232)
Profit after tax[3]	**363**	**281**	**234**	**447**	**365**	**636**	**745**

Note:

(1) Dollar amounts are unaudited and have been derived from our unaudited consolidated financial statements as of and for the six months ended September 30, 2020 using the exchange rate of $1.2918 to £1.

(2) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements as of and for the year ended April 4, 2020 using the exchange rate of $1.22625 to £1.

(3) Certain adjustments were made to reflect an amendment to IAS 12 "Income Taxes", and Taxation and Profit after Tax for the year end April 4, 2019, has been restated. For further information, please see "Presentation of Financial Information" and note 1 to the audited consolidated financial information for the year ended April 4, 2020.

	As at September 30,			As at April 4,			
	2020[1]	**2020**	**2019**	**2020[2]**	**2020**	**2019[4]**	**2018[3]**
	($ million)	*(£ million)*		*($ million)*		*(£ million)*	
Balance Sheet Data							
Assets:							
Cash	27,186	21,045	16,686	16,858	13,748	12,493	14,361
Loans and advances to banks and similar institutions	4,581	3,546	5,354	4,459	3,636	4,009	3,493
Investment securities	30,973	23,977	16,718	24,530	20,004	16,234	13,046
Derivative financial instruments	5,672	4,391	5,128	5,850	4,771	3,562	4,121
Fair value adjustment for portfolio hedged risk	2,492	1,929	1,421	2,175	1,774	411	(144)
Loans and advances to customers	260,895	201,962	201,833	246,449	200,978	199,051	191,421
Intangible assets	1,500	1,161	1,361	1,519	1,239	1,324	1,342
Property, plant and equipment	1,430	1,107	1,050	1,437	1,172	889	887
Accrued income and expenses prepaid	251	194	195	251	205	184	164
Current tax assets	-	-	18	80	65	-	-
Deferred tax assets	80	62	63	93	76	53	144
Other assets	92	71	143	97	79	91	102
Retirement benefit assets	301	233	-	362	294	-	-
Total assets	**335,452**	**259,678**	**249,970**	**304,160**	**248,041**	**238,301**	**228,937**
Liabilities and members' interest in equity:							
UK retail member deposits	207,919	160,953	156,455	195,821	159,691	153,969	148,003
Deposits from banks and similar institutions	36,461	28,225	22,807	26,747	21,812	20,149	20,436
Other deposits	10,026	7,761	5,015	5,496	4,482	5,074	4,693
Fair value adjustment for portfolio hedged risk	44	34	21	36	29	(17)	(53)
Debt securities in issue	48,342	37,422	39,729	44,100	35,963	35,942	34,118
Derivative financial instruments	2,135	1,653	2,080	2,359	1,924	1,593	2,337
Other liabilities	837	648	988	1,122	915	583	345
Provisions for liabilities and charges	203	157	187	216	176	199	274
Accruals and deferred income	305	236	317	380	310	346	336
Subordinated liabilities	10,784	8,348	9,050	11,425	9,317	6,706	5,497
Subscribed capital	326	252	255	310	253	250	263
Deferred tax liabilities	216	167	124	254	207	144	49
Current tax liabilities	17	13	-	-	-	89	53
Retirement benefit obligations	-	-	125	-	-	105	345
Core capital deferred shares (CCDS)	1,717	1,329	1,325	1,625	1,325	1,325	1,325
Other equity instrument	1,726	1,336	593	727	593	992	992
General reserve	14,127	10,936	10,511	13,181	10,749	10,418	9,802
Revaluation reserve	47	36	59	59	48	64	68
Cash flow hedge reserve	337	261	301	375	306	320	(8)
Fair value through other comprehensive income reserve	57	44	13	(21)	(17)	50	62
Other hedging reserve	(56)	(43)	15	(52)	(42)	-	-
Total liabilities and members' interest in equity	**335,452**	**259,678**	**249,970**	**304,160**	**248,041**	**238,301**	**228,937**

Notes:

(1) Dollar amounts are unaudited and have been derived from our unaudited consolidated financial statements as of and for the six months ended September 30, 2020 using the exchange rate of $1.2918 to £1.

(2) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements as of and for the year ended April 4, 2020 using the exchange rate of $1.22625 to £1.

(3) Figures have been adjusted to reflect the impact of applying IFRS 9: "*Financial Instruments*" from April 5, 2018. Further information is provided in note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2020.

(4) Certain reclassifications and adjustments were made for the financial information for the year ended April 4, 2019. For further information, please see "Presentation of Financial Information" and note1 of the audited consolidated financial statement as of and for the year ended April 4, 2020.

	As at and for the six months ended September 30,		As at and for the year ended April 4,		
	2020	**2019**	**2020**	**2019**	**2018**
Other Financial Data				*(percentages)*	
Return on average total assets[(1)]	0.11	0.20	0.15	0.26	0.32
Net interest margin	1.15	1.12	1.13	1.22	1.31
Underlying cost income ratio [(2)]	68.7	72.9	75.9	71.1	64.6
Ratio of administrative expenses to mean total assets[(3)]	0.41	0.46	0.95	0.96	0.90
Capital ratios					
CET1	34.5	31.5	31.9	32.2	30.4
Total Tier 1	**38.7**	**33.3**	**33.7**	**35.2**	**33.5**
Total regulatory capital	**48.4**	**42.9**	**43.6**	**44.3**	**42.8**
CRR leverage ratio	4.6	4.3	4.4	4.6	4.6
UK leverage ratio	5.0	4.6	4.7	4.9	4.9

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) These ratios, which are APMs, are measures of efficiency and present administrative expenses as a proportion of total income.

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

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

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

Overview

We are a building society, regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. Our core business is providing personal financial services, primarily residential mortgage lending funded largely through retail savings. As a mutual organization, other than in respect of a relatively small amount of funding provided by investors in its deferred shares (including its PIBS, AT1 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 AT1 and tier 2 capital securities), and our net earnings are put into reserves and constitute CET1 capital for our capital adequacy requirements. For information regarding UK capital adequacy requirements, see the subsection entitled "*—Financial Condition of Nationwide—Capital Resources*" below.

Financial Performance

Underlying profit for the six-month period ended September 30, 2020 was £305 million (September 30, 2019: £307 million), with statutory profit before tax for the same six-month period at £361 million (September 30, 2019: £309 million), as a result of fair value gains from derivatives and hedge accounting. Reduced administrative expenses is primarily attributable to the impact of lower costs relating to strategic investment spend, with business as usual costs also reducing. Restructuring costs have, however, increased in line with actions taken to reduce our future base; this is a trend we expect to continue as we further embed increased levels of efficiency into the Society. Our net interest margin increased during the six-month period ended September 30, 2020 to 1.15% (September 30, 2019: 1.12%) largely due to mortgage margins improving, having declined for the past four years. Following the bank base rate reductions in March 2020 we took the decision to reduce interest rates across our savings range.

Our capital position remains strong with our CET1 and UK leverage ratios at 34.5% and 5.0%, respectively as at September 30, 2020 (September 30, 2019: 31.5% and 4.6%, respectively), in excess of regulatory requirements. The increase in our UK leverage ratio during the six months ended September 30, 2020 is primarily the result of net retail lending and treasury investments. The redemption of a £1.0 billion AT1 capital instrument in June 2019, which is partially offset by the issuance of £0.6 billion AT1 capital in September 2019.

During the six-month period ended September 30, 2020, mortgage trading performance was robust, despite the significantly lower than normal demand during the March to June period of lockdown, with total net mortgage lending decreasing to £1.6 billion (September 30, 2019: £3.0 billion), with the majority of our net lending being through our strong buy to let mortgage brand, The Mortgage Works ("**TMW**").We have seen net deposit growth of £1.3 billion during the period (September 30, 2019: £2.5 billion) with strong current account inflows partially offset by savings outflows. However, there was a more significant overall increase in deposit balances across the UK, primarily during the period of lockdown, which has led to a reduction in our deposit stock market share to 9.3% (September 30, 2019: 9.9%). Our market share of all current accounts remains stable at 10.1%.[1]

[1] Source: CACI (August 2020 and Feb 2020) and internal calculations; 'main current accounts' refers to main standard and packaged accounts.

We have provided our members with a financial benefit of £140 million (September 30, 2019: £375 million). The decline is primarily attributable to lower interest on savings and was against the backdrop of a highly competitive mortgage market. The reduction in savings rates, following the fall in bank base rate, protected our profitability in the first half of 2020 and safeguarded the sustainability of our business. This period of exceptionally low interest rates means it is unlikely that we will meet our £400 million member financial benefit target for this financial year.

We have cut our costs by £92 million to £1,033 million (September 30, 2019: £1,125 million) as we continue to make the Society more efficient in serving our members. The reduction is primarily the result of our planned lower strategic investment related spend, with business as usual costs also reducing. However, restructuring costs have increased in line with actions taken to reduce our future cost base.

Impact of Economic Conditions in the UK Generally and Outlook

We are exposed to any downturn in the UK's economic conditions and to the UK housing market in particular. The Covid-19 pandemic has severely impacted both the UK and global economies and the economic environment in which we operate. The pandemic is having far-reaching impact on the economy, impacting our financial performance, credit profile, the way we interact with customers and our business operations.

From March 2020 onwards, there has been a material impact to our financial performance in relation to Covid-19, following the bank base rate reductions and as the UK enters a more uncertain economic environment. The outbreak of Covid-19, and the global response to it, has materially impacted the economic environment in which we operate. We consider that the financial performance framework which has guided our decisions in the past is no longer appropriate in the current environment, and we are focused on maintaining our strong capital and liquidity positions through the economic cycle.

We are seeking to support our members with a range of measures in light of Covid-19, including offering mortgage payment holidays (which, in accordance with regulatory guidance, have not been included within the forbearance population and do not automatically have an impact on the reported staging balances). In addition to an initial offer of three-month mortgage payment holidays in the early stages of the outbreak, we have announced our Home Support Package, which includes:

- members with a Nationwide mortgage, a choice of either flexibility in mortgage payments (such as making reduced payments for a time) or the option to take a new mortgage payment break of up to a further three months;

- for members who have fallen into arrears because of the financial impact of Covid-19 and who continue to work with us to help get their mortgage back on track, a commitment not to take any action to repossess their home before May 31, 2021;

- to support those who rent, encouraging landlords who have a buy to let mortgage with us to pass on payment breaks to tenants; and

- increased provision of housing advice and support, as well as providing extra funding to Shelter (with which we have a longstanding partnership) to help pay for more people to take calls on their helplines, and supporting the introduction of new Shelter community engagement officers to provide community outreach for those people who struggle to access support.

Furthermore and in light of the Covid-19 pandemic, we are conscious there is the potential for a great deal of anxiety for our employees about health and livelihoods. To reduce anxiety, and in line with our values, we have introduced a number of promises to our employees including, notably, a commitment not to make any compulsory redundancies during 2020.

While stress testing results demonstrate that we are resilient against significant short-term economic shocks, the longer-term financial impact of Covid-19 is not yet clear and remains difficult to quantify. The pandemic is likely to cause interest rates to remain at historically low levels (and there is increasing speculation

about the possibility for the UK base rate to move to a negative rate), and will result in longer term economic effects, potentially putting pressure on our financial performance. Our operating environment is expected to remain highly competitive and further increases in competition would increase the level of business risk for us.

Net Interest Income

Net interest income increased by £63 million, or 4.5% in the six months ended September 30, 2020 to £1,448 million from £1,385 million in the six months ended September 30, 2019. The increase in net interest income in six months ended September 30, 2020 was largely due to mortgage margins improving, having declined for the past four years. Following the bank base rate reductions in March 2020 we took the decision to reduce interest rates across our savings range.

The table below shows the calculation of net interest margin for the six months ended September 30, 2020 and 2019 and the years ended April 4, 2020, 2019 and 2018.

	For the six months ended September 30,		For the year ended April 4,		
	2020	**2019**	**2020**	**2019**	**2018**
	(*£ million, except percentages*)				
Net interest income.....	1,448	1,385	2,810	2,915	3,004
Weighted average total assets.....	256,845	249,578	248,569	238,368	230,081
Net interest margin.....	**1.15%**	**1.12%**	**1.13%**	**1.22%**	**1.31%**

As part of the UK's response to Covid-19 the bank base rate has remained at a historic low of 0.10%. There is a risk that the bank base rate could be cut to zero or even negative in response to further possible economic deterioration as a result of global market conditions and Covid-19. A rate cut would have an impact on Nationwide's Net Interest Income (NII). As an illustration, a simple measure of income sensitivity over 12 months using a static balance sheet shows that a 0.25% policy rate cut could lead to a reduction of approximately £100 million in NII. This is mainly due to deposits that are assumed to have a floor of 0% so the full extent of a rate cut cannot be passed through to the savings members. This NII sensitivity is before management actions.

Globally, economies continued to report low levels of growth through the last year, including the UK and Eurozone, with significant economic uncertainty ahead from the Covid-19 pandemic. As at September 30, 2020, the global response to Covid-19 has led to central bank rate cuts, the introduction of further monetary easing, and the announcement of significant support for the broader UK economy from the Government.

The competitive environment remains intense as ring-fenced banks with cheaper funding and excess liquidity have continued to focus on our core markets and new market entrants, seeking to exploit new technologies, look to grow market share. Our strategic response is to diversify our product range in response to specific customer needs, including initiatives such as later life lending. We are leveraging our branch presence; having introduced a new branch design three years ago, we have now upgraded 200 branches, which account for nearly a third of our network. We are also trialing a new format branch without a counter in Meadowhall, an out of town shopping center near the city of Sheffield and in the market town of Lichfield. The new design enables a branch presence based on a smaller footprint than the usual design resulting in lower fit out and running costs. Since opening both branches have been delivering well against objectives and it is now planned to use this new format design in a new branch in central London during 2021.

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 Bank of England base rates for the six months ended September 30, 2020 and 2019 and the years ended April 4, 2020, 2019 and 2018.

	For the six months ended September 30,		For the year ended April 4,		
	2020	**2019**	**2020**	**2019**	**2018**
			(%)		
Daily average three-month sterling LIBOR	0.21	0.79	0.76	0.80	0.41
Average Bank of England base rate	0.10	0.75	0.71	0.66	0.36

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

Interest rates have started to rise as global economic growth picks up. Market conditions in the UK continue to be characterized by low interest rates, with uncertainty around the impact of future arrangements between the UK and EU on the economic landscape leading to volatility in these rates. As at April 4, 2017 the Bank of England base rate stood at 0.25%. The Bank of England announced a base rate increase from 0.25% to 0.50% in November 2017 and a further increase to 0.75% in August 2018, however two emergency cuts in March 2020, first to 0.25% and then to 0.10%, were part of a monetary response to the Covid-19 pandemic. As at September 30, 2020, the rate was 0.10%.

The BMR is guaranteed to be no more than 2% above the Bank of England 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 Six Months Ended September 30, 2020 Compared with the Six Months Ended September 30, 2019

Introduction

Unprecedented economic conditions have persisted through this financial period, with bank base rate at a historically low level and ongoing uncertainty surrounding the future economic impacts that may arise from the Covid-19 pandemic. Notwithstanding this, we have managed our financial performance so that we continue to maintain sufficient profitability to ensure a stable leverage ratio. Our leverage ratio has been further supported by the issuance of £750 million of Additional Tier 1 capital, helping us to retain a robust capital position whilst continuing to lend to support members in buying a home.

Underlying profit for the half year to September 30, 2020 was £305 million (September 30, 2019: £307 million), with statutory profit before tax for the half year increasing to £361 million (September 30, 2019: £309 million) as a result of fair value gains from derivatives and hedge accounting. This profitability has supported us in maintaining a capital position materially above regulatory requirements, with our CET1 and leverage ratios at 34.5% and 5.0% respectively (April 4, 2020: 31.9% and 4.7% respectively), helping to ensure we remain a safe place for our members' money.

Our net interest margin (NIM) has stabilized at 1.15% (September 30, 2019: 1.12%) largely due to mortgage margins improving, having declined for the past four years. Following the bank base rate reductions in March 2020 we took the decision to reduce interest rates across our savings range. Whilst this has not had a

significant impact on our NIM during the period it has contributed towards lower member financial benefit of £140 million (September 30, 2019: £375 million).

The total impairment charge in the period of £139 million (September 30, 2019: £57 million) is due to the deterioration in economic outlook, reflected in the economic scenarios used to model expected credit losses. The scenarios that we have used encompass a range of outcomes that could arise as a result of the Covid-19 pandemic and the uncertainty that remained at September 30, 2020 regarding the end of the Brexit transition period. However, the underlying performance of our lending portfolios remained broadly stable, with the impacts of Covid-19 on the economy offset by government support schemes and the use of payment deferrals.

Administrative expenses reduced by £92 million to £1,033 million (September 30, 2019: £1,125 million). The period-on-period reduction is primarily attributable to the impact of lower costs relating to strategic investment spend, with business as usual costs also reducing. Restructuring costs have, however, increased in line with actions taken to reduce our future cost base; this is a trend we expect to continue as we further embed increased levels of efficiency into the Society.

We have seen net deposit growth of £1.3 billion during the period (September 30, 2019: £2.5 billion), with strong current account inflows partially offset by savings outflows. However, there was a more significant overall increase in deposit balances across the UK, primarily during the period of lockdown, which has led to a reduction in our deposit stock market share to 9.3% (April 4, 2020: 9.9%). Mortgage trading performance for the half year has been robust, despite the significantly lower than normal demand during the period of lockdown. Total net mortgage lending decreased during the period to £1.6 billion (September 30, 2019: £3.0 billion), with the majority of our net lending being through our strong buy to let mortgage brand, TMW.

We maintain a strong liquidity position, with a Liquidity Coverage Ratio (LCR) of 153% (April 4, 2020: 163%). This has been supported by the drawdown of £6.2 billion of funding from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

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

	For the six months ended September 30, 2020			
	Underlying profit	**FSCS and bank levy**	**Gain from derivatives and hedge accounting**	**Statutory profit**
	(£ million)			
Net interest income	1,448	-	-	1,448
Net other income	55	-	-	55
Movements on derivatives and hedge accounting[(1)]	-	-	56	56
Total income	**1,503**	-	**56**	**1,559**
Administrative expenses	(1,033)	-	-	(1,033)
Pre-provision underlying profit	**470**	**-**	**56**	**526**
Impairment losses	(139)	-	-	(139)
Provisions for liabilities and charges	(26)	-	-	(26)
Profit before tax[(2)]	**305**	-	**56**	**361**

Notes:

(1) Although derivates are only used to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting volatility is largely attributable accounting rules which do not fully reflect the economic reality of the hedging strategy.

(2) Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:

- Gains or losses from derivatives and hedge accounting, which are presented separately within total income in the consolidated interim financial statements.

- Any FSCS costs and refunds arising from institutional failures

	For the six months ended September 30, 2019			
	Underlying profit	**FSCS and bank levy**	**Gain from derivatives and hedge accounting**	**Statutory profit**
	(£ million)			
Net interest income	1,385	-	-	1,385
Net other income	156	-	-	156
Movements on derivatives and hedge accounting	-	-	2	2
Total income	**1,541**	**-**	**2**	**1,543**
Administrative expenses	(1,125)	-	-	(1,125)
Pre-provision underlying profit	**416**	**-**	**2**	**418**
Impairement losses	(57)	-	-	(57)
Provisions for liabilities and charges	(52)	-	-	(52)
Profit before tax	**307**	**-**	**2**	**309**

The following discussion considers our results for the six months ended September 30, 2020 compared to our results for the six months ended September 30, 2019:

Total income

Our total income increased to £1,559 million in the six months ended September 30, 2020 compared to £1,543 million in the six months ended September 30, 2019. The following table sets forth the components of income for the six months ended September 30, 2020 and 2019, respectively:

	For the six months ended September 30,	
	2020	**2019**
	(£ million)	
Net interest income	1,448	1,385
Net fees and commissions	67	90
Other operating income	(12)	66
Gains/(losses) from derivatives and hedge accounting	56	2
Total	**1,559**	**1,543**

Net interest income

Net interest income increased by £63 million to £1,448 million for the six months ended September 30, 2020 compared with £1,385 million for the six months ended September 30, 2019 largely due to mortgage margins improving, having declined for the past four years. Following the bank base rate reductions in March 2020 we took the decision to reduce interest rates across our savings range.

The following table sets forth the components of net interest income for the six months ended September 30, 2020 and 2019, respectively:

	For the six months ended September 30,	
	2020	**2019**
	(£ million)	
Interest and similar income:		
On residential mortgages	2,080	2,246
On other loans	278	314

On investment securities	16	77
On other liquid assets	9	14
On investment securities measured at FVOCI	70	90
Net expense on financial instruments hedging assets	(443)	(182)
Interest on net defined benefit pension asset	3	-
Other interest and similar expenses	(7)	(15)
Total interest and similar income	**2,006**	**2,544**
Interest expense and similar charges:		
On UK retail member deposits	301	678
On subscribed capital	7	7
On deposits and other borrowings:		
Subordinated liabilities	149	148
Other	27	121
Debt securities in issue	279	393
Net income on financial instruments hedging liabilities	(205)	(187)
Interest on net defined benefit pension liability	-	-
Total interest expense and similar charges	**558**	**1,159**
Net interest income	**1,448**	**1,385**

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 £61 million to £16 million for the six months ended September 30, 2020, compared with £77 million for the six months ended September 30, 2019.

Net expense on financial instruments hedging assets

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as "net expense on financial instruments hedging assets." In the six months ended September 30, 2020, we incurred a net expense of £443 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £182 million in the six months ended September 30, 2019.

Interest expense and similar charges

The average interest rate that we paid to depositors decreased to 0.19% for the six months ended September 30, 2020 compared with 0.89% for the six months ended September 30, 2019. There was an increase of 3% in the average balance of UK retail member deposits held to £160,838 million in the six months ended September 30, 2020 from £156,046 million in the six months ended September 30, 2019.

We continue to attract more current account members, with 256,000 (September 30, 2019: 391,000) new accounts opened in the year, maintaining our stock market share at 10% share of all current accounts, with fewer accounts opened as a result of lockdown.[2] Our share of main current accounts remains stable at 10.1%% (September 30, 2019: 8.1%).[3]

On deposits and other borrowings

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the six months ended September 30, 2020, interest on

[2] CACI (Aug 2020 and Feb 2020)

[3] CACI (Aug 2020 and Feb 2020) and internal calculations. 'Main current accounts' includes main standard and packaged accounts

subordinated liabilities increased to £149 million from £147 million in the six months ended September 30, 2019. Average balances increased by £294 million to £8,783 million in the six months ended September 30, 2020 from £8,489 million in the six months ended September 30, 2019.

Other interest expense on deposits and other borrowings includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the six months ended September 30, 2020, other interest expense on deposits and other borrowings decreased by 78% to £27 million from £121 million in the six months ended September 30, 2019.

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 six months ended September 30, 2020, interest expense on debt securities in issue decreased by 29% to £279 million from £393 million in the six months ended September 30, 2019. The decrease was due to a number of factors, including lower covered bond book due to a liability management exercise in September 2020, in addition to narrower spreads due to reduced market volatility versus April 2020**.**

Net income/expense on financial instruments hedging liabilities

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as "net income/expense on financial instruments hedging liabilities." In the six months ended September 30, 2020, net income on financial instruments used to hedge our fixed rate liabilities was £205 million, compared with a net income of £187 million in the six months ended September 30, 2019.

Net fees and commissions

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

In the six months ended September 30, 2020, net fees and commissions decreased by 26% to £67 million compared with £90 million in the six months ended September 30, 2019.

Other operating income

In the six months ended September 30, 2020, other operating expense was £(12) million, a decrease of £78 million compared with £66 million income in the six months ended September 30, 2019. Other expense in the period to September 30, 2020 includes a £35 million loss realized from the repurchase of £2.0 billion of covered bonds that were issued under the Nationwide Covered Bond program. Other expenses and income for the current and prior period also includes fair value movements on balances relating to previous investment disposals, the net amount of rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialized buildings which are not recognized in other comprehensive income.

Gains/losses on derivatives and hedge accounting

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

Where effective hedge accounting relationships can be established, the movement in the fair value of the derivative instrument is offset in full or in part by opposite movements in the fair value of the underlying asset or

liability being hedged. Any ineffectiveness arising from different movements in fair value will likely trend to nil over time.

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

Gains from derivatives and hedge accounting were £50 million in the six months ended September 30, 2020 compared to losses of £39 million in the six months ended September 30, 2019. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

Within the gains of £50 million (September 30, 2019: losses of £39 million) include:

Gains of £45 million (September 30, 2019: losses of £5 million) caused by a narrowing of bid-offer spreads. These gains are largely a reversal of bid-offer spread losses reported in the Annual Report and Accounts 2020, which were caused by spreads widening at the end of the financial year as financial markets reacted to Covid-19.

Operating expenses and similar charges

Operating expenses and similar charges increased in the six months ended September 30, 2020 to £1,198 million compared to £1,234 million in the six months ended September 30, 2019. The following table sets forth the components of operating expenses and similar charges for the six months ended September 30, 2020 and 2019, respectively:

	For the six months ended September 30,	
	2020	**2019**
	(£ million)	
Administrative expenses	757	871
Depreciation and amortization	276	254
Total Administrative expenses	**1,033**	**1,125**
Impairment losses on loans and advances to customers	139	57
Provisions for liabilities and charges	26	52
Total	**1,198**	**1,234**

Administrative expenses

Administrative expenses have decreased by £92 million to £1,033 million (September 30, 2019: £1,125 million). The period-on-period reduction is attributable to lower costs relating to strategic investment spend of £65 million, the non-recurrence of spend associated with the development of Nationwide for Business of £22 million in 2019/20 and a £41 million reduction in business as usual costs. These are in part offset by an increase in restructuring costs of £36 million for severance costs and property onerous leases charges, following actions taken to reduce our future cost base.

The following table sets forth the components of administrative expenses for the six months ended September 30, 2020 and 2019, respectively:

	For the six months ended September 30,	
	2020	**2019**
	(£ million)	
Employee costs:		

Salaries, bonuses and social security costs	335	332
Pension costs	86	91
Other administrative expenses	336	448
Total	**757**	**871**

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

In the six months ended September 30, 2020, salaries, bonuses and social security costs increased slightly to £335 million from £332 million in the six months ended September 30, 2019.

The Group operates two defined contribution pension schemes in the UK – the Nationwide Group Personal Pension Plan ("**GPP**") and the Nationwide Temporary Workers Pension Scheme. New employees are automatically enrolled into one of these schemes, with both schemes being administered by Aviva. Outside of the UK, there are defined contribution pension schemes for a small number of employees in the Isle of Man.

The Group also has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day to day administration. The Group's largest pension scheme is the Nationwide Pension Fund (the "**Fund**"). This is a contributory defined benefit pension scheme, with both final salary and career average revalued earnings ("**CARE**") sections. The Fund was closed to new entrants in 2007 and since that date employees have been able to join the GPP. In line with UK pensions legislation, a formal actuarial valuation ("**Triennial Valuation**") of the assets and liabilities of the Fund is carried out at least every three years by independent actuaries.

On February 17, 2020, the Group announced that it would close the Fund to future accrual on March 31, 2021, with affected employees being moved to the defined contribution Nationwide Group Personal Pension Plan (GPP) for future pension savings. From April 1, 2021, members will move from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index ("CPI").

Other administrative costs decreased by £112 million to £336 million for the six months ended September 30, 2020 from £448 million for the six months ended September 30, 2019.

The cost income ratio has improved on an underlying basis to 68.7% (September 30, 2019: 72.9%) as a result of the reduction in administrative expenses described above, which reflects a lower cost relating to strategic investment spend.

Depreciation and amortization

For the six months ended September 30, 2020 depreciation and amortization expenses increased by £22 million to £276 million from £254 million for the six months ended September 30, 2019.

Impairment losses on loans and advances to customers

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

Impairment losses on loans and advances to customers for the six months ended September 30, 2020 increased by £82 million to £139 million from £57 million for the six months ended September 30, 2019. The increase includes an additional provision to reflect the estimated impact of the Covid-19 pandemic on expected credit losses (ECLs).

The following table analyzes the impairment losses on loans and advances to customers for the six months ended September 30, 2020 and 2019, respectively:

	For the six months ended September 30,	
	2020	**2019**
	(£ million)	
Residential lending	53	10
Consumer banking	84	58
Retail lending	**137**	**68**
Commercial and other lending	2	(11)
Impairment losses on loans and advances	**139**	**57**

Impairment losses have increased by £82 million to £139 million (September 30, 2019: £57 million). As at April 4, 2020 an additional provision for credit losses totaling £101 million was recognized to reflect the estimated impact of the Covid-19 pandemic on ECLs. This additional provision comprised £55 million in relation to revised economic assumptions, £39 million to reflect suppressed credit risk associated with payment deferrals, and £7 million in relation to commercial lending. Other than the judgments and estimates detailed in the 2020/21 Interim Accounts, there have been no significant changes to those disclosed in the Annual Report and Accounts 2020.

Provisions for liabilities and charges

	For the six months ended September 30,	
	2020	**2019**
	(£ million)	
FSCS	-	-
Customer redress provision	(26)	(52)
Total	**(26)**	**(52)**

The income statement charge for provisions for liabilities and charges of £26 million (September 30, 2019: £52 million) includes the customer redress net income statement charge of £26 million (September 30, 2019: £52 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 FCA in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

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. In common with other financial institutions subject to the FSCS, the Group continues to 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.

Taxes

The tax charge for the period of £80 million (September 30, 2019: £75 million) represents an effective tax rate of 22.2% (September 30, 2019: 24.3%) which is higher than the statutory UK corporation tax rate of 19% (September 30, 2019: 19%). The effective tax rate is higher due to the 8% banking surcharge of £14 million

(September 30, 2019: £10 million) and the tax effect of disallowable customer redress costs and other disallowable expenses of £3 million (September 30, 2019: £3 million) and £3 million (September 30, 2019: £6 million) respectively. This is partially offset by the tax credit on the distribution to the holders of Additional Tier 1 capital instruments of £9 million (September 30, 2019: £4 million).

This resulted in an overall statutory tax charge for the six months ended September 30, 2020 of £80 million (September 30, 2019: £75 million) as set out in the table below:

	For the six months ended September 30,	
	2020	**2019**
	(£ million)	
Profit before tax	361	309
Tax calculated at a tax rate of 19%	69	59
Tax credit on distribution to the holders of Additional Tier 1 capital	(9)	(4)
Banking surcharge	14	10
Expenses not deductible for tax purposes	8	9
Effect of deferred tax provided at different tax rates	(2)	1
Tax charge	**80**	**75**

Note:

(1) Certain adjustments were made to reflect an amendment to IAS12 "Income Taxes", and such financial information for the year ended April 4, 2019 has restated to reduce the tax charge for the effects of distributions to the holders of Additional Tier 1 capital, as detailed in note 1 to the audited consolidated financial statements for the year ended April 4, 2020 and "Presentation of Financial Information". In addition, £65 million has been reclassified between current and deferred taxation for the Group, related to cash flow hedging, with no impact on the total tax charge previously reported.

Balance Sheet Review

Total assets grew by 5%, from £259.7 billion as of September 30, 2019 to £248.0 billion as of September 30, 2020, predominantly due to higher holdings of cash and liquid assets following an increase in short-term funding and the drawdown of funds from the Bank of England's TFSME.

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 94% of our total loans and advances to customers at September 30, 2020. This remains stable from the 94% as at April 4, 2019:

	As at September 30,	As at April 4,			
	2020	**2020**		**2019**	
	(£ million, except percentages)				
Prime residential mortgages	151,369	151,140	75.2%	151,517	76.2%
Specialist residential mortgages	39,294	37,699	18.8%	34,495	17.3%
Total residential mortgages	**190,663**	**188,839**	**94.0%**	**186,012**	**93.5%**
Commercial lending	4,756	7,190	3.6%	8,235	4.2%
Consumer banking	6,717	4,994	2.4%	4,586	2.3%
Gross balances (pre-provision)	**202,136**	**200,023**	**100%**	**198,833**	**100.0%**
Fair value adjustments for micro hedged risk	701	741	-	883	-
Total	**202,837**	**201,764**	**-**	**199,716**	**-**

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 £12.7 billion (September 30, 2019: £16.3 billion), representing a market share of 12.0% (September 30, 2019: 12.3%).

Prime mortgage balances have increased to £151.4 billion (April 4, 2020: £151.1 billion) and specialist mortgage balances (being predominantly buy to let) increased by £1.6 billion (September 30, 2019: £1.5 billion) to £39.3 billion (April 4, 2020: £37.7 billion).

The average LTV of new lending in the six months ended September 30, 2020, weighted by value was 70% (September 30, 2019: 72%). The average LTV of prime new business completed in the period has reduced to 71% (September 30, 2019: 74%), reflecting the withdrawal from higher LTV lending at the start of the pandemic. In the specialist (buy to let) portfolio, the average LTV of new business increased from 65% to 66% following a shift towards business on longer terms at higher LTVs. With house price increases during the period, the average indexed LTV of total loan stock has reduced to 56% (April 4, 2020: 58%). Arrears performance has remained broadly stable during the period, with cases more than three months in arrears at 0.42% of the total portfolio (April 4, 2020: 0.41%). Arrears levels are likely to have been suppressed by the usage of payment deferrals in the period and, when combined with the current UK economic conditions, an increase in arrears from current levels is expected over the medium term.

Impairment provision balances have increased to £302 million (April 4, 2020: £252 million) due to the deterioration in the economic outlook being reflected in the economic scenarios used to model expected credit losses.

New business by borrower type remains diversified. During the period, as a result of market dislocation due to the pandemic, there has been a movement in the distribution of new business towards remortgages and specialist (buy to let) lending. Prime house purchase sectors have seen the greatest impact to date.

	As at September 30,	
	2020	**2019**
	(percentages)	
LTV distribution of residential mortgages:		
0% - 60%	27	23
60% - 75%	36	33
75% - 80%	6	7
80% - 85%	13	13
85% - 90%	15	20
90% - 95%	3	4
>95%	-	-
Total	**100**	**100**
Average loan to value of stock	56	58
Average loan to value of new business	70	72
New business profile:		
First-time buyers	27	33
Home movers	21	24
Remortgagers	27	23
BTL	24	19
Other	1	1
Total	**100**	**100**

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

Total residential balance sheet provisions at September 30, 2020 were £302 million, compared with £213 million at September 30, 2019.

	As at September 30,	
	2020	**2019**
Cases three months or more in arrears as (%) of total book of residential mortgages	*(percentages)*	
Prime	0.34	0.33
Specialist	0.75	0.74
Total Group residential mortgages	**0.42**	**0.41**
UK Finance (UKF) industry average [(1)]	**0.82**	**0.74**

Note:

(1) The methodology for calculating mortgage arrears is based on the UKF definition of arrears, where months in arrears is determined by dividing the arrears balance outstanding by the latest monthly contractual payment.

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 0.42% compares favorably with the UK Finance (UKF) industry average of 0.82% (September 30, 2019: 0.74%) as reported by UKF.

We are providing support to customers who have been financially affected by Covid-19. Payment deferrals granted in this respect will suppress the impact of the pandemic on arrears in the short term. This support, part of our Home Support Package announced in May 2020, also includes a possessions moratorium for borrowers who work with us to manage their money. This moratorium will remain in place until end May 2021 and is the main driver of lower possession balances during the period.

The table below shows residential mortgages gross balances by payment status as at September 30, 2020 and the year ended April 4, 2020:

Residential mortgages gross balances by payment status

	September 30, 2020				April 4, 2020			
	Prime	**Specialist**	**Total**	**%**	**Prime**	**Specialist**	**Total**	**%**
	(£ billion, except percentages)							
Not past due	149,803	38,436	188,239	98.7	149,387	36,684	186,071	98.5
Past due 0 to 1 month	913	313	1,226	0.7	1,062	356	1,418	0.8
Past due 1 to 3 months	277	192	469	0.3	311	307	618	0.3
Past due 3 to 6 months	145	130	275	0.1	177	142	319	0.2
Past due 6 to 12 months	115	109	224	0.1	112	109	221	0.1
Past due over 12 months	111	101	212	0.1	82	81	163	0.1
Possessions	5	13	18	-	9	20	29	-
Total residential mortgages	**151,369**	**39,294**	**190,663**	**100**	**151,140**	**37,699**	**188,839**	**100**

The table below provides further information on the residential mortgage portfolio by payment due status as at September 30, 2020 and April 4, 2020:

	As at September 30, 2020				As at April 4, 2019			
	Prime lending	**Specialist lending**	**Total**	**(%)**	**Prime lending**	**Specialist lending**	**Total**	**(%)**

	(£ billion, except percentages)							
Not impaired:								
Neither past due nor impaired	149.8	38.4	188.2	98.7	149.4	36.7	186.1	98.5
Past due up to 3 months but not impaired	1.2	0.5	1.7	1.0	1.4	0.7	2.1	1.1
Impaired	0.4	0.4	0.8	0.3	0.4	0.3	0.6	0.4
Total	**151.4**	**39.3**	**190.7**	**100**	**151.2**	**37.7**	**188.8**	**100**

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

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

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

	As at September 30, 2020				**As at April 4, 2020**			
	Prime lending	**Specialist lending**	**Total**	**(%)**	**Prime lending**	**Specialist lending**	**Total**	**(%)**
	(£ million, except percentages)							
Impaired status:								
Past due 3 to 6 months	145	130	275	0.1	177	142	319	0.2
Past due 6 to 12 months	115	109	224	0.1	112	109	221	0.1
Past due over 12 months	111	101	212	0.1	82	81	163	0.1
Possessions	5	13	18	-	9	20	29	-
Total	**376**	**353**	**729**	**0.3**	**380**	**352**	**732**	**0.4**

For residential mortgage loans

Residential mortgages subject to forbearance at September 30, 2020 were £1,186 million compared to £1,061 million at September 30, 2019. Loans where more than one concession event has occurred are reported under the latest event.

Balances subject to forbearance 2020	**Prime**	**Specialist**	**Total**
		(*£ million*)	
Past term interest only concessions	116	109	225
Interest only concessions	473	45	518
Capitalization	238	110	348
Term extensions (within term)	34	19	53
Permanent interest only conversions	2	40	42
Total forbearance	**863**	**323**	**1,186**
Impairment provision on forborne loans	**6**	**15**	**21**

Balances subject to forbearance 2019	**Prime**	**Specialist**	**Total**
		(*£ million*)	
Past term interest only concessions	121	127	248
Interest only concessions	521	53	574
Capitalization	68	86	154

Term extensions (within term)	35	13	48
Permanent interest only conversions	2	35	37
Total forbearance	**747**	**314**	**1,061**
Impairment provision on forborne loans	**4**	**11**	**15**

The balances outlined above apply to the prime residential mortgage portfolio. The table below show outstanding loans as at September 30, in each of 2020 and 2019 that are subject to forbearance in alignment with European Banking Authority definitions.

	As at September 30,			
	2020		**2019**	
	(*£ million*)	(*% of total prime loans and advances*)	(*£ million*)	(*% of total prime loans and advances*)
Past term interest only concessions	225	19.0%	248	23.4%
Interest only concessions	518	43.7%	574	54.1%
Capitalization	348	29.3%	154	14.5%
Term extensions (within term)	53	4.5%	48	4.5%
Permanent interest only conversions	42	3.5%	37	3.5%
Total forbearance	**1,186**	**100%**	**1,061**	**100%**

The following table presents negative equity on residential mortgages:

	As at September 30,	
	2020	**2019**
	(£ million)	
Stage 1 and 2	20	23
Stage 3	4	4
Total	**24**	**27**

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 September 30, 2020 and April 4, 2020. Loans where more than one concession event has occurred are reported under the latest event.

	As at September 30, 2020	**As at April 4, 2020**
	(*£ million*)	
Refinance	8	43
Modifications:		
Payment concession	81	31
Security amendment	4	8
Extension at maturity	8	19
Breach of covenant	112	126

Total	**213**	**227**
Impairment provision on forborne loans	**21**	**14**

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

The increase in payment concessions during the period reflects the measures put in place to support borrowers financially affected by the Covid-19 pandemic. The increase in the total impairment provision on forborne loans to £21 million (April 4, 2020: £14 million) is reflective of a reduction in asset values and apportionment of the £7 million Covid-19 provision overlay at April 4, 2020 to individual borrower's loss assessment where appropriate at September 30, 2020.

In addition to the amortized cost balances included in the table above, there are £52 million (April 4, 2020: £57 million) of FVTPL commercial lending balances, none (April 4, 2020: none) of which are forborne.

For consumer loans

The table below provides details of the consumer banking exposures which are subject to forbearance as at September 30, 2020 and September 30, 2019. Where more than one concession event has occurred, exposures are reported under the latest event.

	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
2020		(*£ million*)		
Payment concession	10	-	1	11
Interest suppressed payment arrangement	6	41	14	61
Balances re-aged/re-written	-	1	3	4
Total forbearance	**16**	**42**	**18**	**76**
Impairment provision on forborne loans	**11**	**33**	**12**	**56**
2019[(1)]				
Payment concession	15	-	1	16
Interest suppressed payment arrangement	7	33	15	55
Balances re-aged/re-written	-	1	3	4
Total forbearance	**22**	**34**	**19**	**75**
Impairment provision on forborne loans	**13**	**28**	**14**	**55**

Commercial loan portfolio

During the period, commercial and other lending balances have decreased to £7.4 billion (September 30, 2019: £8.6 billion). Continuing the deleveraging activity in previous financial periods, the overall portfolio remains weighted towards registered social landlords, with balances of £5.0 billion (September 30, 2019: £5.7 billion). Commercial real estate balances of £1.0 billion (September 30, 2019: £1.2 billion) and project finance balances of £0.7 billion (September 30, 2019: £0.8 billion) are in run-off and reduced slightly during the period.

Commercial and other lending gross balances

	As at September 30,	
	2020	**2019**
	(£ million)	
Registered social landlords[(1)]	5,042	5,674

Commercial real estate (CRE)	925	1,248
Project finance[2]	698	764
Other lending	-	-
Commercial and other lending balances at amortized cost	**6,665**	**7,686**
Fair value adjustment for micro hedged risk[3]	701	823
Commercial lending balances	52	57
Total	**7,418**	**8,566**

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

Impairment losses/ (reversals) for the period for commercial and other lending

	For the six months ended September 30,	
	2020 (IFRS 9 basis)	**2019 (IAS 39 basis)**
	(£ million)	*(£ million)*
Total	**2**	**(11)**

Note:

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

Over the period, total balances across the commercial portfolios continued to reduce, most significantly in the registered social landlords portfolio where loan amortization and prepayments exceeded new lending to this sector. As the portfolio balances have reduced the quality and performance of the portfolios has remained stable. The increase in impairment reflects changes to macroeconomic assumptions and an increase in individual borrower impairments driven by Covid-19 impacts upon collateral values and anticipated cashflows.

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 six months ended September 30							
	2020				2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross balances								
Registered social landlords	5,002	40	-	5,042	5,620	54	-	5,674
CRE	704	164	57	925	1,014	189	45	1,248
Project finance	602	73	23	698	712	28	24	764
Other lending	-	-	-	-	-	-	-	-
Total	**6,308**	**277**	**80**	**6,665**	**7,346**	**271**	**69**	**7,686**
Provisions								
Registered social landlords	1	-	-	1	1	-	-	1
CRE	2	5	24	31	2	3	16	21
Project finance	-	2	8	10	-	-	9	9
Other lending	-	-	-	-	-	-	-	-
Total	**3**	**7**	**32**	**42**	**3**	**3**	**25**	**31**
Provisions as a (%) of total balance								
Registered social landlords	0.01	0.76	-	0.02	0.01	0.18	-	0.02
CRE	0.32	2.60	42.09	3.30	0.17	1.37	35.53	1.63

Project finance	0.02	2.95	38.08	1.56	0.02	0.94	37.47	1.22
Other lending	-	-	-	-	-	-	-	-
Total	**0.05**	**2.43`**	**40.95**	**0.64**	**0.04**	**1.09**	**36.20**	**0.40**

Over the period, the performance of the commercial portfolio has remained stable, with 95% (September 30, 2019: 96%) of balances remaining in stage 1. Of the £277 million (September 30, 2019: £271 million) stage 2 loans, which represent 4.2% (September 30, 2019: 3.5%) of total balances, £2 million (September 30, 2019: £2 million) were 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.

A number of loans have been impacted by a disruption to rental income related to Covid-19, some of which is considered temporary in nature, and short-term concessions have been applied. Loans in the CRE portfolio experiencing a more material longer-term impact have transferred to stage 2 and 3, with a small increase in stage 3 (credit-impaired) loans at £57 million (April 4, 2020: £50 million) equating to 6% (April 4, 2020: 5%) of the total CRE exposure.

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.

Credit quality

We adopt 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 six months ended September 30,									
	2020					2019				
	Stage 1	Stage 2	Stage 3	Total	Provision Coverage	Stage 1	Stage 2	Stage 3	Total	Provision Coverage
	(£ million)				*(percentages)*	*(£ million)*				*(percentages)*
Strong	371	25	-	396	0.1	600	56	-	656	0.3
Good	252	44	-	296	0.7	343	79	-	422	0.1
Satisfactory	81	26	-	107	1.5	71	10	-	81	1.1
Weak	-	69	-	69	3.5	-	44	-	44	2.8
Impaired	-	-	57	57	42.1	-	-	45	45	35.5
Total	**704**	**164**	**57**	**925**	**3.3**	**1,014**	**189**	**45**	**1,248**	**1.6**

Notes:

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 the assessment based upon financial strength, asset characteristics, and the strength of the sponsor and the security. The credit quality of the portfolio has remained broadly stable, with 86% (September 30, 2019: 93%) of the portfolio rated as satisfactory or better. There has however been some migration downwards to satisfactory, reflecting value and cashflow volatility driven by current market conditions.

Risk grades for the project finance portfolio are also based upon supervisory slotting criteria with 90% 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 UK 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 0.04% across the portfolio.

In addition to the above, £52 million (September 30, 2019: £57 million) of commercial lending balances are classified as FVTPL.

CRE Balances by LTV and region

Geographic concentrations have remained stable. 51% (September 30, 2019: 58%) of the CRE exposure (including both amortized cost and FVTPL balances) is secured against assets located in London. Market reduction in asset values has led to a migration in LTV distribution of the CRE balances, with 90% (September 30, 2019: 96%) of the portfolio now having an LTV of 75% or less, and 54% (September 30, 2019: 72%) of the portfolio having an LTV of 50% or less.

Credit risk concentration by industry sector

Credit risk exposure by industry sector is broadly unchanged from the year end, 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, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 43% (September 30, 2019: 46%) of the total CRE portfolio balance. The exposure to retail assets has reduced to £191 million (April 4, 2020: £202 million), with a weighted average LTV of 63% (April 4, 2020: 53%). Exposure to the leisure and hotel sector has reduced to £69 million (April 4, 2020: £84 million), with a weighted average LTV of 54% (April 4, 2020: 46%).

In addition to the amortized cost balances, there are £49 million (April 4, 2020: £54 million) of FVTPL CRE commercial lending balances, of which £37 million (April 4, 2020: £42 million) relates to the office sector and £12 million (April 4, 2020: £12 million) relates to the retail sector.

CRE balances by payment due status

Of the £974 million (September 30, 2019: £1,302 million) CRE exposure, including FVTPL balances, £22 million (September 30, 2019: £19 million) relates to balances with arrears. Of these, £6 million (September 30, 2019: £11 million) have arrears greater than 3 months. The increase in arrears balances is driven principally by a single case that is being actively managed.

Gross balances subject to forbearance[(1)]

	As at September 30	
	2020	**2019**
	(£ million)	
Refinance	8	44
Modifications:		
Payment concession	81	2
Security amendment	4	10
Extension at maturity	8	23
Breach of covenant	112	88
Total	**213**	**167**
Total impairment provision on forborne loans	**21**	**13**

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 freehold 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.

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

	As at September 30,									
	2020					2019				
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**		**Overdrawn current account**	**Personal loans**	**Credit cards**	**Total**	
		(£ million)			(%)		*(£ million)*			(%)
Not past due	176	2,765	1,440	4,381	92.1	227	2,541	1,745	4,513	92.3
Past due up to 3 months	9	52	23	84	1.8	13	51	31	95	2.0
Past due 3 to 6 months	4	10	7	21	0.4	4	11	7	22	0.5
Past due 6 to 12 months	5	19	2	26	0.6	3	16	2	21	0.4
Past due over 12 months	3	12	-	15	0.3	3	13	-	16	0.3
Charged off [(1)]	26	100	103	229	4.8	26	88	108	22	4.5
Total	**223**	**2,958**	**1,575**	**4,756**	**100**	**276**	**2,270**	**1,893**	**4,889**	**100**

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) while recovery procedures take place.

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. Over the period, total balances across these portfolios have decreased by £133 million to £4,756 million (September 30, 2019: £4,889 million), equating to a 2.7% reduction. The reduction in balances reflects reduced customer demand for new products, the implementation of controls that reduce new lending to address the increased risk arising from Covid-19, and lower member spending during the Covid-19 pandemic.

Covid-19 is having a significant impact on our members, and we continue to offer them help and support in these challenging times. To date arrears remain low and credit quality is stable; however, this performance has benefited from the impact of government support schemes, payment deferrals and the low base rate environment.

Consumer banking gross balances

	As at September 30,			
	2020		2019	
	(£ million)	(%)	*(£ million)*	(%)
Overdrawn current accounts	223	5	276	6
Personal loans	2,958	62	2,720	55
Credit cards	1,575	33	1,893	39
Total consumer banking	**4,756**	**100**	**4,889**	**100**

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

Impairment losses for the period

	As of September 30,	
	2020	2019
	(£ million)	
Overdrawn current accounts	9	14
Personal loans	59	24
Credit cards	16	20
Total	**84**	**58**

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

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

Consumer banking product and staging analysis

	As at September 30,								
	2020					2019			
	Stage 1	Stage 2	Stage 3	Covid-19 additional provisions[1]	Total	Stage 1	Stage 2	Stage 3	Total
				(£ million)					
Gross balances									
Overdrawn current accounts	107	76	40	-	223	133	104	39	276
Personal loans	2,396	416	146	-	2,958	2,374	213	133	2,720
Credit cards	1,087	366	122	-	1,575	1,276	491	129	1,893
Total	**3,590**	**858**	**308**	**-**	**4,756**	**3,780**	**808**	**301**	**4,889**
Provisions									
Overdrawn current accounts	4	16	39	2	61	3	22	35	60
Personal loans	19	78	127	8	232	15	24	115	154
Credit cards	19	87	111	21	238	14	93	120	227
Total	**42**	**181**	**277**	**31**	**531**	**32**	**139**	**270**	**441**
Provisions as a (%) of total balance									
Overdrawn current accounts	3.51	21.64	95.51	-	27.14	1.97	21.36	90.46	21.83
Personal loans	0.79	18.71	87.77	-	7.84	0.62	11.30	86.53	5.65
Credit cards	1.77	23.73	90.95	-	15.12	1.16	18.88	92.98	12.01
Total	**1.17**	**21.11**	**90.04**	**-**	**11.16**	**0.85**	**17.19**	**89.81**	**9.02**

Note:

(1) In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million has been added to the impairment provisions for consumer banking. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Total gross balances decreased by 2.7% to £4,756 million (September 30, 2019: £4,889 million), with reductions across all products. The reduction in balances reflects reduced customer demand for new products, the implementation of controls over new lending to address the increased risk arising from Covid-19, and lower member spending during the Covid-19 pandemic and lockdown. As at September 30, 2020, 75% (September 30, 2019: 77%) of the consumer banking portfolio is in stage 1. The proportion of total balances in stage 3 is unchanged at 6% (September 30, 2019: 6%), reflecting broadly stable underlying credit performance. The increase in provisions to £531 million (September 30, 2019: £441 million) is due to the deterioration in economic outlook, reflected in the economic scenarios used to model expected credit losses.

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 total provision coverage has increased to 7.2% (September 30, 2019: 4.9%).

Results of Operations for the Year Ended April 4, 2020 Compared with the Year Ended April 4, 2019

Introduction

We believe that our results indicate a strong performance for the year ended April 4, 2020 with an underlying profit before tax of £469 million, and a statutory profit before tax of £466 million.

Underlying profit before tax for the year ended April 4, 2020 is down 40.5% at £469 million from £788 million for the year ended April 4, 2019. Total underlying income decreased by 3.9% to £3,046 million in the year ended April 4, 2020, as compared to £3,170 million in the year ended April 4, 2019.

Our financial performance for the year ended April 4, 2020 has statutory profit before tax down 44.1% year on year, although net interest income decreased by 3.6%. The decrease in net interest income was largely offset by a decrease in mortgage income, reflecting sustained competition in retail lending markets.

We experienced low cost growth in the year ended April 4, 2020, as a result of conscious decisions to focus on efficiency. Underlying administrative expenses increased by 2.6% to £2,312 million from £2,254 million. The underlying cost income ratio has increased to 75.9% (April 4, 2019: 71.1%). Our cost trajectory reflects significant business growth and investment over recent years. Mortgage balances have grown 1.5% over the last year and one in six switchers came to us for new current accounts.

During the year ended April 4, 2020 employee costs decreased by £164 million, mainly due to pensions costs including a gain of £164 million and other staff related costs include an expense of £60 million relating to the closure of the Nationwide Pension Fund to future accrual from March 31, 2021. Average employee numbers remained broadly in line with prior year at 18,574 (April 4, 2019: 18,285).

Total costs increased primarily as a result of a £111 million increase in investment spend and £88 million of costs in the year associated with our business banking proposition, including the impacts of our decision to halt this activity. These were partly offset by a one-off gain of £104 million from the decision to close our final salary pension scheme to future accrual on March 31, 2021.

We continued our digital transformation, investing £360 million in 2019/20 in delivering the services and platforms that members will want and need in the future. We are simplifying our technology, replacing our legacy digital estate with a simpler set of applications to create a modular, data-powered digital platform. We are strengthening our operational resilience, building greater capacity in our payments platform and preparing to move to a modern, cloud-hosted payments hub. This will enable us to deal with our higher membership and transaction volumes, while also protecting our members' money, personal information and privacy.

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, 2020			
	Underlying profit	**FSCS and bank levy**	**Gain from derivatives and hedge accounting**	**Statutory profit**
	(£ million)			
Net interest income	2,810	-	-	2,810
Other income	236	-	-	236
Movements on derivatives and hedge accounting	-	-	(7)	(7)
Total income	**3,046**	**-**	**(7)**	**3,039**
Administrative expenses	(2,312)	-	-	(2,312)
Pre-provision underlying profit	**734**	**-**	**(7)**	**727**
Impairment losses	(209)	-	-	(209)
Provisions for liabilities and charges	(56)	4	-	(52)
Profit before tax	**469**	**4**	**(7)**	**466**

	For the year ended April 4, 2019			
	Underlying profit	**FSCS and bank levy**	**Gain from derivatives and hedge accounting**	**Statutory profit**
	(£ million)			
Net interest income	2,915	-	-	2,915
Other income	255	-	-	255
Movements on derivatives and hedge accounting	-	-	36	36
Total income	**3,170**	**-**	**36**	**3,206**
Administrative expenses	(2,254)	-	-	(2,254)
Pre-provision underlying profit	**916**	**-**	**36**	**952**
Impairment losses	(113)	-	-	(113)
Provisions for liabilities and charges	(15)	9	-	(6)
Profit before tax	**788**	**9**	**36**	**833**

The following discussion considers our results for the year ended April 4, 2020 compared to our results for the year ended April 4, 2019:

Total income

Our total income decreased to £3,039 million in the year ended April 4, 2020 compared to £3,206 million in the year ended April 4, 2019. The following table sets forth the components of income for the years ended April 4, 2020 and 2019, respectively:

	For the year ended April 4,	
	2020	**2019**
	(£ million)	
Net interest income	2,810	2,915
Net fees and commissions	169	201

Other operating income	67	54
Gains/(losses) from derivatives and hedge accounting	(7)	36
Total.....	**3,039**	**3,206**

Net interest income

Net interest income decreased by 3.6% to £2,810 million for the year ended April 4, 2020 compared with £2,915 million for the year ended April 4, 2019 due to bank base rate cuts and competitive pressures in our core mortgage market over recent years.

The following table sets forth the components of net interest income for the years ended April 4, 2020 and 2019, respectively:

	For the year ended April 4,	
	2020	2019
	(£ million)	
Interest and similar income:		
On residential mortgages	4,553	4,469
On other loans	655	656
On investment securities	27	27
On other liquid assets	152	137
On investment securities measured at FVOCI	172	167
Net expense on financial instruments hedging assets	(432)	(338)
Interest on net defined benefit pension asset	3	-
Total interest and similar income	**5,130**	**5,118**
Interest expense and similar charges:		
On UK retail member deposits	(1,361)	(1,335)
On subscribed capital	(14)	(14)
On deposits and other borrowings:		
Subordinated liabilities	(309)	(238)
Other	(240)	(207)
Debt securities in issue	(745)	(673)
Net income on financial instruments hedging liabilities	349	270
Interest on net defined benefit pension liability	-	(6)
Total interest expense and similar charges	**(2,320)**	**(2,203)**
Net interest income	**2,810**	**2,915**

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 2.6% to £199 million for the year ended April 4, 2020, compared with £194 million for the year ended April 4, 2019.

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, 2020, we incurred a net expense of £402 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £315 million in the year ended April 4, 2019.

Interest expense and similar charges

The average interest rate that we paid to depositors increased to 0.87% for the year ended April 4, 2020 compared with 0.87% for the year ended April 4, 2019. There was also an increase of 2.8% in the average balance of UK retail member deposits held to £157,140 million in the year ended April 4, 2020 from £152,926 million in the year ended April 4, 2019.

We continue to attract more current account members, with 759,000 (2019: 794,000) new accounts opened in the year, taking us to our long term target of achieving a 10% share of all current accounts.[4] Our share

[4] CACI (Feb 2020)

of main current accounts rose to 8.1% (2019: 8.0%).[5] We are the number one net gainer of current accounts using the current account switching service in the nine months to December 2019.[6]

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, 2020, interest on subordinated liabilities increased to £309 million from £238 million in the year ended April 4, 2019. Average balances increased by £2,132 million to £8,601 million in the year ended April 4, 2020 from £6,469 million in the year ended April 4, 2019.

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, 2020, other interest expense on deposits and other borrowings increased by 15.9% to £240 million from £207 million in the year ended April 4, 2019. The increase was mainly due to higher balances on business savings (non-member deposits) and deposits from financial institutions**.**

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, 2020, interest expense on debt securities in issue increased by 10.7% to £745 million from £673 million in the year ended April 4, 2019. The increase was due to a number of factors, including higher covered bond and securitization book, in addition to high spreads due to market volatility.

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, 2020, net income on financial instruments used to hedge our fixed rate liabilities was £349 million, compared with a net income of £270 million in the year ended April 4, 2019.

Net fees and commissions

The following table sets forth the components of net fees and commissions for the years ended April 4, 2020 and 2019 respectively:

	For the year ended April 4,					
	2020			**2019**		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
			(£ million)			
Current account and savings.....	266	(217)	49	261	(202)	59
General insurance.....	50	-	50	65	-	65
Protection and investments.....	59	-	59	63	-	63
Mortgage	15	(6)	9	13	(1)	12
Credit card.....	44	(43)	1	43	(39)	4
Other fees and commissions.....	5	(4)	1	4	(6)	(2)
Fee and commission	**439**	**(270)**	**169**	**449**	**(248)**	**201**

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.

[5] CACI (Feb 2020) and internal calculations. 'Main current accounts' includes main standard and packaged accounts

[6]; Pay.UK monthly CASS data, 9 months to December 2019.

In the year ended April 4, 2020, net fees and commissions decreased by 15.9% to £169 million compared with £201 million in the year ended April 4, 2019, principally reflecting movements in General Insurance fees and commissions (£15 million lower in the year ended April 4, 2020) and Current Account and Savings (£10 million lower in the year ended April 4, 2020).

Other operating income

In the year ended April 4, 2020, other operating income was £67 million, an increase of 24% compared with £54 million expense in the year ended April 4, 2019. The majority of the income increase relates to the disposal gains on the investment securities portfolio.

Gains/losses on derivatives and hedge accounting

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

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

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

Losses from derivatives and hedge accounting were £7 million in the year ended April 4, 2020 compared to gains of £36 million in the year ended April 4, 2019. 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 losses of £7 million (April 4, 2019: gains of £36 million) was the impact of the following:

Gains of £61 million (2019: £24 million) from fair value hedge accounting include gains of £53 million (2019: losses of £9 million) from macro hedges, due to hedge ineffectiveness and the amortization of existing balance sheet amounts, and gains of £8 million (2019: £33 million) relating to micro hedges which arise due to a combination of hedge ineffectiveness, disposals and restructuring, and the amortization of existing balance sheet amounts. Losses of £74 million (2019: £18 million) from other derivatives include a loss of £51 million (2019: £3 million) from adverse movements in bid-offer spreads, the majority of which occurred in the more volatile financial markets observed at the end of the financial year. There were also losses of £18 million (2019: £8 million) on swaps economically hedging the pipeline of new mortgage business.

Operating expenses and similar charges

Operating expenses and similar charges decreased in the year ended April 4, 2020 to £2,573 million compared to £2,373 million in the year ended April 4, 2019. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2020 and 2019, respectively:

	For the year ended April 4,	
	2020	**2019**
	(£ million)	
Administrative expenses.....	1,646	1,705

Depreciation and amortization	666	549
Total Administrative expenses	**2,312**	**2,254**
Impairment losses on loans and advances to customers	209	113
Provisions for liabilities and charges	52	6
Total	**2,573**	**2,373**

Administrative expenses

Administrative expenses have increased by £58 million to £2,312 million (2019: £2,254 million). The year-on-year growth is attributable to the impact of current and previous strategic investment of £111 million, along with costs relating to the in-year development and subsequent cessation of our business banking proposition, which in aggregate total £88 million (2019: £13 million).

The following table sets forth the components of administrative expenses for the years ended April 4, 2020 and 2019, respectively:

	For the year ended April 4,	
	2020	**2019**
	(£ million)	
Employee costs:		
Salaries, bonuses and social security costs	647	645
Pension costs	15	181
Other administrative expenses	984	879
Total	**1,646**	**1,705**

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

In the year ended April 4, 2020, salaries, bonuses and social security costs increased slightly from £647 million from £645 million in the year ended April 4, 2019.

The Group operates two defined contribution pension schemes in the UK – the Nationwide Group Personal Pension Plan ("**GPP**") and the Nationwide Temporary Workers Pension Scheme. New employees are automatically enrolled into one of these schemes, with both schemes being administered by Aviva. Outside of the UK, there are defined contribution pension schemes for a small number of employees in the Isle of Man.

The Group also has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day to day administration. The Group's largest pension scheme is the Nationwide Pension Fund (the "**Fund**"). This is a contributory defined benefit pension scheme, with both final salary and career average revalued earnings ("**CARE**") sections. The Fund was closed to new entrants in 2007 and since that date employees have been able to join the GPP. In line with UK pensions legislation, a formal actuarial valuation ("**Triennial Valuation**") of the assets and liabilities of the Fund is carried out at least every three years by independent actuaries.

On February 17, 2020, we announced that we would be closing the Fund to future accrual on March 31, 2021, with affected employees being moved to the GPP for future pension savings. From April 1, 2021, members are expected to move from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index ("**CPI**"). As CPI is lower than the previous assumptions which were based on the retail price index ("**RPI**") and pay growth, a gain of £164 million has been recognized as a past service credit within administrative expenses in the year ended April 4, 2020. All affected employees who are active members of the Fund on March 31, 2021, or those who were active members at the point they were made redundant on or after September 18, 2019, will receive a one-off payment which may be taken in cash or as

a contribution to their pensions. The cost of accruing for these payments of £60 million has been recognized within 'administrative expenses – other staff related costs' in the year ended April 4, 2020.

Other administrative costs increased by 11.9% to £984 million for the year ended April 4, 2020 from £879 million for the year ended April 4, 2019.

The cost income ratio has deteriorated on an underlying basis to 75.9% (April 4, 2019: 71.1%) as a result of the growth in administrative expenses described above, which reflects our focus on improving product propositions and services for members while remaining strong, safe and secure.

Depreciation and amortization

For the year ended April 4, 2020 depreciation and amortization expenses increased by 21.3% to £666 million from £549 million for the year ended April 4, 2019.

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, 2020 increased by 85% to £209 million from £113 million for the year ended April 4, 2019. The increase includes an additional provision to reflect the estimated impact of the Covid-19 pandemic on expected credit losses (ECLs).

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2020 and 2019, respectively:

	For the year ended April 4,	
	2020	**2019**
	(£ million)	
Residential lending	53	(17)
Consumer banking	159	114
Retail lending	**212**	**97**
Commercial and other lending	(3)	16
Impairment losses on loans and advances	**209**	**113**

Impairment losses have increased by £96 million to £209 million (2019: £113 million), largely due to the introduction of a £101 million additional provision to reflect the increased credit risk associated with the Covid-19 pandemic. The underlying performance of our portfolios has remained broadly stable during the year.

Provisions for liabilities and charges

	For the year ended April 4,	
	2020	**2019**
	(£ million)	
FSCS	-	(9)
Customer redress provision	56	15
Total	**56**	**6**

The income statement charge for provisions for liabilities and charges of £56 million (2019: £6 million) includes the customer redress net income statement charge of £56 million (2019: £15 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 FCA in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

In addition to amounts in the table above, provisions for liabilities and charges in the income statement includes a £4 million credit recognized in respect of additional FSCS recoveries relating to failures provided for in previous years.

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. In common with other financial institutions subject to the FSCS, the Group continues to 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.

Taxes

The statutory reported tax charge for the year of £101 million in the year ended April 4, 2020 (April 4, 2019: £197 million charge) represents an effective tax rate of 21.7% which is higher than the statutory rate in the UK of 19.0%. The higher effective rate is due principally to the banking surcharge of 8.0% effective from January 1, 2016, equivalent to £24 million (April 4, 2019: £32 million charge), together with the tax effect of disallowable bank levy and customer redress costs of £11 million and £4 million (April 4, 2019: £8 million and £8 million) respectively.

This resulted in an overall statutory tax charge for the year ended April 4, 2020 of £101 million (April 4, 2019: £197 million) as set out in the table below:

	For the year ended April 4,	
	2020	**2019 (1)**
	(£ million)	
Current tax:		
UK corporation tax	168	126
Adjustments in respect of prior years	(4)	(12)
Total current tax	**164**	**114**
Deferred tax:		
Current year charge/(credit)	(48)	50
Adjustments in respect of prior years	2	9
Effect of deferred tax provided at different tax rates	(17)	24
Total deferred taxation	**(63)**	**83**
Statutory tax charge	**101**	**197**

Note:

(1) Certain adjustments were made to reflect an amendment to IAS12 "Income Taxes", and such financial information for the year ended April 4, 2019 has restated to reduce the tax charge for the effects of distributions to the holders of Additional Tier 1 capital, as detailed in note 1 to the audited consolidated financial statements for the year ended April 4, 2020 and "Presentation of Financial Information". In addition, £65 million has been reclassified between current and deferred taxation for the Group, related to cash flow hedging, with no impact on the total tax charge previously reported.

Balance Sheet Review

Total assets grew by 4%, from £238.3 billion as of April 4, 2019 to £248.0 billion as of April 4, 2020, with growth in retail lending and treasury balances of £2.8 billion and £4.7 billion respectively, 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 94.2% of our total loans and advances to customers at April 4, 2020. This is an increase from 93.8% as at April 4, 2019, reflecting our strategy of exiting non-core commercial lending:

	As at April 4,			
	2020		2019	
	(£ million, except percentages)			
Prime residential mortgages	151,084	75.5%	151,473	76.4%
Specialist residential mortgages	37,503	18.7%	34,333	17.3%
Total residential mortgages	**188,587**	**94.2%**	**185,806**	**93.8%**
Commercial lending	7,150	3.6%	8,194	4.1%
Consumer banking	4,500	2.2%	4,168	2.1%
Gross balances	**200,237**	**100%**	**198,168**	**100.0%**
Fair value adjustments for micro hedged risk	741	-	883	-
Total	**200,978**	**-**	**199,051**	**-**

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 £30.9 billion (April 4, 2019: £36.4 billion), representing a market share of 11.4% (April 4, 2019: 13.4%).

Mortgage balances grew by £2.8 billion in the year ended April 4, 2020, most of which was related to specialist lending.

The average LTV of new lending in the year ended April 4, 2020, weighted by value was 72% (April 4, 2019: 71%) primarily due to our strategy to continue supporting 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 remaining at 58% (April 4, 2019: 58%). Residential mortgage arrears have remained constant at 0.4% (April 4, 2019: 0.4%).

The impairment provision balance has increased to £252 million (April 4, 2019: £206 million), which includes an additional provision of £51 million in relation to Covid-19.

With the number of renters increasing, we continue to support landlords with buy to let mortgages through our subsidiary The Mortgage Works; this business also diversifies our income streams and supports better savings rates for our members. After improving our range of mortgages last year, our buy to let lending grew rapidly.

	As at April 4,	
	2020	2019
	(percentages)	
LTV distribution of residential mortgages:		
0% - 60%	22	25
60% - 75%	34	33
75% - 80%	7	7
80% - 85%	11	10
85% - 90%	22	22
90% - 95%	4	3
>95%		-

	As at April 4,	
	2020	2019
	(percentages)	
Total	**100**	**100**
Average loan to value of stock	58	58
Average loan to value of new business	72	71
New business profile:		
First-time buyers	33	35
Home movers	24	25
Remortgagers	20	25
BTL	22	14
Other	1	1
Total	**100**	**100**

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, 2020 were £252 million, compared with £206 million at April 4, 2019.

	As at April 4,	
	2020	2019
Cases three months or more in arrears as (%) of total book of residential mortgages	*(percentages)*	
Prime	0.33	0.35
Specialist	0.74	0.82
Total Group residential mortgages	**0.41**	**0.43**
UK Finance (UKF) industry average [(1)]	**0.74**	**0.78**

Note:

(1) The methodology for calculating mortgage arrears is based on the UKF definition of arrears, where months in arrears is determined by dividing the arrears balance outstanding by the latest monthly contractual payment.

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 0.41% compares favorably with the UK Finance (UKF) industry average of 0.74% (April 4, 2019: 0.78%) as reported by UKF.

The table below shows possessions as a percentage of our total residential mortgages as at April 4, 2020 and April 4, 2019:

	As at April 4,	
	2020	2019
Possessions as (%) of total residential mortgages (number of properties)	*(percentages)*	
Prime	0.01	0.01
Specialist	0.05	0.05
Total Group residential mortgages	**0.02**	**0.01**

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, 2020, the properties taken into possession increased to 248, representing only 0.02% of our book compared to the industry average of 0.03% (source: UKF).

The table below provides further information on the residential mortgage portfolio by payment due status as at April 4, 2020 and April 4, 2019:

	As at April 4,							
	2020				2019			
	Prime lending	Specialist lending	Total	(%)	Prime lending	Specialist lending	Total	(%)
	(£ billion, except percentages)							
Not impaired:								
Neither past due nor impaired	149.4	36.7	186.1	98.5	149.8	33.5	183.3	98.5
Past due up to 3 months but not impaired	1.3	0.7	2.0	1.1	1.3	0.6	1.9	1.0
Impaired	0.4	0.3	0.7	0.4	0.4	0.4	0.8	0.4
Total	**151.1**	**37.7**	**188.8**	**100**	**151.5**	**34.5**	**186.0**	**100.0**

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,							
	2020				2019			
	Prime lending	Specialist lending	Total	(%)	Prime lending	Specialist lending	Total	(%)
	(£ million, except percentages)							
Impaired status:								
Past due 3 to 6 months	177	142	319	44	177	159	336	44
Past due 6 to 12 months	112	109	221	30	122	121	243	32
Past due over 12 months	82	81	163	22	84	69	153	20
Possessions	9	20	29	4	7	21	28	4
Total	**380**	**352**	**732**	**100**	**390**	**370**	**760**	**100**

For residential mortgage loans

Residential mortgages subject to forbearance at April 4, 2020 were £1,235 million compared to £1,167 million at April 4, 2019. Loans where more than one concession event has occurred are reported under the latest event.

Balances subject to forbearance 2020	**Prime**	**Specialist**	**Total**
		(*£ million*)	
Past term interest only concessions	117	120	237
Interest only concessions	533	48	581
Capitalization	231	102	333
Term extensions (within term)	34	13	47
Permanent interest only conversions	2	35	37

Total forbearance	**917**	**318**	**1,235**
Impairment provision on forborne loans	**5**	**12**	**17**

Balances subject to forbearance 2019	**Prime**	**Specialist**	**Total**
		(*£ million*)	
Past term interest only concessions	122	134	256
Interest only concessions	525	59	584
Capitalization	192	51	243
Term extensions (within term)	35	13	48
Permanent interest only conversions	3	33	36
Total forbearance	**877**	**290**	**1,167**
Impairment provision on forborne loans	**5**	**11**	**16**

The balances outlined above apply to the prime residential mortgage portfolio. The table below show outstanding loans as at April 4, in each of 2020 and 2019 that are subject to forbearance in alignment with European Banking Authority definitions.

	As at April 4,			
	2020		**2019**	
	(*£ million*)	(*% of total prime loans and advances*)	(*£ million*)	(*% of total prime loans and advances*)
Past term interest only concessions	237	19.2%	256	25.2%
Interest only concessions	581	47.0%	584	57.4%
Capitalization	333	27.0%	93	9.1%
Term extensions (within term)	47	3.8%	48	4.7%
Permanent interest only conversions	37	3.0%	36	3.5%
Total forbearance	**1,235**	**100.0%**	**1,017**	**100.0%**

The following table presents negative equity on residential mortgages:

	As at April 4,	
	2020	**2019**
	(£ million)	
Stage 1 and 2	23	26
Stage 3	4	4
Total	**27**	**30**

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, 2020 and 2019. Loans where more than one concession event has occurred are reported under the latest event.

	As at April 4,	
	2020	**2019**
	(*£ million*)	
Refinance	43	44
Modifications:		
Payment concession	31	2
Security amendment	8	6
Extension at maturity	19	12
Breach of covenant	126	122
Total	**227**	**186**
Impairment provision on forborne loans	**14**	**23**

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

Overall, the exposures currently subject to forbearance have increased to £227 million as at April 4, 2020, from £186 million as at April 4, 2019. During the year, amortized cost balances subject to forbearance have increased, principally reflecting the support measures put in place as we manage the runoff of the portfolio. The reduction in the total impairment provision on forborne loans to £14 million (2019: £23 million) principally reflects an improved outlook for one impaired case.

For consumer loans

The table below provides details of the consumer banking exposures which are subject to forbearance as at April 4, 2020 and April 4, 2019. Where more than one concession event has occurred, exposures are reported under the latest event.

	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
2020		(*£ million*)		
Payment concession	14	-	1	15
Interest suppressed payment arrangement	7	39	15	61
Balances re-aged/re-written	-	1	3	4
Total forbearance	**21**	**40**	**19**	**80**
Impairment provision on forborne loans	**12**	**27**	**13**	**52**
2019[(1)]				
Payment concession	16		2	18
Interest suppressed payment arrangement	6	34	15	55
Balances re-aged/re-written	-	1	3	4
Total forbearance	**22**	**35**	**20**	**77**
Impairment provision on forborne loans	**12**	**29**	**14**	**55**

Commercial loan portfolio

During the year, commercial and other lending balances have decreased to £7.9 billion (2019: £9.1 billion). Continuing the deleveraging activity in previous financial years, the overall portfolio is increasingly weighted towards registered social landlords, with balances of £5.4 billion (2019: £6.0 billion), and project finance

with balances of £0.7 billion (2019: £0.8 billion). With a smaller book, and fewer active borrowers requiring further lending, our commercial real estate balances decreased during the year to £1.0 billion (2019: £1.4 billion).

Commercial and other lending gross balances

	As at April 4,	
	2020	**2019**
	(£ million)	
Registered social landlords[(1)]	5,425	5,980
Commercial real estate (CRE)	996	1,383
Project finance[(2)]	712	807
Other lending	-	8
Commercial and other lending balances at amortized cost	**7,133**	**8,178**
Fair value adjustment for micro hedged risk[(3)]	741	883
Commercial lending balances	57	57
Total	**7,931**	**9,118**

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

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

	For the year ended April 4,	
	2020 (IFRS 9 basis)	**2019 (IAS 39 basis)**
	(£ million)	*(£ million)*
Total	**(3)**	**16**

Note:

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

The £3 million impairment reversal for the year ended April 4, 2020 primarily relates to a single credit exposure, where an improved outlook has driven a positive reassessment of potential future losses, offset by a £7 million additional provision to reflect the expected impact of Covid-19 on credit losses. The level of this additional provision reflects the estimated impact based upon a revised central economic scenario and the extent of concessions granted in response to Covid-19.

Our commercial lending portfolio of £7.1 billion as at April 4, 2020 (April 4, 2019: £8.2 billion) comprises £1.0 billion secured on CRE (April 4, 2019: £1.4 billion), £5.4 billion advanced to registered social landlords ("**RSL**") (April 4, 2019: £6.0 billion) and £0.7 billion advanced under Project Finance, principally via the private finance initiative ("**PFI**") (April 4, 2019: £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 £50 million as at April 4, 2020 (April 4, 2019: £48 million) and

provisions held against the portfolio amounted to £29 million (April 4, 2019: £22 million) representing a coverage ratio of 58% (April 4, 2019: 46%).

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,								
	2020					2019			
	Stage 1	Stage 2	Stage 3	Covid-19 additional provision[1]	Total	Stage 1	Stage 2	Stage 3	Total
					(£ million)				
Gross balances									
Registered social landlords	5,385	40	-	-	5,425	5,923	57	-	5,980
CRE	791	155	50	-	996	1,122	213	48	1,383
Project finance	616	73	23	-	712	754	29	24	807
Other lending	-	-	-	-	-	8	-	-	8
Total	**6,792**	**268**	**73**	**-**	**7,133**	**7,807**	**299**	**72**	**8,178**
Provisions									
Registered social landlords	1	-	-	-	1	1	-	-	1
CRE	2	2	18	7	29	2	2	18	22
Project finance	-	1	9	-	10	1	-	17	18
Other lending	-	-	-	-	-	-	-	-	-
Total	**3**	**3**	**27**	**7**	**40**	**4**	**2**	**35**	**41**
Provisions as a (%) of total balance					*(percentages)*				
Registered social landlords	0.02	0.12	-	-	0.02	0.02	0.18	-	0.02
CRE	0.25	1.29	36.00	-	2.91	0.19	0.96	37.11	1.58
Project finance	-	1.37	39.13	-	1.40	0.15	0.97	71.54	2.20
Other lending	-	-	-	-	-	-	-	-	-
Total	**0.04**	**1.12**	**36.99**	**-**	**0.56**	**0.05**	**0.81**	**48.74**	**0.50**

Note:

(1) In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £7 million has been added to the impairment provisions for commercial lending. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Over the year, the performance of the commercial and other lending portfolios has remained stable, with 95% (April 4, 2019: 95%) of balances remaining in stage 1. Of the £268 million stage 2 loans (April 4, 2019: £299 million), less than £1 million (April 4, 2019: £1 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 £50 million (April 4, 2019: £48 million), equating to 5% (April 4, 2019: 3%) of the total CRE exposure.

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.

Credit quality

We adopt 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,									
	2020					2019				
	Stage 1	Stage 2	Stage 3	Total	Provision Coverage	Stage 1	Stage 2	Stage 3	Total	Provision Coverage
	(£ million)				*(percentages)*	*(£ million)*				*(percentages)*
Strong	433	18	-	451	0.1	676	57	-	733	0.3
Good	289	67	-	356	0.6	381	76	-	457	0.1
Satisfactory	69	10	-	79	1.7	65	8	-	73	0.4
Weak	-	60	-	60	1.2	-	72	-	72	1.4
Impaired	-	-	50	50	36.2	-	-	48	48	37.1
Total	**791**	**155**	**50**	**996**	**2.3**	**1,122**	**213**	**48**	**1,383**	**1.6**

Notes:

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 89% (April 4, 2019: 91%) of the portfolio rated as satisfactory or better, as at April 4, 2020.

Risk grades for the project finance portfolio are also based upon supervisory slotting criteria with 90% 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 UK 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 0.04% across the portfolio.

In addition to the above, £57 million (April 4, 2019: £57 million) of commercial lending balances were classified as FVTPL, of which £54 million (April 4, 2019: £53 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,					
	2020			2019		
	London	Rest of UK	Total	London	Rest of UK	Total
	(£ million)					
Fully collateralized						
LTV ratio [2]						
Less than 25%	62	59	121	89	70	159
25% to 50%	315	254	569	559	298	857
51% to 75%	167	115	282	181	175	356
76% to 90%	3	43	46	1	20	21
91% to 100%	-	-	-	1	6	7
	547	**471**	**1,018**	**831**	**569**	**1,400**
Not fully collateralized						
Over 100% LTV	-	32	32	-	36	36
Collateral value	-	19	19	-	19	19
Negative equity	-	13	13	-	17	17
Total CRE Loans	**547**	**503**	**1,050**	**831**	**605**	**1,436**

Geographical concentration.....	**52%**	**48%**	**100%**	**58%**	**42%**	**100%**

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 52% (April 4, 2019: 58%) 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 93% (April 4, 2019: 96%) of the portfolio having an LTV of 66% or less, and 66% (April 4, 2019: 71%) of the portfolio having an LTV of 50% or less.

Credit risk concentration by industry sector

Credit risk exposure by industry sector is broadly 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, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 42% (2019: 45%) of the total CRE portfolio balance. Over the year, our exposure to retail assets has reduced to £202 million (2019: £274 million), with a weighted average LTV of 53% (2019: 46%). Exposure to the leisure and hotel sector has also reduced to £84 million (2019: £110 million), with a weighted average LTV of 46% (2019: 49%).

In addition to the amortized cost balances included in the table above, there are £54 million (2019: £53 million) of FVTPL commercial lending balances, of which £42 million (2019: £42 million) relates to the office sector and £12 million (2019: £12 million) relates to the retail sector.

CRE balances by payment due status

Of the £1,050 million (April 4, 2019: £1,436 million) CRE exposure, including FVTPL balances, £14 million (April 4, 2019: £24 million) relates to balances with arrears, of which £6 million (April 4, 2019: £24 million) have arrears greater than 3 months.

Gross balances subject to forbearance(1)

	As at April 4,	
	2020	**2019**
	(£ million)	
Refinance.....	43	44
Modifications:		
Payment concession	31	2
Security amendment.....	8	6
Extension at maturity	19	12
Breach of covenant.....	126	122
Total.....	**227**	**186**
Total impairment provision on forborne loans....	**14**	**23**

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 freehold 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, 2020 and 2019.

	As at April 4,			
	2020		2019	
	(£ million, except percentages) *(unaudited)*			
Fully collateralized				
LTV ratio:				
less than 25%	121	12%	159	11%
25% to 50%	569	54%	857	60%
51% to 75%	282	27%	356	25%
76 to 90%	46	4%	21	1%
91% to 100%	-		7	0%
Total	**1,018**	**97%**	**1,400**	**97%**
Partially collateralized				
More than 100% (A)	32	3%	36	3%
Collateral value of (A)	19	2%	19	2%
Negative equity on (A)	13	1%	17	1%
Total CRE loans	**1,050**	**100%**	**1,436**	**100%**

The overall proportion of partially collateralized loans has remained stable at 3% in the year ended April 4, 2020 (April 4, 2019: 3%) and the shortfall on collateral for non-performing CRE loans has decreased by £4 million during the year ended April 4, 2020 to £13 million (April 4, 2019: £17 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

	As at April 4,									
	2020					2019				
(*Audited*)	Overdrawn current accounts	Personal loans	Credit cards	Total		Overdrawn current account	Personal loans	Credit cards	Total	
		(£ million)			(%)		*(£ million)*			(%)

Not past due	226	2,830	1,528	4,584	91.8	279	2,282	1,667	4,228	92.2
Past due up to 3 months	16	65	36	117	2.3	12	48	30	90	1.9
Past due 3 to 6 months	4	11	9	24	0.5	3	8	11	22	0.5
Past due 6 to 12 months	3	14	2	19	0.4	3	15	2	20	0.4
Past due over 12 months	3	12	-	15	0.3	3	14	-	17	0.4
Charged off [1]	28	98	109	235	4.7	24	82	103	209	4.6
Total	**280**	**3,030**	**1,684**	**4,994**	**100**	**324**	**2,449**	**1,813**	**4,586**	**100**

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) while recovery procedures take place.

The consumer banking portfolio comprises balances or unsecured retail banking products: current accounts overdrafts of £0.3 billion (April 4, 2019, £0.3 billion), personal loans of £3.0 billion (April 4, 2019: £2.4 billion), and credit cards of £1.7 billion (April 4, 2019: £1.8 billion). Over the year total balances across these portfolios have grown by £0.4 billion to £5.0 billion (April 4, 2019: £4.6 billion), equating to 8.9% growth, and credit quality has remained stable.

Consumer banking gross balances

	As at April 4,			
	2020		2019	
(*Audited*)	*(£ million)*	(%)	*(£ million)*	(%)
Overdrawn current accounts	280	5	324	7
Personal loans	3,030	61	2,449	53
Credit cards	1,684	34	1,813	40
Total consumer banking	**4,994**	**100**	**4,586**	**100**

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

Impairment losses for the year

	2020	2019
(*Audited*)	*(£ million)*	
Overdrawn current accounts	21	9
Personal loans	82	38
Credit cards	56	67
Total	**159**	**114**

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

The impairment losses for the year include an additional provision of £43 million, which has been included to reflect the expected impact of Covid-19. The level of this provision reflects the estimated impact on expected credit losses based upon a revised central economic scenario and the credit risk associated with concessions granted in response to Covid-19. The losses also include the impact of continued personal loan book growth.

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

Consumer banking product and staging analysis

	As at April 4,								
	2020					2019			
	Stage 1	Stage 2	Stage 3	Covid-19 additional provisions[1]	Total	Stage 1	Stage 2	Stage 3	Total
(Audited)				*(£ million)*					
Gross balances									
Overdrawn current accounts.	149	89	42	-	280	187	100	37	324
Personal loans	2,597	296	137	-	3,030	2,140	186	123	2,449
Credit cards	1,111	442	131	-	1,684	1,211	475	127	1,813
Total	**3,857**	**827**	**310**	**-**	**4,994**	**3,538**	**761**	**287**	**4,586**
Provisions									
Overdrawn current accounts.	2	17	37	3	59	2	18	33	53
Personal loans	15	33	119	23	190	11	22	107	140
Credit cards	15	91	122	17	245	14	92	119	225
Total	**32**	**141**	**278**	**43**	**494**	**27**	**132**	**259**	**418**
Provisions as a (%) of total balance									
Overdrawn current accounts.	1.75	19.06	87.02	-	21.21	1.30	17.42	89.92	16.37
Personal loans	0.56	11.15	86.78	-	6.27	0.53	12.11	86.58	5,74
Credit cards	1.33	20.67	92.86	-	14.55	1.12	19.33	93.61	12.38
Total	**0.82**	**17.09**	**89.39**	**-**	**9.9**	**0.77**	**17.32**	**90.12**	**9.11**

Note:

(1) . In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million has been added to the impairment provisions for consumer banking. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Total gross balances increased to £4,994 million, primarily due to book growth in personal loans. The decreases in overdrawn current account and credit card balances are due to reduced transaction volumes at year end. As at April 4, 2020, 77% (2019: 77%) of the consumer banking portfolio is in stage 1. Over the year, consumer banking balances in stages 2 and 3 have increased in absolute terms, reflecting the growth of the portfolio. The combined stage 2 and 3 proportion of total balances has, however, remained stable at 23% (2019: 23%), reflecting stable underlying credit performance. The majority of the portfolio growth has been in the personal loan portfolio, where the proportion of balances by stage and provisions as a percentage of total balances have remained broadly stable. The increase in the overdrawn current account and credit card provisions as a percentage of balances is a result of additional provisions to reflect the estimated impact of the Covid19 pandemic on expected credit losses, combined with lower overall gross balances as transaction volumes reduced towards the end of the year.

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 provisions as a percentage of total balances is 5.7% (2019: 5.0%).

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

In the audited consolidated financial statements as of and for the year ended April 4, 2020, certain amounts have been restated in respect of the year ended April 4, 2019 to reflect the adoption on April 5, 2019 of accounting standard, IAS 12 "Income Taxes", as further described in note 1 to the audited consolidated financial statements as of and for the year ended April 4, 2020, which largely impacts our income statement and members' interests and equity. For purposes of comparability, however, this section "--Results of Operations for the Year

Ended April 4, 2019 Compared with the Year Ended April 4, 2018" discloses the figures as reported in the audited consolidated financial statements as of and for the year ended April 4, 2019, which have not been restated.

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.

We 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 organizational 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 our 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.

During the year ended April 4, 2019, 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 realizing £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 year ended April 4, 2019, investment 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 advisors in another location. We have also invested in IT resilience and ensuring compliance with UK 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.

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, 2019			
	Underlying profit	**FSCS and bank levy**	**Gain from derivatives and hedge accounting**	**Statutory profit**
	(£ million)			
Net interest income	2,915	-	-	2,915
Other income	255	-	-	255
Movements on derivatives and hedge accounting	-	-	36	36
Total income	**3,170**	**-**	**36**	**3,206**
Administrative expenses	(2,254)	-	-	(2,254)
Pre-provision underlying profit	**916**	**-**	**36**	**952**
Impairment losses	(113)	-	-	(113)
Provisions for liabilities and charges	(15)	9	-	(6)
Profit before tax	**788**	**9**	**36**	**833**

	For the year ended April 4, 2018			
	Underlying profit	**FSCS**	**Gain from derivatives and hedge accounting**	**Statutory profit**
	(£ million)			
Net interest income	3,004	-	-	3,004
Other income	128	-	(1)	128
Movements on derivatives and hedge accounting	-	-	**(1)**	(1)
Total income	**3,132**	**-**	-	**3,131**
Administrative expenses	(2,024)	-	(1)	(2,024)
Pre-provision underlying profit	**1,108**	**-**	-	**1,107**
Impairment losses	(105)	-	-	(105)
Provisions for liabilities and charges	(26)	1	**(1)**	25
Profit before tax	**977**	**1**	-	**977**

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:

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

Net interest income

Net interest income decreased by 3% to £2,915 million for the year ended April 4, 2019 compared with £3,004 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:

	For the year ended April 4,	
	2019	**2018**
	(£ million)	
Interest and similar income:		
On residential mortgages	4,469	4,532
On other loans	656	677
On investment securities	194	129
On other liquid assets	137	67
Net expense on financial instruments hedging assets	(338)	(594)
Total interest and similar income	**5,118**	**4,811**
Interest expense and similar charges:		
On UK retail member deposits	(1,335)	(1,140)
On subscribed capital	(14)	(15)
On deposits and other borrowings:		
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)
Total interest expense and similar charges	**(2,203)**	**(1,807)**
Net interest income	**2,915**	**3,004**

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 UK retail member deposits held to £152,926 million in the year ended April 4, 2019 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 UK 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 was due, in part, to a decrease in expenses related to the redemption and maturity of protected equity bonds ("**PEB**") deposits which have returns linked to the performance of specified stock market indices, which for the year ended April 4, 2019 was nil (April 4, 2018: £210 million). The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities was nil for the year ended April 4, 2019 (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			**2018**		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
			(£ million)			
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)
Fee and commission	**449**	**(248)**	**201**	**449**	**(244)**	**205**

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 UK Building Societies Act, are only used to limit the extent to which we could be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. These derivatives are therefore used exclusively to hedge risk exposures and are not used for speculative purposes.

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

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

Gains from derivatives and hedge accounting were £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 we only elect 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 were not 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:

	For the year ended April 4,	
	2019	**2018**
	(£ million)	
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)
Total	**2,373**	**2,154**

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:

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

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

We operate both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Fund. This is a contributory defined benefit arrangement, with both final salary and CARE sections. The Fund was closed to new entrants in 2007, and since then new employees have been able to join a defined contribution arrangement. The final salary section of the Fund was closed to future service on March 31, 2011. Service already built up in the final salary section will continue to be linked to final salary, while future benefits now accrue within the CARE section. On February 17, 2020, we announced that we would be closing the Fund to future accrual from March 31, 2021.

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 while 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 analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2019 and 2018, respectively:

	For the year ended April 4,	
	2019	**2018[1]**
	(£ million)	
Residential lending	(17)	11
Consumer banking	114	97
Retail lending	**97**	**108**
Commercial and other lending	16	(1)
Impairment losses on loans and advances	**113**	**107**
Impairment (reversals)/losses on investment securities	-	(2)
Total	**113**	**105**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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	**2018[1]**
	(£ million)	
FSCS	(9)	(1)
Customer redress provision	15	26

Total	**6**	**25**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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 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, 2018: £232 million charge) represents an effective tax rate of 25.8% which is higher than the statutory rate in the UK 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	**2018**
	(£ million)	
Current tax:		
UK corporation tax	209	246
Adjustments in respect of prior years	(12)	(12)
Total current tax	**197**	**234**
Deferred tax:		
Current year charge/(credit)	6	(7)
Adjustments in respect of prior years	9	9
Effect of deferred tax provided at different tax rates	3	(4)
Total deferred taxation	**18**	**(2)**
Statutory tax charge	**215**	**232**

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

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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 £9 billion in the year ended April 4, 2019, most of which was related to prime lending.

The average LTV of new lending in the year ended April 4, 2019, 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 £54 million to £2,773 million (April 4, 2018: £2,719 million). The impairment provision balance has decreased to £206 million (April 4, 2018: £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	2018
	(percentages)	
LTV distribution of residential mortgages:		
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%	-	-
Total	**100**	**100**

Average loan to value of stock	58	56
Average loan to value of new business	71	71
New business profile:		
First-time buyers	35	38
Home movers	25	29
Remortgagers	25	21
BTL	14	11
Other	1	1
Total	**100**	**100**

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	**2018**
Cases three months or more in arrears as (%) of total book of residential mortgages	*(percentages)*	
Prime	0.35	0.34
Specialist	0.82	0.83
Total Group residential mortgages	**0.43**	**0.43**
CML industry average	**0.79**	**0.81**

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 favorably 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	**2018**
Possessions as (%) of total residential mortgages (number of properties)	*(percentages)*	
Prime	0.01	0.01
Specialist	0.05	0.05
Total Group residential mortgages	**0.01**	**0.02**

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	**2018**

	Prime lending	Specialist lending	Total	(%)	Prime lending	Specialist lending	Total	(%)
	(£ billion, except percentages)							
Not impaired:								
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
Total	**151.5**	**34.5**	**186.0**	**100.0**	**144.0**	**33.3**	**177.3**	**100.0**

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				2018			
	Prime lending	Specialist lending	Total	(%)	Prime lending	Specialist lending	Total	(%)
	(£ million, except percentages)							
Impaired status:								
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	
Possessions	7	21	28	4	8	23	31	4
Total	**390**	**370**	**760**	**100**	**373**	**369**	**742**	**100**

For residential mortgage loans

Residential mortgages subject to forbearance at April 4, 2019 were £1,017 million compared to £1,025 million at April 4, 2018. Loans where more than one concession event has occurred are reported under the latest event.

Balances subject to forbearance 2019	**Prime**	**Specialist**	**Total**
		(*£ million*)	
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
Total forbearance	**727**	**290**	**1,017**
Impairment provision on forborne loans	**5**	**11**	**16**

Balances subject to forbearance 2018[1]	Prime	Specialist	Total
		(£ *million*)	
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
Total forbearance	**726**	**299**	**1,025**
Impairment provision on forborne loans	**5**	**11**	**16**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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[1]	
	(£ *million*)	(*% of total prime loans and advances*)	(£ *million*)	(*% of total prime loans and advances*)
Past term interest only concessions	256	25.2%	266	26.0%
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%
Total forbearance	**1,017**	**100.0%**	**1,025**	**100.0%**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

The following table presents negative equity on residential mortgages:

	As at April 4,	
	2019	2018[1]
	(£ million)	
Stage 1 and 2	26	33
Stage 3	4	5
Total	**30**	**38**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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

	As at April 4,	
	2019	**2018[1]**
	(*£ million*)	
Refinance	44	78
Modifications:		
Interest concession		
Capital concession	2	8
Security amendment	6	9
Extension at maturity	12	42
Breach of covenant	122	139
Total	**186**	**276**
Impairment provision on forborne loans	**23**	**19**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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

	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**
2019		(*£ million*)		
Payment concession	16		2	18
Interest suppressed payment arrangement	6	34	15	55
Balances re-aged/re-written	-	1	3	4
Total forbearance	**22**	**35**	**20**	**77**
Impairment provision on forborne loans	**12**	**29**	**14**	**55**
2018[1]				
Payment concession	18	-	2	20
Interest suppressed payment arrangement	6	32	16	54
Balances re-aged/re-written	-	-	4	4

Total forbearance	**24**	**32**	**22**	**78**
Impairment provision on forborne loans	**13**	**27**	**16**	**56**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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. While 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	**2018[6]**
	(£ million)	
Registered social landlords[1]	5,980	6,816
Commercial real estate (CRE)	1,383	1,810
Project finance[2]	807	906
Other lending[3]	8	8
Commercial and other lending balances at amortized cost	**8,178**	**9,540**
Fair value adjustment for micro hedged risk[4]	883	1,042
Commercial lending balances[5]	57	58
Total	**9,118**	**10,640**

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 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.

(6) Figures have been adjusted to reflect the impact of applying IFRS 9: "*Financial Instruments*" from April 5, 2018. Further information is provided in note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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

	For the year ended April 4,	
	2019 (IFRS 9 basis)	**2018 (IAS 39 basis)**
	(£ million)	*(£ million)*
Total	**16**	**(1)**

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: £37 million) and provisions held against the portfolio amounted to £22 million (April 4, 2018: £21 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				2018[1]			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	(£ million)							
Gross balances								
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
Total	**7,807**	**299**	**72**	**8,178**	**9,138**	**365**	**37**	**9,540**
Provisions								
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	-	-	-	-	-	-	-	-
Total	**4**	**2**	**35**	**41**	**6**	**10**	**13**	**29**
Provisions as a (%) of total balance	*(percentages)*							
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
Total	**0.05**	**0.81**	**48.74**	**0.50**	**0.07**	**2.74**	**35.55**	**0.30**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

Over the year, the performance of the commercial and other lending portfolios has remained stable, with 95% (April 4, 2018: 96%) of balances remaining in stage 1. Of the £299 million stage 2 loans (April 4, 2018: £365 million), £1 million (April 4, 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 4, 2018: £37 million), equating to 3% (April 4, 2018: 2%) of the total CRE exposure.

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (April 4, 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 4, 2018: £8 million) represents 0% (April 4, 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

We adopt 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					2018[1]				
	Stage 1	Stage 2	Stage 3	Total	Provision Coverage	Stage 1	Stage 2	Stage 3	Total	Provision Coverage
		(£ million)			*(percentages)*		*(£ million)*			*(percentages)*
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
Total	**1,122**	**213**	**48**	**1,383**	**1.6**	**1,587**	**453**	**37**	**1,810**	**1.1**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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 4, 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 UK 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 4, 2018: £58 million) of commercial lending balances were classified as FVTPL, of which £53 million (April 4, 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			2018[3]		
	London	Rest of UK	Total	London	Rest of UK	Total
	(£ million)					
Fully collateralized						
LTV ratio [2]						
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
	831	**569**	**1,400**	**1,004**	**844**	**1,848**
Not fully collateralized						
Over 100% LTV	-	36	36	-	16	16
Collateral value	-	19	19	-	7	7
Negative equity	-	17	17	-	9	9
Total CRE Loans	**831**	**605**	**1,436**	**1,004**	**860**	**1,864**
Geographical concentration	**58%**	**42%**	**100%**	**54%**	**46%**	**100%**

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.

(3) Figures have been adjusted to reflect the impact of applying IFRS 9: "*Financial Instruments*" from April 5, 2018. Further information is provided in note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

Changes to the regional distribution of the CRE portfolio reflect the managed reduction of the portfolio, with 58% (April 4, 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 4, 2018: 96%) of the portfolio having an LTV of 75% or less, and 71% (April 4, 2018: 67%) of the portfolio having an LTV of 50% or less.

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 4, 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 4, 2018: £1,864 million) CRE exposure, including FVTPL balances, £24 million (April 4, 2018: £52 million) relates to balances with arrears, of which £2 million (April 4, 2018: £24 million) have arrears greater than 3 months.

Gross balances subject to forbearance[(1)]

	As at April 4,	
	2019	**2018**[(2)]
	(£ million)	
Refinance	44	78
Modifications:		
Capital concession	2	8
Security amendment	6	9
Extension at maturity	12	42
Breach of covenant	122	139
Total	**186**	**276**
Total impairment provision on forborne loans	**23**	**19**

Note:
(1) Loans where more than one concession event has occurred are reported under the latest event.
(2) Figures have been adjusted to reflect the impact of applying IFRS 9: "*Financial Instruments*" from April 5, 2018. Further information is provided in note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

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		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%
Total	**1,400**	**97%**	**1,848**	**99%**
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%
Total CRE loans	**1,436**	**100%**	**1,864**	**100%**

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

	As at April 4,									
	2019					2018				
(*Audited*)	Overdrawn current accounts	Personal loans	Credit cards	Total		Overdrawn current account	Personal loans	Credit cards	Total	
		(£ 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 up to 3 months	12	48	30	90	1.9	12	43	33	88	2.1
Past due 3 to 6 months	3	8	11	22	0.5	4	13	11	28	0.7
Past due 6 to 12 months	3	15	2	20	0.4	3	12	2	17	0.4
Past due over 12 months	3	14	-	17	0.4	3	13	-	16	0.4
Charged off [(1)]	24	82	103	209	4.6	20	68	97	185	4.5
Total	**324**	**2,449**	**1,813**	**4,586**	**100**	**277**	**2,031**	**1,799**	**4,107**	**100**

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) while recovery procedures take place.

The consumer banking portfolio comprises balances or 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 12.2% growth, and credit quality has remained stable.

Consumer banking gross balances

	As at April 4,			
	2019		2018	
(*Audited*)	*(£ 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
Total consumer banking	**4,586**	**100**	**4,107**	**100**

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

Impairment losses for the year

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

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[7] 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:

Consumer banking product and staging analysis

	As at April 4,							
	2019				2018[(1)]			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
(Audited)	*(£ million)*							
Gross balances								
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
Total	**3,538**	**761**	**287**	**4,586**	**3,264**	**575**	**268**	**4,107**
Provisions								
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
Total	**27**	**132**	**259**	**418**	**25**	**103**	**237**	**365**

[7] Borrowers are classified as being in persistent debt when they have paid more interest, fees and charges than capital over an 18-month period.

Provisions as a (%) of total balance	*(percentages)*							
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	86.58	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
Total	**0.77**	**17.32**	**90.12**	**9.11**	**9.11**	**17.86**	**88.45**	**8.90**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

As at April 4, 2019, 77% (April 4, 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) while 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 4, 2018: 4.8%).

Country exposure

The following section summarizes our direct exposure to institutions, corporates, and other issued securities domiciled in the peripheral Eurozone countries:

	As at September 30, 2020												
	Austria	**Belgium**	**Finland**	**France**	**Germany**	**Ireland**	**Netherlands**	**Spain**	**Total Eurozone**	**USA**	**Japan**	**Rest of World**	**Total**
	(£ million, unaudited)												
Government bonds	531	604	641	1,273	1,364	123	514	-	5,050	3,996	1,572	1,445	12,063
Mortgage backed securities	-	-	-	-	-	-	129	-	129	-	-	-	129
Covered bonds	-	-	26	116	46	-	-	-	188	-	-	460	648
Supranationals bonds	-	-	-	-	-	-	-	-	-	-	-	-	904
Loans and advances to banks and similar institutions	-	-	-	-	221	-	-	4	225	89	-	41	355
Other assets	-	-	-	25	123	-	-	-	148	-	-	-	148
Total	**531**	**604**	**667**	**1,414**	**1,754**	**123**	**643**	**4**	**5,740**	**4,085**	**1,572**	**2,850**	**14,247**

	As at September 30, 2019											
	Austria	**Belgium**	**Finland**	**France**	**Germany**	**Ireland**	**Netherlands**	**Spain**	**Total Eurozone**	**USA**	**Rest of World[1]**	**Total**
	(£ million, unaudited)											
Government bonds	144	362	392	254	711	44	143	-	2,050	3,321	1,109	6,480
Mortgage backed securities	-	-	-	-	-	-	200	-	200	-	-	200
Covered bonds	-	-	26	-	32	-	-	-	58	-	499	557
Supranationals bonds	-	-	-	-	-	-	-	-	-	-	713	713
Loans and advances to banks and similar institutions	-	-	-	-	299	-	-	-	299	89	30	418
Other assets	-	-	-	32	133	-	-	-	165	71	-	236
Total	**144**	**362**	**418**	**286**	**1,175**	**44**	**343**	**-**	**2,772**	**3,481**	**2,351**	**8,604**

Notes:
(1) Rest of world exposure (2019) is to Australia, Canada, Denmark, Japan, Norway and Sweden

None of our exposures detailed in the tables above were in default as at September 30, 2020, and we did not incur any impairment on these assets in the six month period ended September 30, 2020. We continue to monitor closely the exposures to these countries.

Funding and Liquidity

Funding strategy

Our funding 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.

	As at September 30,	As at April 4,		
	2020	2020	2019	2018
		(£ billion)		
Liabilities:				
Retail funding	161	160	154	148
Wholesale funding	73	62	61	59
Capital and reserves	23	23	20	18
Other	3	3	3	4
Total	**260**	**248**	**238**	**229**
Assets:				
Retail mortgages	191	189	186	177
Treasury (including liquidity portfolio)	49	37	33	31
Consumer lending	4	4	4	4
Commercial lending	7	8	9	11
Other assets	9	10	6	6
Total	**260**	**248**	**238**	

Managing liquidity and funding risk

We manage liquidity and funding risk within a comprehensive risk framework which includes policies, strategy, limit setting and monitoring, stress testing and robust governance controls. See "*Risk Factors—Risks Related to Our Business*" for additional information on funding and liquidity risk.

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 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 Bank of England which can be used in the Bank of England's liquidity operations if market liquidity is severely disrupted.

TFS was a scheme launched by the Bank of England 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 September 30, 2020, we had TFS drawings of £17 billion.

At its special meeting ending March 10, 2020, the Monetary Policy Committee voted unanimously for the Bank of England to introduce a new Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises ("**TFSME**"). The scheme is designed to incentivize eligible participants to provide credit to businesses and households to bridge through the current period of economic disruption caused by the outbreak of Covid-19. The scheme includes additional incentives to provide credit to SMEs. The TFSME opened for drawings on April 15, 2020, and as at November 30, 2020, we had TFSME drawings of £6.2 billion.

During the six months ended September 30, 2020, CET1 capital resources remained stable at £11 billion, with the increase in general reserves offset by dividends, intangible assets, and the impact of changes in the fair value of assets and liabilities.

Liquidity

We monitor our liquidity position relative to internal risk appetite and the regulatory short-term liquidity stress metric, the Liquidity Coverage Ratio ("**LCR**"). Our LCR at September 30, 2020 was 153% (September 30, 2019: 140%), which is above the regulatory minimum of 100%.

We also monitor our position against the future longer-term funding metric, the Net Stable Funding Ratio ("**NSFR**"). Based on current interpretations of expected European regulatory requirements and guidance, our NSFR at September 30, 2020 was 135% (September 30, 2020: 131%) which exceeds the expected 100% minimum future requirement.

Wholesale funding

An analysis of our wholesale funding is set out in the table below:

	As at September 30, 2020		**As at April 4, 2020**	
	(£ billion, except percentages)			
Repos	2.0	3%	0.6	1%
Deposits	10.7	15%	8.7	14%
Certificates of deposit	0.7	1%	2.0	3%
Commercial paper	6.2	8%	1.6	3%
Covered bonds	17.3	24%	19.8	31%
Medium-term notes	8.6	11%	7.2	12%
Securitizations	3.4	5%	4.2	7%
Term Funding Scheme (TFS) and TFSME	23.2	31%	17.0	27%
Other	1.2	2%	1.2	2%
Total	**73.3**	**100%**	**62.3**	**100%**

	As at April 4, 2019		**As at April 4, 2018**	
	(£ billion, except percentages)			

	As at April 4, 2019		As at April 4, 2018	
	(£ billion, except percentages)			
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%
Total	**61.2**	**100%**	**58.8**	**100%**

The table below sets out our wholesale funding by currency as at September 30, 2020:

	As at September 30, 2020				
	GBP	**EUR**	**USD**	**Other**	**Total**
			(£ billion)		
Repos	0.2	0.4	1.4	-	2.0
Deposits	9.5	1.2	-	-	10.7
Certificates of deposit	0.6	-	0.1	-	0.7
Commercial paper	-	-	6.2	-	6.2
Covered bonds	4.4	11.6	0.7	0.6	17.3
Medium term notes	1.9	3.5	2.6	0.6	8.6
Securitizations	2.1	0.5	0.8	-	3.4
Term Funding Scheme	23.2	-	-	-	23.2
Other	0.2	0.8	0.2	-	1.2
Total	**42.1**	**18.0**	**12.0**	**1.2**	**73.3**

The table below sets out our wholesale funding by currency as at April 4, 2020:

	As at April 4, 2020				
	GBP	**EUR**	**USD**	**Other**	**Total**
			(£ billion)		
Repos	0.5	0.1	-	-	0.6
Deposits	6.2	1.2	1.3	-	8.7
Certificates of deposit	1.5	0.4	0.1	-	2.0
Commercial paper	-	-	1.6	-	1.6
Covered bonds	5.0	13.4	0.8	0.6	19.8
Medium term notes	1.9	2.5	2.2	0.6	19.8
Securitizations	2.2	0.9	1.1	-	4.2
Term Funding Scheme	17.0	-	-	-	17.0
Other	0.2	0.8	0.2	-	1.2
Total	**34.5**	**19.3**	**7.3**	**1.2**	**62.3**

The table below sets out our wholesale funding by currency as at April 4, 2019:

	As at April 4, 2019				
	GBP	**EUR**	**USD**	**Other**	**Total**
			(£ billion)		
Repos	0.4	0.3	0.1	-	0.8
Deposits	6.0	1.2	0.1	-	7.3

	As at April 4, 2019				
	GBP	**EUR**	**USD**	**Other**	**Total**
	(£ billion)				
Certificates 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
Other	0.2	0.6	-	-	0.8
Total	**33.3**	**20.5**	**6.7**	**0.7**	**61.2**

To mitigate cross-currency refinancing risk, we prudently manage the currency mix of our liquid assets to ensure there is no undue reliance on currencies not consistent with the profile of stressed outflows.

At September 30, 2020, cash, government bonds and supranational bonds included in the liquid asset buffer represented 116% (April 4, 2020: 122%) 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 September 30, 2020 and April 4, 2020 respectively:

	As at September 30, 2020		As at April 4, 2020	
	(£ billion, except percentages)			
Less than one year	33.7	46.0%	23.8	38.2%
One to two years	12.8	17.5%	15.2	24.4%
Two to five years	26.8	36.5%	23.3	37.4%
Total	**73.3**	**100%**	**62.3**	**100%**

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

	As at September 30, 2020							
	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**
	(£ billion, except percentages)							
Repos	2.0	-	-	-	2.0	-	-	2.0
Deposits	8.7	0.5	1.4	0.1	10.7	-	-	10.7
Certificates of deposit	0.4	0.3	-	-	0.7	-	-	0.7
Commercial paper	4.8	1.4	-	-	6.2	-	-	6.2
Covered bonds	0.1	0.1	2.6	-	2.8	3.5	11.0	17.3
Medium-term notes	-	-	0.1	0.7	0.8	0.8	7.0	8.6
Securitizations	0.4	-	0.1	0.5	1.0	0.8	1.6	3.4
Term Funding Scheme	-	2.0	4.0	3.5	9.5	7.6	6.1	23.2
Other	-	-	-	-	-	0.1	1.1	1.2
Total	**16.4**	**4.3**	**8.2**	**4.8**	**33.7**	**12.8**	**26.8**	**73.3**
Of which secured	2.5	2.1	6.7	4.0	15.3	12.0	19.6	46.9
Of which unsecured	13.9	2.2	1.5	0.8	18.4	0.8	7.2	26.4
% of total	**22.4**	**5.9**	**11.2**	**6.5**	**46.0**	**17.5**	**36.5**	**100.0**

	As at April 4, 2020							
	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**
	(£ billion, except percentages)							
Repos	0.6	-	-	-	0.6	-	-	0.6
Deposits	5.2	1.6	1.9	-	8.7	-	-	8.7
Certificates of deposit	0.1	1.7	0.2	-	2.0	-	-	2.0
Commercial paper	-	0.9	0.7	-	1.6	-	-	1.6
Covered bonds	-	-	0.9	2.6	3.5	2.6	13.7	19.8
Medium-term notes	-	-	-	0.2	0.2	0.7	6.3	7.2
Securitizations	0.3	-	0.5	0.4	1.2	0.7	2.3	4.2
Term Funding Scheme	-	-	-	6.0	6.0	11.0	-	17.0
Other	-	--	-	-	-	0.2	1.0	1.2
Total	**6.2**	**4.2**	**4.2**	**9.2**	**23.8**	**15.2**	**23.3**	**62.3**
Of which secured	0.9	1.2	1.4	9.0	12.5	14.5	16.8	43.8
Of which unsecured	5.3	3.0	2.	0.2	11.3	0.7	6.5	18.5
% of total	**10.0**	**6.7**	**6.7**	**14.8**	**38.2**	**24.4**	**37.4**	**100.0**

External Credit Ratings

Our long-term and short-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 Non-Preferred**	**Tier 2**	**Date of last rating action /confirmation**	**Outlook**
S&P	A	A-1	BBB+	BBB	April 2020	Stable
Moody's	A1	P-1	Baa2	Baa2	July 2020	Stable
Fitch	A+	F1	A	BBB+	September 2020	Negative

In July 2020, Moody's revised Nationwide's outlook to stable from negative. Following Nationwide's €1 billion senior preferred issuance in July, Moody's believes that it is now more likely that Nationwide will issue sufficient unsecured debt in the next 12 to 18 months to maintain a two-notch uplift for low loss-given-failure.

In September 2020, Fitch affirmed Nationwide's Long-Term Issuer Default Rating and negative outlook.

Treasury Assets

Our liquidity and investment portfolio held on the balance sheet at September 30, 2020 of £48.6 billion (September 30, 2019: £38.6 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 our on-balance sheet portfolios by credit rating and geographical location of the issuers is set out below.

	As at September 30, 2020									
	Credit Rating					Geography				
Liquidity and investment portfolio by credit rating:	**£ million**	**AAA**	**AA**	**A**	**Other**	**UK**	**USA**	**Europe**	**Japan**	**Other**
	(£ million)					*(percentages)*				
Liquid assets:										
Cash and reserves at central banks	21,045	-	100	-	-	100	-	-	-	-
Government bonds	18,905	33	57	10	-	36	21	28	8	7
Supranational bonds	904	86	14	-	-	-	-	-	-	100
Covered bonds	1,756	100	-	-	-	63	-	22	-	15
Residential mortgage backed securities (RMBS)	438	100	-	-	-	71	-	29	-	-
Asset-backed securities (other)	312	100	-	-	-	61	-	39	-	-
Liquid assets total	**43,360**	**22**	**73**	**5**	**-**	**68**	**9**	**13**	**4**	**6**
Other securities:										
RMBS FVOCI	16	100	-	-	-	100	-	-	-	-
RMBS amortized cost	1,594	83	12	5	-	100	-	-	-	-
Other investments	52	-	48	-	52	52	-	48	-	-
Other securities total	**1,662**	**81**	**13**	**5**	**1**	**99**	**-**	**1**	**-**	**-**
Loans and advances to banks	3,546	-	75	25	-	90	3	6	-	1
Total	**48,568**	**22**	**72**	**6**	**-**	**71**	**8**	**13**	**3**	**5**

All assets shown above, other than cash and loans and advances to banks, are classified Fair Value through Other Comprehensive Income (FVOCI) 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 we evaluate, 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, 2020 are reverse repos of nil (April 4, 2019: £494 million), which are secured by high quality liquid assets.

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

Of the total £48,568 million (April 4, 2020: £37,388 million) liquidity and investment portfolio at September 30, 2020, £22,383 million (April 4, 2020: £18,379 million) is held as fair value. These assets are marked to market, with fair value movements recognized in reserves or through profit and loss.

Of these assets, £27 million (April 4, 2020: £18 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 13 in our unaudited condensed consolidated financial statements for the six months ended September 30, 2020.

As at September 30, 2020, the balance on the FVOCI reserve was a £44 million profit, net of tax (April 4, 2020: AFS reserve £(17) million loss). The movements in the FVOCI reserve reflect general market movements and the realization 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 September 30, 2020 investment securities classified as FVTPL totaled £12 million (April 4, 2020: £12 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 September 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
		(£ million)		
Financial Assets:				
Government and supranational investments ..	19,809	-	-	19,809
Other debt investment securities.....	1,756	791	6	2,553
Investment in equity shares.....	-	-	21	21
Total investment securities[(i)]	**21,565**	**791**	**27**	**22,383**
Interest rate swaps	-	1,664	-	1,664
Cross currency interest rate swaps.....	-	2,586	-	2,586
Forward foreign exchange	-	90	-	90
Index linked swaps	-	-	51	51
Bond futures	-	-	-	-
Total derivative financial instruments.....	**-**	**4,340**	**51**	**4,391**
Loans and advances to customers[(ii)]	-	-	126	126
Total financial assets	**21,565**	**5,131**	**204**	**26,900**
Financial liabilities:				
Interest rate swaps.....	-	(1,114)	-	(1,114)
Cross currency interest rate swaps.....	-	(386)	-	(386)
Forward foreign exchange	-	(37)	-	(37)
Swaptions.....	-	-	(116)	(116)
Bond forwards	-	-	-	-
Inflation swaps.....	-	-	-	-
Total derivative financial instruments.....	**-**	**(1,537)**	**(116)**	**(1,653)**
Financial liabilities	**-**	**(1,537)**	**(116)**	**(1,653)**

	As at April 4, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
		(£ million)		
Financial Assets:				
Government and supranational investments ..	15,897	-	-	15,897
Other debt investment securities.....	1,583	881	5	2,469
Investment in equity shares.....	-	-	13	13
Total investment securities[(i)]	**17,480**	**881**	**18**	**18,379**
Interest rate swaps	-	1,593	-	1,593
Cross currency interest rate swaps.....	-	3,005	-	3,005
Forward foreign exchange	-	126	-	126
Index linked swaps	-	46	-	46
Bond futures	-	1	-	1
Total derivative financial instruments.....	**-**	**4,771**	**-**	**4,771**
Loans and advances to customers[(ii)]	-	-	128	128
Total financial assets	**17,480**	**5,652**	**146**	**23,278**
Financial liabilities:				
Interest rate swaps.....	-	(1,179)	-	(1,179)
Cross currency interest rate swaps.....	-	(549)	-	(549)
Forward foreign exchange	-	(44)	-	(44)
Swaptions.....	-	(6)	-	(6)
Bond forwards	-	(94)	-	(94)
Inflation swaps.....	-	(52)	-	(52)
Total derivative financial instruments.....	**-**	**(1,924)**	**-**	**(1,924)**
Financial liabilities	**-**	**(1,924)**	**-**	**(1,924)**

	As at April 4, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
		(£ million)		
Financial Assets:				
Government and supranational investments	12,306	-	-	12,306
Other debt investment securities	1,202	989	62	2,253
Investment in equity shares	-	-	19	19
Total investment securities[(i)]	**13,508**	**989**	**81**	**14,578**
Interest rate swaps	-	1,271	-	1,271
Cross currency interest rate swaps	-	2,238	-	2,238
Foreign exchange swaps	-	15	-	15
Inflation swaps	-	35	-	35
Swaptions	-	3	-	3
Total derivative financial instruments	**-**	**3,562**	**-**	**3,562**
Loans and advances to customers[(ii)]	-	-	129	129
Total financial assets	**13,508**	**4,551**	**210**	**18,269**
Financial liabilities:				
Interest rate swaps	-	(1,107)	-	(1,107)
Cross currency interest rate swaps	-	(324)	-	(324)
Foreign exchange swaps	-	(80)	-	(80)
Bond forwards	-	(58)	-	(58)
Swaptions	-	(3)	-	(3)
Inflation swaps	-	(21)	-	(21)
Total derivative financial instruments	**-**	**(1,593)**	**-**	**(1,593)**
Financial liabilities	**-**	**(1,593)**	**-**	**(1,593)**

	As at April 4, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
		(£ million)		
Financial Assets:				
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
Total investment securities[(i)]	**10,599**	**1,282**	**44**	**11,925**
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
Total derivative financial instruments	**-**	**4,121**	**-**	**4,121**
Total financial assets	**10,599**	**5,403**	**44**	**16,046**
Financial liabilities:				

	As at April 4, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
		(£ million)		
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)
Total derivative financial instruments	**-**	**(2,333)**	**(4)**	**(2,337)**
Financial liabilities	**-**	**(2,333)**	**(4)**	**(2,337)**

Notes:

(1) Investment securities exclude £1,594 million of investment securities held at amortized cost (2019: £1,656 million, and 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 the Level 2 investment securities are valued from models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs

The Group's Level 3 portfolio consists of:

• certain loans and advances to customers, including a closed portfolio of residential mortgages and a small number of commercial loans;

• certain investment securities, comprising primarily investments made in Fintech companies; and

• inflation swaps.

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, AT1 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 September 30,	As at April 4,		
	2020	2020	2019	2018
		(£ *million*)		
General reserve	10,936	10,749	10,418	9,951
Core capital deferred shares (CCDS)	1,329	1,325	1,325	1,325
Revaluation reserve	36	48	64	68
FVOCI reserve	44	(17)	50	-
Available for sale reserve	-	-	-	75
Regulatory adjustments and deductions:				
FVOCI reserve temporary relied[9]	(8)	-	-	-
Foreseeable distributions[1]	(70)	(61)	(68)	(68)
Prudent valuation adjustment[2]	(30)	(54)	(50)	(32)
Own credit and debit valuation adjustments[3]	(3)	(3)	-	(1)
Intangible assets[4]	(1,127)	(1,200)	(1,274)	(1,286)
Defined benefit pension fund asset	(150)	(190)		
Goodwill[4]	(12)	(12)	(12)	(12)
Excess of regulatory expected losses over impairment provisions[5]	(1)	-	(2)	(95)
IFRS 9 transitional arrangements[6]	188	80	66	-
Total regulatory adjustments and deductions	(1,213)	(1,440)	(1,340)	(1,494)
CET1 capital	**11,132**	**10,665**	**10,517**	**9,925**
Additional Tier 1 capital securities (AT1)[7]	1,336	593	992	992
Total Tier 1 capital	**12,468**	**11,258**	**11,509**	**10,917**
Dated subordinated debt[8]	3,129	3,265	2,976	3,019
Excess of expected loss over impairment[5]	140	113	46	-
IFRS 9 transitional arrangements[6]	(140)	(58)	(46)	-
Tier 2 capital	**3,129**	**3,320**	**2,976**	**3,019**
Total regulatory capital	**15,597**	**14,578**	**14,485**	**13,936**

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 our own credit standing and risk, in accordance with CRD IV rules.

(4) Intangible assets, goodwill and defined benefit pension fund assets 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 we announced the redemption of the AT1 instrument in full at the first call date of June 20, 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.

(9) Includes temporary relief to mitigate the impact of volatility in central government debt on capital ratios, in line with the Covid-19 banking package.

Our key capital measures are summarized in the table below:

	As at September 30,	As at April 4,		
	2020	2020	2019 (1)	2018
		(*£ million, except percentages*)		
Solvency ratios				
CET1 ratio	34.5%	31.9%	32.2%(4)	30.4%
Total Tier 1 ratio	38.7%	33.7%	35.2%	33.5%
Total regulatory capital ratio	48.4%	43.6%	44.3%	42.8%
Leverage				
CRR leverage Exposure(3)	£269,343	£254,388	£247,757	£236,458
UK leverage Exposure(2)	£248,391	£240,707	£235,317	£221,982
Total Tier 1 capital	£12,468	£11,258	£11,509	£10,907
CRR leverage ratio	4.6%	4.4%	4.6%	4.6%
UK leverage ratio	5.0%	4.7%	4.9%	4.9%

Notes:

(1) The figures for April 4, 2019 have been restated in respect of counterparty credit risk exposures; this increased total RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio. There is no change to the UK or

CRR leverage ratio to 1 decimal place.

(2) The UK 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.

The CET1 ratio increased to 34.5% (September 30, 2019: 31.5%) as a result of an increase in CET1 capital of £0.5 billion and a reduction in RWAs of £1.2 billion. The CET1 capital increase was driven by a £0.3 billion increase in profits after tax, a £0.1 billion increase in IFRS 9 transitional capital relief (which offsets increases in IFRS 9 provisions over regulatory expected loss) and a reduction in intangible assets deducted from capital of £0.1 billion. The reduction in RWAs was primarily driven by improving retail lending book quality, a reduction in loans and advances to banks and a reduction in risk weights for small and medium-sized enterprises (SMEs) in line with Regulation 2020/873. The CET1 capital increase was driven by a £0.3 billion increase in profits after tax, a £0.1 billion increase in IFRS 9 transitional capital relief (which offsets increases in IFRS 9 provisions over regulatory expected loss) and a reduction in intangible assets deducted from capital of £0.1 billion.

On March 11, 2020 the Bank of England made an announcement regarding its responses to the impacts of Covid-19. This included reducing the UK countercyclical buffer rate from 1% to 0%, which is intended to release capital to support the banks and building societies operating in the UK, to lend to individuals and businesses. This reduced our CRD IV combined capital buffer requirement by 1% to 3.5% of RWAs.

Our risk-based capital ratios remain in excess of regulatory requirements with our CET1 ratio of 34.5% (September 30, 2019: 31.5%) above our CET1 capital requirement of 13.1%. This includes a minimum CET1

capital requirement of 9.6% (Pillar 1 and Pillar 2A) and the CRD IV combined buffer requirements of 3.5% of RWAs.

Whilst the future economic impact of Covid-19 continues to be unclear, it is likely to lead to some RWA inflation and therefore a lower CET1 ratio in the medium term. Any increases in RWAs would also impact the Society's capital surpluses, but we would expect to maintain a surplus above the combined buffer requirement. Once the extended government support schemes announced in November 2020 end, we will better understand how individual members have been affected and the subsequent impact on risk-based ratios. However, the current capital position and the published stress testing results show that Nationwide is well capitalized and positioned to meet such periods of financial stress.

On June 27, 2020, Regulation 2020/873 came into force amending CRR and CRR II in a number of areas in response to the Covid-19 pandemic, including an extension to the IFRS 9 relief on increases in Stage 1 and Stage 2 expected credit losses from January 1, 2020 for two years.

The Covid-19 package also brings forward the implementation date of the application of certain more favorable treatments that had previously been due to apply from June 2021. This includes a reduction in risk weights for exposures to SMEs and for infrastructure lending. The EBA has also published a final draft Regulatory Technical Standard providing additional rules on how the nondeduction of intangible software assets from CET1 capital resources will apply. We expect this change to lead to an improvement in Nationwide's CET1 and leverage ratios of approximately 1 percentage point and 0.2 percentage points respectively.

Also included in the package was the option to apply a temporary prudential filter to neutralize the impact of volatility of central government debt on capital ratios. This allows 100% volatility relief during 2020 on unrealized gains and losses since December 31, 2019, for holdings of central government, regional government and public sector entity (PSE) debt. Nationwide has opted to apply the temporary treatment and as an unrealized gain was recognized in the period, an £8 million deduction to CET1 capital was applied.

CRD IV requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The UK leverage ratio increased to 5.0% (September 30, 2019: 4.6%) as a result of an increase in Tier 1 capital of £1.2 billion, driven by an issuance of £0.7 billion of AT1 capital instruments in June 2020 and the CET1 capital movements referenced earlier. Partially offsetting the impact of this, there was an increase in UK leverage exposure of £7.7 billion primarily as a result of net retail lending and treasury investments in the period. This position remains in excess of Nationwide's capital requirement of 3.6%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.35%. The buffer requirements reflects a 0% countercyclical leverage ratio buffer announced as part of the Bank of England responses to the impacts of Covid-19 made on March 11, 2020.

The CRR leverage ratio increased by 0.3%, closing at 4.6% (September 30, 2019: 4.3%). Following the finalization of the Covid-19 banking package, the European Central Bank (ECB) exercised regulatory discretion declaring exceptional circumstances exist, which allows firms under its direct supervision to benefit from the temporary exclusion of certain exposures to central banks from the total CRR leverage exposure measure. As Nationwide is not directly supervised by the ECB, the exclusion is not applied.

Leverage requirements continue to be our binding capital constraint, as they are in excess of risk-based requirements, and we expect that this will continue despite the impact of IRB model changes and Basel III reforms on risk-based capital requirements. The expected impact of the Basel III reforms on our UK leverage ratio is negligible. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

RWAs reduced by £1.2 billion, partially due to a reduction in the Probability of Default (PD) and Loss Given Default (LGD) rates associated with existing retail mortgage and unsecured lending. In addition, there was a reduction in loans and advances to banks and a reduction in commercial loan RWAs due to the application of more favorable treatments for SME and infrastructure lending in line with Regulation 2020/873.

	As at September 30,	As at April 4,		
	2020	2020	2019	2018
Credit risk [(1)]		*(£ million)*		
Retail mortgages	14,390	14,498	14,072	13,764
Retail unsecured lending	5,683	6,029	5,581	5,805
Commercial loans	2,899	3,183	3,604	4,634
Treasury	1,375	1,541	779	540
Counterparty credit risk[(3)(4)]	1,464	1,619	1,708	1,184
Other[(5)]	1,676	1,783	2,095	1,681
Total credit risk	**27,487**	**28,653**	**27,839**	**27,608**
Operational risk [(2)]	4,746	4,746	4,843	4,901
Total risk weighted assets (RWAs)	**32,233**	**33,399**	**32,682**	**32,509**

Notes:

(1). This column includes credit risk exposures, securitizations, counterparty credit risk exposures and exposures below the thresholds for deduction that are subject to a 250% risk weight.

(2). RWAs have been allocated according to the business lines within the standardized approach to operational risk, as per article 317 of CRR.

(3). Counterparty credit risk relates to derivative financial instruments, securities financing transactions and exposures to central counterparties.

(4) The figures for April 4, 2019 have been restated in respect of counterparty credit risk exposures, increasing total RWAs by 0.5%.

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

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 our future. 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

In common with other financial institutions subject to the FSCS, we continue to 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.

Bank Levy

Bank levy requirements were introduced in the UK in July 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK 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, 2020 was £55 million (year ended April 4, 2019: £43 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, 2020 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, 2020 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, 2020 incorporated by reference herein.

Adoption of new and revised IFRS standards

We have adopted the following standards with effect from April 5, 2019: (i) IFRS 16 ‘Leases’ and (ii) IFRS 9 ‘Financial Instruments’ – Hedge Accounting, both as described further in note 1 of our audited consolidated financial statements for the year ended April 4, 2020.

DESCRIPTION OF BUSINESS

OVERVIEW

We are the largest building society in the United Kingdom in terms of total assets, with £259.7 billion of assets as at September 30, 2020. We have approximately 663 branches and over 16 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 fifth largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 9.3% (as calculated by us based on Bank of England data) and 12.8% (according to Bank of England data), respectively, as at September 30, 2020.

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 UK (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander UK 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, we were founded for a social purpose – to help people save and buy homes of their own. We continue to be driven by this same social purpose – 'to build society, nationwide' - and are committed to doing business in a way that positively impacts our members, employees, communities and environment

Our focus on mortgages and savings remains as relevant today as it was when we were founded in the 19th century. Additionally, our current account proposition 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 mortgages, savings and current accounts.

Our strategy remains underpinned by our five cornerstones which are defined below. These are supported by our strategic targets and key performance indicators, that help us to deliver our strategy.

Built to last

Built to Last is about remaining resilient and secure, and keeping our members' money safe. Our members need to know we are dependable, and they can trust us with their money. We do this by:

- generating a level of profit sufficient to maintain its financial strength and invest for the future;
- 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.

As a member-owned mutual organization, we aim to achieve the right balance between retaining a sufficient level of profit to maintain our financial strength, delivering value to our members through better rates, incentives and propositions, and investing to meet the needs and expectations of members in the future. Our financial performance framework is focused on parameters that help us to achieve this balance.

The outbreak of Covid-19, and the global response to it, has materially impacted the economic environment in which we operate. Whilst our financial performance at September 30, 2020 was impacted by the Covid-19 pandemic, our capital base remains strong, with a Common Equity Tier 1 (CET1) ratio of 34.5% (April 4, 2020: 31.9%) and a UK leverage ratio of 5.0% (April 4, 2020: 4.7%). After the bank base rate fell to historically low levels, we took the decision to reduce interest rates across our savings range. This reduced our Member Financial Benefit to £140 million at September 30, 2020 (September 30, 2019: £375 million), as paying significantly higher rates would not be financially sustainable, nor in the long-term interests of our members or the Society. This level of Member Financial Benefit is below our target as signaled at the full year. However, we remain committed to encouraging a strong savings culture in the UK, giving our savers the best rates we can sustainably afford, and to finding new ways to reward saving.

Our financial performance is supported by our continued 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. We have cut our costs by £92 million to £1,033 million (September 30, 2019: £1,125 million) as we continue to make the Society more efficient in serving our customers.

Building PRIDE

PRIDE is our set of values, beliefs and behaviors that define who we are and the way we conduct our business. It is about creating the right culture where all our colleagues feel supported and can thrive, and building skills and talent for the future, so we can do the best for our members. The guiding principles of PRIDE are:

- **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.

In delivering on these values, we equip our people by:

- providing them with the capabilities and skills they need to best serve our members;
- trusting them with accountable freedom, giving them the space to be innovative and flexibility to work remotely;

- developing our leaders and high potential talent to enable a more empowered and agile workforce;

- inspiring them and invigorating our culture through our PRIDE values.

We are, and intend to remain, one of the UK's best places to work. We aim to create a distinctive experience for our colleagues that supports their performance, learning, growth and wellbeing. We also believe it is important to build an inclusive culture, and want our Society to reflect the diversity of the wider communities we serve. This is supported by our workforce diversity measures, as announced in 2019/20.

We took several steps to help alleviate anxiety for our colleagues through the Covid-19 pandemic, including pledging to no compulsory redundancies in 2020, and introducing a wellbeing app to support mental health, which over a third of our colleagues have now downloaded.

Building legendary service

Our ambition is for members to experience our service as heartfelt, easy, lifelong and personal. We aim to be a leading brand for customer service, both among our peer group and across all sectors in the UK, as we:

- continue to develop a multi-skilled, flexible workforce to support the parts of the Society where member demand for our services is highest;

- invest in growing our digital capabilities and expertise, as we reshape ourselves for an increasingly digital world, which has been accelerated by the Covid-19 pandemic;

- provide easy and seamless access to our people and technology, improving our members' digital experiences, and being there for our members when they need us; and

- deliver 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 for us, and an important driver in helping to grow our membership. We measure our service satisfaction performance among our peer group (defined as competitors with main current account market share greater than 3.5% as of April 2020), using an independent survey conducted by market research experts, Ipsos Mori. Our strategic target for the year ending April 4, 2021 is to be the best for customer satisfaction in our peer group, with a lead of at least 4 percentage points ahead of our nearest competitor. We also have a strategic target to be among the top 5 organizations across all sectors for customer service, as measured by the Institute of Customers Service's UK Customer Satisfaction Index (UK CSI), and in the latest survey (July 2020), we ranked second.

Through the Covid-19 pandemic, we have and continue to coordinate our efforts to maintain service and support for our members. We kept 90% of our branches open through the first UK lockdown to serve our members (99% open as at September 30, 2020), and branch colleagues also handled calls alongside our call center as member demand for our services increased. We also enabled remote working for colleagues; enhanced member-facing voice and video capability; and provided additional support measures for our vulnerable members, such as cash deliveries and a dedicated phone line. Our efforts were also recognized by *Which?* who named us Banking Brand of the Year 2020 – awarded for the fourth year running, with special mention for our flexibility during lockdown.

Building thriving membership

We can support our members in achieving their financial goals, wherever they are in life, whether home ownership, saving for the future, or helping with their day-to-day finances. As we deepen our relationships with our members, we can help them make more of their money and improve their financial wellbeing. We will deliver real value to our membership by:

- innovating our savings proposition, in a low Bank base rate environment, to find new ways to reward members and encourage saving, such as with our prize draw savings accounts;
- delivering a membership proposition that recognizes loyalty by rewarding our most committed members;
- building relationships through enhanced products and services; and
- building depth in our core products of mortgages, savings and current accounts.

Growing our base of committed members allows us to bring the benefits of mutuality to a wider population. We measure our performance through our number of engaged and committed members. Engaged members are defined as those who hold a mortgage or savings account with us (with a balance greater than £5,000 or £1,000 respectively) or who hold their main personal current account with us. As at September 30, 2020 we had 9.5 million engaged members, up from 9.4 million as at September 30, 2019 and 9.1 million as at September 30, 2018. We're aiming to have 10 million engaged members by 2022, with 4 million committed members. A committed member is one who holds an engaged membership product with us (main current account, £1,000 in savings, a mortgage with a balance greater than £5,000) plus at least one other product. As at September 30, 2020 we had 3.6 million committed members, up from 3.5 million as at September 30, 2019 and 3.3 million as at September 30, 2018.

Supporting our members through the Covid-19 pandemic has been and remains a priority for us. As well as supporting our members experiencing financial difficulties with payment holidays on mortgages, and payment breaks or interest-free periods on personal loans, credit cards and overdrafts, we have also pledged that no mortgage member who has fallen into arrears because of the financial impact of Covid-19 will lose their home until at least May 31 2021, as long as they work with us to manage their money. We are also encouraging buy to let landlord customers to pass on payment breaks to tenants and have funded six more advisors for our long-term charity partner Shelter's helplines, to help more people with housing, debt and welfare issues. For our members who were able to buy or move home, we continued to lend responsibly and at competitive rates, and were one of the few UK lenders to support first time buyers with higher loan to value loans after the UK lockdown.

Building a national treasure

Our ambition is to be considered a 'national treasure' in British society, by making a difference in our communities and society, and being recognized as a responsible, sustainable and caring provider of financial services. We will continue to leverage the mutual difference that sets our brand apart by:

- leading by example, being an influencer and acknowledged expert in our field;
- improving awareness of the Nationwide brand and our mutual difference; 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. Amongst non-customers, in the year ended October 31, 2020, the Society was top for prompted brand consideration (with a lead of 7.1 percentage points) and first for trust (4.4% ahead of its nearest peer)[8]. For the year ending April 4, 2021, our strategic targets are to continue to lead in both measures.

Climate change

[8] *Source: Nationwide Brand Guidance Study – compiled by Kantar, based on responses of non-customers of each brand (12 months ending 31st October 2020). Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB, Santander & TSB. For 'prompted brand consideration' data includes consumer responses of 'first choice' or 'seriously considered' brand.*

As a business originating from a social purpose and run with mutuality at its heart, responsible governance and a focus on social and environmental betterment are embedded in our core purpose. To enhance our governance and approach to responsible business we've established a Responsible Business Committee, and made a commitment to the UN Sustainable Development Goals (SDGs). We have also taken steps to better manage the risks posed by climate change, reduce our own climate impact and make available a £1 billion loan fund for preferential rate mortgages and additional borrowing for new energy efficient properties and green home improvements.

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. As a result, the number of building societies in the United Kingdom has fallen dramatically over the same period. One consequence of this decrease is that the majority of our competitors are banks. We believe that our mutual status allows us to compete successfully with banks, and it is our strategy to remain a building society.

In 1997, when many of our competitors that were building societies demutualized, we experienced a sharp increase in the number of new UK member retail savings accounts. We believe that many of these accounts were opened because customers expected 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.

We have been involved in a number of mergers and acquisitions in recent years. We merged with Portman Building Society in August 2007 and with Cheshire Building Society and Derbyshire Building Society in December 2008. In March and June 2009, we also acquired selected assets and liabilities of Dunfermline Building Society. We believe these developments have added value, improved our distribution footprint, helped 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", we decided to exit our offshore deposit taking business in the Isle of Man and also announced the closure of our 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. Our interests in our principal subsidiary undertakings, all of which are consolidated, as at September 30, 2020 are set out below:

100% held subsidiary undertakings	Nature of business
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) 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 UK 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.

TMW is a wholly owned centralized mortgage lending subsidiary, specializing mainly in residential BTL lending to individuals. As at September 30, 2020, it had mortgage assets of £35.8 billion

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 September 30, 2020.

Group undertaking	Nature of business	Country of registration	Country of operation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK
Silverstone Funding No. 1 Limited	Funding vehicle	England and Wales	UK

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 UK 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 September 30, 2020, we were the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding and calculated by us based on Bank of England 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 September 30, 2020.

	As at September 30, 2020
	(*£ billions*)
Prime	151.3
Specialist	39.3
of which:	
BTL	37.2
Other[(1)]	2.1

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

Source: Nationwide Building Society – unaudited financial statements for the six months ended September 30, 2020

We offer specialist UK residential mortgage lending to individuals, comprising lending to private landlords (BTL) and other non-conforming lending. As at September 30, 2020, our outstanding specialist UK residential mortgage lending to individuals was £39.3 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 0.42% of the total mortgage book as at September 30, 2020. Arrears levels are likely to have been suppressed by the usage of payment deferrals in the period and, when combined with the current UK economic conditions, an increase in arrears from current levels is expected over the medium term.

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

The table below shows the geographical distribution of our UK residential mortgage loans as at September 30, 2020.

	UK residential mortgage lending to individuals as at September 30, 2020
	(*percentages)*
Region	
Greater London	33%
Central England	19%
Northern England	15%
South East England (excluding London)	13%
South West England	10%
Scotland	6%
Wales	3%
Northern Ireland	1%
Total	**100%**

Source: Nationwide Building Society – unaudited financial statements for the six months ended September 30, 2020

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 Bank of England 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 Bank of England 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 in the period was £12.7 billion (September 30, 2019: £16.3 billion), the reduction reflecting the impact of the lockdown in April and May, with a gross market share of 12.0% (September 30, 2019: 12.3%). Lending subsequently recovered following the relaxation of restrictions and the announcement of changes to stamp duty. Despite the sustained competition in the UK mortgage market, we have maintained broadly stable prime mortgage balances at £151.3 billion (April 4, 2020: £151.1 billion). Our specialist mortgage balances (being predominantly buy to let) increased by £1.6 billion (September 30, 2019: £1.5 billion) to £39.3 billion (April 4, 2020: £37.7 billion) as a result of strong performance in our core product range, supported by enhancements to our proposition, including lending to limited companies and portfolio landlords.

At the end of the period, the maximum LTV for new prime residential borrowers was 90% (September 30, 2019: 95%). The average LTV of prime new business completed in the period has reduced to 71% (September 30, 2019: 74%), reflecting the withdrawal from higher LTV lending at the start of the pandemic. In the specialist (buy to let) portfolio, the average LTV of new business increased from 65% to 66% following a shift towards business on longer terms at higher LTVs. With house price increases during the period, the average indexed LTV of total loan stock has reduced to 56% (April 4, 2020: 58%).

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 increased slightly to 0.42% as at September 30, 2020, which compares favorably with the UK Finance average of 0.82% 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 September 30, 2020 and as at April 4, 2020, 2019 and 2018 and the UK Finance average.

	As at September 30,	**As at April 4,**		
	2020	**2020**	**2019**	**2018**
	(percentages)			
Prime	0.34	0.33	0.35	0.34
Specialist	0.75	0.74	0.82	0.83
Group	**0.42**	**0.41**	**0.43**	**0.43**
UK Finance average	0.82	0.74	0.79	0.81

Source: Audited financial statements for the years ended April 4, 2020, 2019 and 2018 and unaudited financial statements for the six months ended September 30, 2020.

In line with regulatory guidance, the arrears figures above do not take into account payment holidays that we afforded to our borrowing members in the context of the Covid-19 pandemic. This approach has suppressed

the impact of the pandemic on arrears data, and will continue to do so in the short term. We continue to monitor developments and updated regulatory guidance on the assessment of payment holidays and other forbearance measures in this context.

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 27% during the six months ended September 30, 2020 (six months ended September 30, 2019: 33%) with our share representing approximately one in six first time buyers. During the period, as a result of market dislocation due to the pandemic, there has been a movement in the distribution of new business towards remortgages and specialist (buy to let) lending.

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 Banking

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. Over the period, total balances across these portfolios have decreased by £133 million to £4,756 million (September 30, 2019: £4,889 million), equating to a 2.7% reduction. The reduction in balances reflects reduced customer demand for new products, the implementation of controls that reduce new lending to address the increased risk arising from Covid-19, and lower member spending during the Covid-19 pandemic. Almost all of our consumer loans are made on an unsecured basis.

Unsecured retail banking products 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 retail banking products: 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 UK retail member deposits. As at September 30, 2020, our UK retail member deposits increased by £1.3 billion to £161 billion from £159.7 billion at April 4, 2020. UK retail member deposits represented 65% of our total liabilities and reserves as at September 30, 2020. Growth in current account credit balances was driven by reduced consumer spending through lockdown in April and May, which remains below expected levels since restrictions were relaxed. Savings balance outflows reflect the impact of the decision to reduce interest rates across our savings range following the bank base rate reductions in March 2020, alongside our reduced on-sale rates, with elevated flows seen to more competitively priced providers. In addition, there was a more significant overall increase in deposit balances across the UK, primarily during the period of lockdown, which has led to a reduction in our deposit stock market share to 9.3% (September 30, 2019: 9.9%). Our market share of all current accounts increased to 10.1% (April 4, 2020: 10.0%).

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 UK retail member deposits from a number of sources, chiefly from our branch network but also by mail and internet-based deposit accounts.

The UK retail savings market is highly competitive among building societies and banks, including those banks owned by insurance companies and retailers. This competition has increased the relative cost of retail funds, especially new retail funds.

Our retail business also manages a range of business savings accounts that are offered to UK-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.

Personal banking

We have a growing base of current account customers, which we estimate accounts for an 10.1% share of main standard and packaged current accounts in the United Kingdom. We opened 256,000 new current accounts in the six months ended September 30, 2020 (September 30, 2019: 391,000) maintaining our stock market share. Fewer people wanted to open a new current account or switch their existing account during the last six months. In the six months ended September 30, 2020, of those who opened a new account, one in seven chose Nationwide (September 30, 2019: one in seven).

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 £1.6 billion at September 30, 2020.

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 year ended April 4, 2020, 2019 and 2018, we earned £50 million, £65 million and £76 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.

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 centers;
- mail;
- internet and mobile banking; and
- intermediaries.

We also maintain a network of ATMs.

Branches

Our branch network continues to be a major source of our mortgage lending and retail funding. As at September 30, 2020, we had approximately 663 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 centers

Our telephone call centers are open 24 hours a day to service customers and receive calls from potential customers that are interested in our products. In addition, we use telemarketing to supplement our mortgage, insurance and personal loan marketing.

Mail

We offer mail-based savings accounts that provide members with higher interest rates on their deposits in return for limiting them to transactions by mail, online banking and ATMs. We also use direct mail to market some of our products.

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 UK insurance companies to small independent mortgage advisors. We remunerate intermediaries for introducing mortgage business.

ATMs

Our customers have access to our own network of 1,356 ATMs (as at September 30, 2020), 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 September 30, 2020, 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 PFI 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 September 30, 2020.

	As at September 30, 2020	
	(*£ billions*)	(*percentage of total commercial loans*)
Registered social landlords	5.1	76%
Commercial real estate	0.9	13%
Private finance initiative	0.7	11%
Total	**6.7**	**100%**

RSL loans are made to UK registered social landlords, are secured on residential property and differ significantly from other loans secured on real property. UK registered social landlords provide affordable housing supported by Government grants. This portfolio historically has carried a lower risk than our other commercial lending activities, and there are currently no arrears of three months or more in 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 UK 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.

Recent developments

We are exposed to any downturn in the UK's economic conditions and to the UK housing market in particular. The Covid-19 pandemic has severely impacted both the UK and global economies and the economic environment in which we operate. The pandemic is having far-reaching impact on the economy, impacting our financial performance, credit profile, the way we interact with customers and our business operations.

Prospects

From March 2020 onwards, there has been a material impact to our financial prospects in relation to Covid-19, following the bank base rate reductions and as the UK enters a more uncertain economic environment. The outbreak of Covid-19, and the global response to it, has materially impacted the economic environment in which we operate. As a result, we consider that the financial performance framework which has guided our decisions in the past is no longer appropriate in the current environment, and we are focused on maintaining our strong capital and liquidity positions through the economic cycle.

While stress testing results demonstrate that we are resilient against significant short-term economic shocks, the longer-term financial impact of Covid-19 is not yet clear and remains difficult to quantify. The pandemic is likely to cause interest rates to remain at historically low levels (and there is increasing speculation about the possibility for the UK base rate to move to a negative rate), and will result in longer term economic effects, potentially putting pressure on our financial performance. Our operating environment is expected to remain highly competitive and further increases in competition would increase the level of business risk for us.

Support for our members

We are seeking to support our members with a range of measures in light of Covid-19, including offering mortgage payment holidays (which, in accordance with regulatory guidance, have not been included within the forbearance population and do not automatically have an impact on the reported staging balances). In addition to an initial offer of three-month mortgage payment holidays in the early stages of the outbreak, we have announced our Home Support Package, which includes:

- for members with a Nationwide mortgage, a choice of either flexibility in mortgage payments (such as making reduced payments for a time) or the option to take a new mortgage payment break of up to a further three months;
- for members who have fallen into arrears because of the financial impact of Covid-19 and who continue to work with us to help get their mortgage back on track, a commitment not to take any action to repossess their home before May 31, 2021;
- to support those who rent, encouraging landlords who have a buy to let mortgage with us to pass on payment breaks to tenants; and
- increased provision of housing advice and support, as well as providing extra funding to Shelter (with which we have a longstanding partnership) to help pay for more people to take calls on their helplines, and supporting the introduction of new Shelter community engagement officers to provide community outreach for those people who struggle to access support.

Furthermore and in light of the Covid-19 pandemic, we are conscious there is the potential for a great deal of anxiety for our employees about health and livelihoods. To reduce anxiety, and in line with our values, we have introduced a number of promises to our employees including, notably, a commitment not to make any compulsory redundancies during 2020.

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, 2020, 2019 and 2018, respectively:

	For the year ended April 4, 2020		
	Average balance[(1)]	**Interest[(2)]**	**Average yield/ rate**
	(£ million, except percentages)		
Interest-earning assets:			
Loans to credit institutions	20,772	179	0.86%
Debt securities & derivative financial instruments[(2)]	21,383	98	0.46%
Loans to customers	201,871	4,850	2.4%
Total average interest-earning assets	**244,026**	**5,127**	**2.1%**
Non-interest-earning assets:			
Tangible fixed assets	1,115		
Fair value adjustment for hedged risk	1,028		
Other financial assets at fair value	-		
Other assets	960		
Goodwill and intangible fixed assets	1,343		
Investment properties	5		
Deferred tax assets	66		
Total average assets	**248,543**		
Interest-bearing liabilities:			
UK retail member deposits	157,140	1,355	0.86%
Other deposits	26,995	194	0.72%
Debt securities in issue and derivative financial instruments[(2)]	40,989	525	1.28%
Subordinated liabilities	8,602	241	2.8%
Subscribed Capital	252	5	2.0%
Unwind of discount of pension liabilities	-	3	0.0%
Total average interest-bearing liabilities	**233,978**	**2,317**	**0.99%**
Non-interest-bearing liabilities:			
Other liabilities	1,637		
Fair value adjustment for hedged risk	9		
Other financial liabilities at fair value	-		
Reserves	12,771		
Current taxes	151		
Total average liabilities	**248,546**		

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, 2019		
	Average balance[1]	**Interest[2]**	**Average yield/ rate**
	(£ million, except percentages)		
Interest-earning assets:			
Loans to credit institutions	20,590	164	0.80%
Debt securities & derivative financial instruments[2]	18,793	88	0.47%
Loans to customers	196,030	4,866	2.48%
Total average interest-earning assets	**235,413**	**5,118**	**2.17%**
Non-interest-earning assets:	-		
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		
Total average assets	**238,372**		
Interest-bearing liabilities:	-		
UK retail member deposits	152,926	1,331	0.87%
Other deposits	27,153	168	0.62%
Debt securities in issue and derivative financial instruments[2]	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%
Total average interest-bearing liabilities	**224,109**	**2,203**	**0.98%**
Non-interest-bearing liabilities:	-		
Other liabilities	1,399		
Fair value adjustment for hedged risk	(30)		
Other financial liabilities at fair value	-		
Reserves	12,733		
Current taxes	161		
Total average liabilities	**238,372**		

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[1]		
	Average balance[2]	**Interest[3]**	**Average yield/ rate**
	(£ million, except percentages)		
Interest-earning assets:			
Loans to credit institutions	20,480	110	0.53%
Debt securities & derivative financial instruments[2]	16,230	50	0.31%
Loans to customers	190,282	4,651	2.45%
Total average interest-earning assets	**226,992**	**4,811**	**2.12%**
Non-interest-earning assets:			

	For the year ended April 4, 2018[1]		
	Average balance[2]	Interest[3]	Average yield/ rate
	(£ million, except percentages)		
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		
Total average assets	**230,079**		
Interest-bearing liabilities:			
UK retail member deposits	146,297	1,115	0.76%
Other deposits	21,768	61	0.28%
Debt securities in issue and derivative financial instruments[2]	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%
Total average interest-bearing liabilities	**216,365**	**1,807**	**0.83%**
Non-interest-bearing liabilities:			
Other liabilities	1,668		
Fair value adjustment for hedged risk	(33)		
Other financial liabilities at fair value	4		
Reserves	11,920		
Current taxes	155		
Total average liabilities	**230,079**		

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

(2) Average balances are based on the balance as of the end of each month during the financial year.

(3) 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, 2020, 2019 and 2018, respectively:

	As at April 4, 2020
	(£ million, except percentages)
Net average interest-earning assets	244,026
Net average interest-bearing liabilities	233,978
Net interest income[1]	2,810
Average yield on average interest-earning assets	2.10%
Average rate on average interest-bearing liabilities	0.99%
Net interest spread[2]	1.11%
Net interest margin[3]	1.15%

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.

	As at April 4, 2019
	(£ million, except percentages)
Net average interest-earning assets	235,413
Net average interest-bearing liabilities	224,109
Net interest income[(1)]	2,915
Average yield on average interest-earning assets	2.17%
Average rate on average interest-bearing liabilities	0.98%
Net interest spread[(2)]	1.19%
Net interest margin[(3)]	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.

	As at April 4, 2018
	(£ million, except percentages)
Net average interest-earning assets	262,992
Net average interest-bearing liabilities	216,365
Net interest income[(1)]	3,004
Average yield on average interest-earning assets	2.12%
Average rate on average interest-bearing liabilities	0.83%
Net interest spread[(2)]	1.29%
Net interest margin[(3)]	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, 2020 compared to the year ended April 4, 2019. 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, 2020 compared to year ended April 4, 2019		
	Increase/(decrease) in net interest due to changes in:		
	Volume	Yield/rate	Total net change
	(£ million)		
Interest income:[(1)]			

Loans to credit institutions	182	15	197
Debt securities and derivative financial instruments	2,590	10	2,600
Loans to customers	5,841	(16)	5,825
Total interest income	**8,613**	**9**	**8,622**
Interest expense:(1)			
UK retail member deposits	4,214	24	4,238
Other Deposits	(158)	26	(132)
Debt Securities in Issue and Derivative Financial Instruments	3,685	9	3,694
Subordinated liabilities	2,133	64	2,197
Subscribed Capital	(5)	-	(5)
Unwind of Discount of Pension Liabilities	-	(9)	(9)
Total interest expense	**9,869**	**114**	**9,983**
Net interest income	**(1,256)**	**(105)**	**(1,361)**

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, 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**
	(£ million)		
Interest income:(1)			
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
Total interest income	**8,421**	**300**	**8,721**
Interest expense:(1)			
UK 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)
Total interest expense	**7,744**	**396**	**8,140**
Net interest income	**677**	**(96)**	**581**

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**	**Total net change**
		(£ million)	
Interest income:(1)			
Loans to credit institutions	5	46	51
Debt securities and derivative financial instruments	4	(12)	(8)
Loans to customers	140	(415)	(275)
Total interest income	**173**	**(405)**	**(232)**
Interest expense:(1)			
UK 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)
Total interest expense	**66**	**(349)**	**(283)**
Net interest income	**107**	**(56)**	**51**

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 September 30, 2020, our investment securities portfolios were carried at a book value of £22,383 million, representing 8.6% 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 September 30, 2020 and as at April 4, 2020, 2019 and 2018, respectively:

	As at September 30,	**As at April 4,**		
	2020	**2020**	**2019**	**2018**
		(£ million)		
Government and supranational investment securities	19,809	15,897	12,306	9,592
Other debt investment securities	2,553	4,094	3,909	3,450

	As at September 30,	As at April 4,		
	2020	2020	2019	2018
		(£ million)		
Investments in equity shares	21	13	19	4
Total	**22,383**	**20,004**	**16,234**	**13,046**

Investment portfolio by credit rating & country/region

	As at September 30, 2020									
		AAA	AA	A	Other	UK	US	Europe	Japan	Other
	(£ million)					*(percentages)*				
Liquid Assets:										
Government Bonds[2]	18,905	33	57	10	-	36	21	28	8	7
Supranational bonds	904	86	14	-	-	-	-	-	-	100
Covered bonds	1,756	100	-	-	-	63	-	22	-	15
Residential mortgage backed securities (RMBS)	438	100	-	-	-	71	-	29	-	-
Asset backed Securities (other)	312	100	-	-	-	61	-	39	-	-
Liquid Assets total	**22,315**	**43**	**49**	**8**	**-**	**38**	**18**	**27**	**7**	**11**
Other Securities[3][1]										
RMBS FVOCI	16	100	-	-	-	100	-	-	-	-
RMBS amortized cost	1,594	83	12	5	-	100	-	-	-	-
Other Investments[4]	52	-	48	-	52	52	-	48	-	-
Other securities total	**1,662**	**81**	**13**	**5**	**1**	**99**	**-**	**1**	**-**	**-**
Total	**23,977**	**45**	**46**	**8**	**-**	**42**	**17**	**25**	**6**	**10**

Notes:
(1) Ratings used are obtained from Standard & Poor's (S&P), and from Moody's or Fitch if no S&P rating is available.
(2) Balances classified as government bonds include government guaranteed and agency bonds.
(3) Includes RMBS (UK buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR
(4) Includes investment securities held at FVTPL of £12 million for 2020 (April 4, 2019: £12 million, April 4, 2018 IAS 39 basis £nil).

	As at September 30, 2019								
		AAA	AA	A	Other	UK	US	Europe	Other
	(£ million)				*(percentages)*				
Liquid Assets:									
Government Bonds[2]	11,863	37	56	7	-	45	28	19	8
Supranational bonds	713	100	-	-	-	-	-	-	100
Covered bonds[3]	1,428	100	-	-	-	61	-	19	20
Residential mortgage backed securities (RMBS)	506	100	-	-	-	60	-	50	-
Asset backed Securities (other)	270	100	-	-	-	51	-	49	-
Liquid Assets total	**14,780**	**49**	**45**	**6**	**0**	**45**	**22**	**20**	**13**
Other Securities [4]									
RMBS FVOCI	113	40	33	27	-	100	-	-	-
RMBS amortized cost	1,697	84	6	8	2	100	-	-	-
Other Investments [5]	128	-	25	56	19	19	56	25	-
Other securities total	**1,938**	**76**	**9**	**12**	**3**	**94**	**4**	**2**	**-**
Total	**16,718**	**53**	**41**	**6**	**-**	**51**	**20**	**18**	**12**

Notes:

(1) Ratings used are obtained from Standard & Poor's (S&P) and from Moody's or Fitch if no S&P rating is available. For loans and advances to banks and similar institutions, internal ratings are used.

(2) Balances classified as government bonds include government guaranteed and agency bonds.

(3) Prior year ratings have been restated to be consistent with the current year presentation.

(4) Includes RMBS (UK buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).

(5) Includes investment securities held at FVTPL of £91 million (April 4, 2019: £78 million)

The following table shows the contractual maturity of investment securities held as at April 4, 2020, 2019 and 2018:

	2020	2019	2018
		(£ million)	
Due less than 1 month	18	16	76
Due between 1 and 3 months	495	20	64
Due between 3 and 6 months	376	114	17
Due between 6 and 9 months	107	284	141
Due between 9 and 12 months	137	78	89
Due between 1 and 2 years	373	971	387
Due between 2 and 5 years	4,715	5,558	2,498
Due after more than 5 years	13,783	9,193	9,774
Total	**20,004**	**16,234**	**13,046**

Loan Portfolio

As at April 4, 2020 total loans to customers excluding fair value adjustments for portfolio hedged risk, including accrued interest, were £200,237 million, representing 81% of our total assets. Our loan portfolio net of allowances has increased by 0.3% during the last year from £203,060 million as at April 4, 2019 to £203,614 million as at April 4, 2020.

The following table summarizes our loan portfolio, net of allowances, as at April 4, 2020, 2019 and 2018, respectively:

	As at April 4,		
	2020	2019	2018[1]
		(£ million)	
Residential mortgage loans	151,084	151,473	144,011
Consumer banking	4,500	4,168	3,742
Specialist Lending	37,503	34,333	33,057
Commercial Lending	7,150	8,194	9,569
Total loans to customers	**200,237**	**198,168**	**190,379**
Fair value adjustment for micro hedged risk[2]	741	883	1,042
Loans and advances to banks	3,636	4,009	3,493
Total	**203,614**	**203,060**	**194,914**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

(2) 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, 2020:

	As at April 4, 2020					
	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	Total[1]
			(£ million)			
Loans and advances to customers	2,856	1,395	6,348	32,253	158,126	200,978
Loans and advances to banks	2,832	-	-	-	804	3,636
Total Loans portfolio net of impairment provisions	**5,688**	**1,395**	**6,348**	**32,253**	**158,930**	**204,614**

Note:

(1) The maturity analysis is produced on the basis that where a loan is repayable by installments, each installment is treated as a separate repayment.

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 tables show the payment status of all residential mortgages as at April 4, 2020 and 2019:

	As at April 4, 2020				As at April 4, 2019			
	Prime	**Specialist**	**Total**		**Prime**	**Specialist**	**Total**	
(Audited)		*(£ million)*		*%*		*(£ million)*		*%*
Not past due	149,387	36,684	186,071	98.5	149,771	33,468	183,239	98.5
Past due 0 to 1 month	1,062	356	1,418	0.8	1,038	392	1,430	0.8
Past due 1 to 3 months	311	307	618	0.3	318	265	583	0.3
Past due 3 to 6 months	177	142	319	0.2	177	159	336	0.2
Past due 6 to 12 months	112	109	221	0.1	122	121	243	0.1
Past due over 12 months	82	81	163	0.1	84	69	153	0.1
Possessions	9	20	29	-	7	21	28	-
Total residential mortgages	**151,140**	**37,699**	**188,839**	**100**	**151,517**	**34,495**	**186,012**	**100**

The proportion of loans in arrears has remained stable at 1.5% (April 4, 2019: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending. In total, £352 million (April 4, 2019: £370 million) of specialist lending balances were more than 3 months past due or in possession, which includes the impact of the change in the treatment of arrears on deceased accounts described above. Of the £352 million (2019: £370 million), £220 million (April 4, 2019: £233 million) relates to legacy portfolios in run-off.

As at April 4, 2020, the mortgage portfolios include 1,556 (2019: 1,491) mortgage accounts, including those in possession, where payments were more than 12 months in arrears. The total principal outstanding in these cases was £181 million (2019: £165 million), and the total value of arrears was £22 million (April 4, 2019: £20 million) or 0.01% (April 4, 2019: 0.01%) of total mortgage balances.

We are providing support to customers who have been financially affected by Covid-19. Payment holidays granted in this respect will suppress the impact of the pandemic on arrears in the short term.

The following table shows the payment status of all residential mortgages as at April 4, 2019 and April 4, 2018:

	As at April 4, 2019				As at April 4, 2018			
	Prime	**Specialist**	**Total**		**Prime**	**Specialist**	**Total**	
(*Audited*)		*(£ million)*		*%*		*(£ million)*		*%*
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	-
Total	**151,517**	**34,495**	**186,012**	**100**	**144,049**	**33,250**	**177,299**	**100**

The proportion of loans in arrears remained stable at 1.5% as at April 4, 2019 (April 4, 2018: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the favorable economic conditions and loss interest rate environment, supported by robust credit assessment and affordability controls at the point of lending.

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, 2020:

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				**Credit impaired** [1]			
	Subject to 12 month ECL		**Subject to lifetime ECL**		**Subject to lifetime ECL**		**Total**	
	Stage 1		**Stage 2**		**Stage 3 end POCI**			
Group	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
				(£ millions)				
At April 5, 2019	187,368	68	9539	261	1,797	336	198,704	665
Stage transfers:								
Transfers from Stage 1 to Stage 2	(16,930)	(39)	16,930	39	-	-	-	-
Transfers to Stage 3	(330)	-	(938)	(110)	1,268	110	-	-
Transfers from Stage 2 to Stage 1	14,397	226	(14,397)	(226)	-	-	-	-
Transfers from Stage 3	202	2	554	23	(756)	(25)	-	-
Net remeasurement of ECL arising from transfer of stage		(184)		262		18		96
Net movement arising from transfer of stage[2]	(2,661)	5	2,149	(12)	512	103	-	96
New assets originated or purchased[3]	34,049	31	-	-	-	-	34,049	31
Further lending/repayments [4]	(9,947)	(24)	(77)	(10)	(81)	(21)	(10,105)	(55)
Changes in risk parameters in relation to credit quality[5]	-	(1)	-	42	-	26	-	67
Other items impacting income statement charge/(reversal) including recoveries	-	-	-	-	(1)	(11)	(1)	(11)
Redemptions[6])	(20,406)	(4)	(921)	(12)	(302)	(4)	(21,629)	(20)
Additional prevision for Covid-19[7]								101
Income statement charge for the year								209
Decrease due to write-offs	-	-	-	-	(123)	(99)	(123)	(99)
Other provision movements	-	-	-	-	-	11	-	11
April 4, 2020[7]	188,403	75	10,690	269	1,802	341	200,895	786

Net carrying amount[7].....	188,328	10,421	1,461	200,109

Notes:

(1) Group gross balances of credit impaired loans include £155 million (2019: £167 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (2019: £6 million).

(2) The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.

(3) If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in Stage 1.

(4) This comprises further lending and capital repayments where the asset is not derecognized. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.

(5) This comprises changes in risk parameters, and changes to modeling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.

(6) For any asset that is derecognized in the month, the value disclosed is the provision at the start of that month.

(7) An additional provision for credit losses has been recognized to reflect the estimated impact of the Covid-19 pandemic on ECLs. For the Group, the additional provision at April 4, 2020 is £101 million. This additional provision has not been allocated to underlying loans nor has it been attributed to stages, but is shown in the total column of the table.

The following table sets forth our impairment provisions for the years ended April 4, 2020, 2019 and 2018:

Impairment provisions

	2020	2019	2018[1]
		(£ million)	
Prime residential	56	44	47
Specialist residential.....	196	162	188
Consumer banking.....	494	418	365
Commercial and other lending	40	41	29
Total.....	**786**	**665**	**629**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

The following tables show the allowances for loan losses as a percentage of total loans, analyzed by category for the six months ended September 30, 2019 and the years ended April 4, 2020, 2019 and 2018:

September 30, 2020	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	151,291	74.91%	78	0.05%
Specialist residential mortgages	39,070	19.35%	224	0.57%
Consumer banking.....	4,225	2.09%	531	12.57%
Commercial and other lending	7,376	3.65%	42	0.57%
Total.....	**201,962**	**100%**	**875**	**0.43%**

April 4, 2020	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	151,084	75.17%	56	0.04%
Specialist residential mortgages	37,503	18.66%	196	0.52%
Consumer banking.....	4,500	2.24%	494	10.98%
Commercial and other lending	7891	3.93%	40	0.51%
Total.....	**200,978**	**100%**	**786**	**0.39%**

April 4, 2019	Total Balance	(%) of Total	Provision	Provision/Total Balance
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%
Total.....	**199,051**	**100.00%**	**665**	**0.33%**

April 4, 2018[1]	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	144,011	75.23%	47	0.03%
Specialist residential mortgages	33,057	17.27%	188	0.57%
Consumer banking.....	3,742	1.95%	365	9.75%
Commercial and other lending	10,611	5.55%	29	0.27%
Total.....	**191,421**	**100.00%**	**629**	**0.33%**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

Deposits

The following table sets out the average balances and average interest rates for each deposit type for the year ended April 4, 2020:

	For year ended April 4, 2020	
	Average balance	Average rate paid
	(£ million, except percentages)	
UK retail member deposits.....	157,140	0.86%
Other customer deposits and amounts due to banks[1].....	26,995	0.72%

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, 2019:

	For year ended April 4, 2019	
	Average balance	Average rate paid
	(£ million, except percentages)	
UK retail member deposits.....	152,926	0.87%
Other customer deposits and amounts due to banks[1].....	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:

	For year ended April 4, 2018

	Average balance	Average rate paid
	(£ million, except percentages)	
UK retail member deposits	146,297	0.76%
Other customer deposits and amounts due to banks[(1)]	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.

Maturity of Deposits

The following table shows the maturity analysis of time deposits over $100,000 and certificates of deposit as at April 4, 2020:

	As at April 4, 2020			
	Time deposits	Certificates of deposit	Total	(%)
	(£ million, except percentages)			
Less than 3 months	1,471	1,839	3,310	93%
3 months to 6 months	79	154	233	7%
6 months to 1 year	4	12	16	-
Over 1 year	-	5	5	-
Total	**1,554**	**2,010**	**3,564**	**100%**

Return on Assets

The following table represents net income as a percentage of total average assets:

	For the year ended April 4,		
	2020	2019	2018
	(£ million, except percentages)		
Net income[(1)]	365	618	745
Total average assets[(2)]	248,545	238,368	230,081
Return on total average assets	0.15%	0.26%	0.32%

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 risk (including basis risk), currency risk, credit risk and 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 use derivative instruments to manage various aspects of risk. However, in doing so we comply with the UK Building Societies Act in relation to the use of derivatives for the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

Derivatives

Our risk management approach is to use interest rate and currency derivatives to economically hedge the fair value of fixed rate assets and liabilities. The market risk from fixed rate assets and liabilities may be netted down before deciding to use derivatives. The derivatives used are predominantly interest rate swaps, which convert fixed rate cash flows to a benchmark floating rate such as LIBOR, SOFR or SONIA, and cross currency swaps which convert foreign currency cash flows to GBP cash flows. In addition, bond forwards are used to reduce swap spread risk within the investment securities portfolio and inflation swaps are used to economically hedge contractual inflation risk within investment securities.

While our derivative financial instruments are held for risk mitigation purposes, not all of these derivatives are designated as hedging instruments as defined by IFRS 9.

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/SOFR/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/SOFR/SONIA and inflation risk.	Interest rate swaps including basis swaps, interest rate futures, swaptions, caps, collars, forward rate agreements
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency swaps, FX swaps, 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. We currently uses two of the three types of hedge accounting permitted by IFRS 9: 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. To comply with EU regulatory requirements, we, as a direct member of a central counterparty (CCP), have central clearing capability which we use to clear standardized derivatives. Where derivatives are not cleared at a CCP they are transacted under the International Swaps and Derivatives Association (ISDA) Master Agreement.

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

Our main market risk 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 where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO.

In addition to primary lending and borrowing activities, income volatility arising from certain rate insensitive products (including reserves and CCDS) are structurally hedged.

Our interest rate risk is measured using a combination of value-based assessments and earnings sensitivity assessments.

The VaR model incorporates risk factors based on historic interest rate and currency movements. A 10-day horizon and a 99% confidence level is typically used in day to day VaR monitoring. VaR is used to monitor interest rate, swap spread, currency and product option 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. The values reported below are on the same basis as those used internally.

Although VaR is a valuable risk measure, it needs to be viewed in the context of the following limitations which may mean that exposures could be higher than modeled:

- 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;
- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of offsetting positions in those extreme events;
- The VaR model uses historical data to predict future events. Extreme market moves outside of those used to calibrate the model will deliver exceptions. In periods where volatility is

increasing, the model is likely to under-predict market risks and in periods where volatility is decreasing it is likely to over-predict market risks;

- Historical data may not adequately predict circumstances arising from government interventions and stimulus packages, which increase the difficulty of evaluating risks.

To seek to mitigate these limitations, backtesting of the VaR model is undertaken regularly to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss occurs that is greater than the VaR on any given day. The chart below shows the results of this backtesting. The loss exceptions seen were all driven by significant movements in market rates, most notably in the period leading up to year end with the unprecedented events causing three exceptions in as many weeks. The dynamic recalibration of the VaR model has increased the VaR model output following the incorporation of the period of heightened market volatility caused by Covid-19. In 2019/20, the backtesting and broader model governance did not highlight any model deficiencies.

To evaluate the potential impact of more extreme but plausible events or movements in a set of financial variables, the standard VaR metric is supported with sensitivity and stress analysis.

For example, for interest rate risk exposures, the standard PV01 sensitivity analysis is supplemented by 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 monitored daily.

In addition, stressed VaR is used to estimate the potential loss arising from unfavorable 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.

The table below highlights our limited exposure to interest rate risk, shown against a range of value-based assessments. These sensitivities do not include retail product behavioral changes, which are captured by other measures.

	For the year ended April 4, 2020			**For the year ended April 4, 2019**		
	Average	**High**	**Low**	**Average**	**High**	**Low**
			(£ million)			
VaR (99%/10-day) *(audited)*	1.3	4.2	0.4	1.1	3.1	0.4
Sensitivity analysis (PV01) *(audited)*.	0.0	0.1	0.0.	0.0	0.1	(0.1)
Stress testing (PV200: all currencies)	6.1	22.6	(14.1)	6.1	21.4	(23.4)

Earnings sensitivity assessments are also used to measure the risk that income is adversely impacted by changes in interest rates. 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. Illustratively, if interest rates were to fall 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.

We also measure interest rate risk through net interest income ("**NII**") and economic value of equity ("**EVE**") measures, under a range of shock scenarios which include behavioral assumptions for retail products as interest rates change. These measures are assessed based on the standard shocks prescribed by EBA guidelines, 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 our financial strength throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of our 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 mortgageable 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 our 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 our credit risk exposure remains within risk appetite. The Board Risk Committee and, under a governed delegated mandate structure, the Credit Committee, the Executive Sanctioning Committee and individual 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 our Credit Committee monthly, with adverse trends being investigated and corrective action taken to mitigate the risk and bring performance back on track.

We are committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. This is the case for residential mortgages, consumer banking and commercial lending. Accounts in financial difficulty/arrears are managed by our specialist teams 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 organizations and collateralized under market standard documentation.

The treasury credit risk function manages all aspects of credit risk in accordance with our risk governance frameworks, under the supervision of the Credit Committee.

A monthly review evaluating among other factors, volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance, and underlying cashflows is undertaken of the current and expected future performance of Treasury assets that determines expected credit loss (ECL) provision requirements. An established governance structure identifies and reviews under-performing assets to assess the likelihood of future losses.

We have 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:

	2020			2019		
	Carrying value	**Commitments**	**Maximum credit risk exposure**	**Carrying value**	**Commitments** [(1)(2)]	**Maximum credit risk exposure**
			(£ million)			
Cash	13,748	-	13,748	12,493	-	12,493
Loans and advances to banks	3,636	-	3,636	4,009		4,009
Investment securities – FVOCI	18,367	-	18,367	14,500	-	14,500
Investment securities – Amortized Cost	1,625	-	1,625	1,656		1,656
Investment securities – FVTPL	12	-	12	78	-	78
Derivative financial instruments	4,771	-	4,771	3,562	-	3,562
Fair value adjustment for portfolio hedged risk	1,774	-	1,774	411	-	411
Loans and advances to customers	200,850	11,416	212,266	198,922	12,956	211,878
Total	**244,911**	**11,416**	**256,327**	**235,760**	**12,956**	**248,716**

Notes:

(1) In addition to the amounts shown above, we have revocable commitments of £10,139 million (2019: £9,475 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 cancelable 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 (which relates to the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to credit risk through the relationship with the underlying loans covered by Nationwide's hedging programs.

(3) FVTPL residential mortgages include equity release and shared equity loans.

Currency risk

Currency exposure is managed through natural offsetting on the balance sheet, with derivatives used to maintain the net exposures within limits. 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:

	2020			2019		
	Average	**High**	**Low**	**Average**	**High**	**Low**
			(£ million)			
VaR (99%/10-day)	0.0	0.3	0.0	0.1	2.4	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.

Our management of liquidity and funding risks aims to ensure that there are sufficient liquid assets at all times, both as to amount and quality, to:

- cover cash flow mismatches and fluctuations in funding
- retain public confidence
- 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 (ILAAP). 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.

A Liquidity Contingency Plan (LCP), which is part of the wider recovery plan framework, is maintained which describes early warning triggers 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. Our Recovery Plan describes potential actions that could be utilized in a more extreme stress.

For contingent purposes, we pre-position unencumbered mortgage assets at the Bank of England which can be used in the Bank of England's liquidity operations if market liquidity is severely disrupted.

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, 2020 and 2019. In practice, customer behaviors 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 behavioral performance of each asset and liability class to forecast our likely cash flow requirements.

	As at April 4, 2020					
	Not more than one month[1]	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	(£ million)					
Assets						
Cash	13,748	-	-	-	-	13,748
Loans and advances to banks and similar institutions	2,832	-	-	-	804	3,636
Investment securities – available for sale	18	495	620	5,088	13,783	20,004
Loans and advances to customers	33	77	594	1,840	2,227	4,771
Derivative financial instruments	25	65	396	942	346	1,774
Other financial assets	2,856	1,395	6,348	32,253	158,126	200,978
Total financial assets	**19,512**	**2,032**	**7,958**	**40,123**	**175,286**	**244,911**
Liabilities						
Shares	139,870	1,205	5,840	11,596	1,180	159,691
Deposits from banks	3,610	1,202	6,000	11,000	-	21,812
Other deposits	2,164	377	1,921	20	-	4,482
Secured funding – ABS and covered bonds	5	2	3	19	-	29
Senior unsecured	242	26	4,497	13,487	6,703	24,955
Derivative financial instruments	150	2,673	941	4,616	2,628	11,008
Other financial liabilities	152	95	89	295	1,293	1,924
Subordinated liabilities	32	-	731	2,577	5,977	9,317
Subscribed capital[2]	1	1	1	-	250	253
Total financial liabilities	**146,226**	**5,581**	**26,023**	**43,610**	**18,031**	**233,471**
Off balance sheet commitments[3]	11,416	-	-	-	-	11,416
Net liquidity difference	**(138,130)**	**(3,549)**	**(12,065)**	**(3,487)**	**157,255**	**24**
Cumulative liquidity difference	**(138,130)**	**(141,679)**	**(153,744)**	**(157,231)**	**24**	**-**

	As at April 4, 2019					
	Not more than one month[1]	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
	(£ million)					
Assets						
Cash	12,493	-	-	-	-	12,493
Loans and advances to banks	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
Total financial assets	**18,912**	**1,544**	**6,630**	**40,302**	**168,372**	**235,760**
Liabilities						
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
Other financial liabilities	-	(1)	(2)	(14)	-	(17)
Subordinated liabilities	18	-	57	1,418	5,213	6,706
Subscribed capital[2]	1	1	1	-	247	250
Total financial liabilities	**138,053**	**9,560**	**14,764**	**44,445**	**16,844**	**223,666**
Off balance sheet commitments[3]	12,956	-	-	-	-	12,956
Net liquidity difference	**(132,097)**	**(8,016)**	**(8,134)**	**(4,143)**	**151,528**	**(862)**
Cumulative liquidity difference	**(132,097)**	**(140,113)**	**(148,247)**	**(152,390)**	**(862)**	**-**

Notes:

i. The analysis excludes certain non-financial assets (including property, plant and equipment, intangible assets, other assets, deferred tax assets and accrued income and prepaid expenses) and non-financial liabilities (including provisions for liabilities and charges, accruals and deferred income, current tax liabilities and other liabilities). The retirement benefit surplus/deficit and lease liabilities have also been excluded.

ii. Due less than one month includes amounts repayable on demand.

iii. 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 undrawn loan commitments, customer overpayments on residential mortgages where the borrower can draw down the amount overpaid, and commitments to acquire financial assets.

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.

	For the year ended April 4, 2020					
Gross contractual cash flows	**Not more than one month[1]**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
			(£ million)			
Shares	139,870	1,260	5,987	11,955	1,180	160,252
Deposits from banks	3,610	1,206	6,011	11,005	-	21,832
Other deposits	2,164	382	1,923	20	-	4,489
Secured funding – ABS and covered bonds	247	34	4,731	14,115	6,609	25,736
Senior unsecured	151	2,681	1,057	5,035	2,621	11,545
Subordinated liabilities	36	-	945	3,464	6,304	10,749
Subscribed capital (note ii)	1	1	11	53	255	321
Total non-derivative financial liabilities	**146,079**	**5,564**	**20,665**	**45,647**	**16,969**	**234,924**
Derivative financial instruments	-	-	-	-	-	-
Gross settled derivative outflows	(1,124)	(967)	(1,621)	(6,912)	(5,915)	(16,549)
Gross settled derivative inflows	1,101	928	1,534	6,533	5,605	13,664
Gross settled derivatives – net flows	(23)	(39)	(87)	(389)	(310)	(870)
Net settled derivative liabilities	(70)	(175)	(732)	(2,238)	(1,224)	(2,366)
Total derivative financial liabilities	**(93)**	**(214)**	**(819)**	**(2,627)**	**(1,534)**	**(5,287)**
Total financial liabilities	**145,986**	**5,350**	**19,846**	**43,020**	**15,435**	**229,637**
Off-balance sheet commitments[3]	11,416	-	-	-	-	11,416
Total financial liabilities including off-balance sheet commitments	**157,402**	**5,350**	**19,846**	**43,020**	**15,435**	**241,053**

	For the year ended April 4, 2019					
Gross contractual cash flows	**Not more than one month[1]**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
			(£ million)			
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
Derivative financial instruments	20	0	226	1,495	6,412	8,153

Gross contractual cash flows	For the year ended April 4, 2019					
	Not more than one month[1]	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	(£ million)					
Subordinated liabilities	1	1	11	81	217	311
Subscribed capital[2]	**138,035**	**9,266**	**15,607**	**45,195**	**17,157**	**225,260**
Total financial liabilities						
Off-balance sheet commitments[3]	12,956	-	-	-	-	12,956
Total financial liabilities including off-balance sheet commitments	**150,951**	**9,061**	**15,155**	**43,835**	**15,978**	**234,980**

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 more than five years column.

(3) Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid and commitments to acquire financial assets

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:

	For the year ended April 4, 2020	
	Carrying value	Fair value
	(£ million)	
Financial assets		
Loans and advances to banks	3,636	3,636
Investment Securities – Amortized Cost	1,625	1,594
Loans and advances to customers:		
Residential mortgages	188,516	190,580
Consumer banking	4,500	4,452
Commercial and other lending	7,834	8,010
Total	**206,111**	**208,272**
Financial liabilities		
Shares	159,691	159,891
Deposits from banks	21,812	21,810
Other deposits	4,482	4,483
Debt securities in issue	35,963	36,014
Subordinated liabilities	9,317	8,658
Subscribed capital	253	230
Total	**231,518**	**231,086**

	For the year ended April 4, 2019	
	Carrying value	Fair value
	(£ million)	
Financial assets		
Loans and advances to banks	4,009	4,009
Investment securities	1,656	1,651
Loans and advances to customers:		

	For the year ended April 4, 2019	
	Carrying value	**Fair value**
	(£ million)	
Residential mortgages	185,734	186,151
Consumer banking	4,168	4,104
Commercial lending	9,020	8,973
Total	**204,587**	**204,888**
Financial liabilities		
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
Total	**222,090**	**222,848**

Note:

(1) The tables above exclude cash for which fair value approximates to carrying value.

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 modeling 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 modeled 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:

	For the year ended April 4, 2020			
	Level 1[(1)]	**Level 2[(2)]**	**Level 3[(3)]**	**Total**
		(£ million)		
Financial Assets				
Investment securities	17,480	881	5	18,366
Investments in equity shares	-	-	13	13
Derivative financial instruments	-	4,771	-	4,771
Loans and advances to customers	-	-	128	128
Total	**17,480**	**5,652**	**146**	**23,278**
Financial Liabilities				
Derivative financial instruments	-	(1,924)	-	(1,924)
Total	**-**	**(1,924)**	**-**	**(1,924)**

	For the year ended April 4, 2019			
	Level 1[(1)]	**Level 2[(2)]**	**Level 3[(3)]**	**Total**
		(£ million)		
Financial Assets				
Investment securities—AFS	13,508	989	62	14,559
Investments in equity shares	-	-	19	19
Derivative financial instruments	-	3,562	-	3,562
Other financial assets	-	-	129	129
Total	**13,508**	**4,551**	**210**	**18,269**
Financial Liabilities				
Derivative financial instruments	-	(1,593)	-	(1,593)
Total	**-**	**(1,593)**	**-**	**(1,593)**

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. We fair value a portion of the mortgage commitments on the balance sheet.

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 the Level 2 investment securities are valued using models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs.

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation, and are recognized at the date of the event or change in circumstances which caused the transfer. There were no transfers between the Level 1 and Level 2 portfolios during the year.

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

Loans and advances to customers

Certain loans and advances to customers have been classified as FVTPL. Level 3 assets in this category include a closed portfolio of residential mortgages and a small number of commercial loans. During the year ended April 4, 2019, a portfolio of residential mortgages was transferred from Level 3 to Level 2 after a market price was obtained. These assets were subsequently sold.

Investment securities

The Level 3 items in this category primarily include £14 million (2019: £18 million) of investments made in Fintech companies and £4 million (2019: £62 million) of investments in industry-wide banking and credit card service operations.

Derivative financial instruments

During the year ended April 4, 2019, derivatives economically hedging a small closed portfolio of equity release mortgages were settled upon sale of the associated loans.

The tables below set out movements in the Level 3 portfolio, including transfers in and out of Level 3.

Level 3 portfolio – movements analysis

The table below analyzes movements in the Level 3 portfolio:

	For the year ended April 4, 2020	
	Loans and advances to customers	**Investment securities**
	(£ million)	
As at April 4, 2019	129	81
Gains/(losses) recognized in the income statement:		
Net interest income/(expense)	3	-
(Losses)/gains from derivatives and hedge accounting	-	1
Other operating income	7	11
Losses recognized in other comprehensive income:		
Fair value movement taken to members' interests and equity	-	(1)
Additions	-	6
Disposals	-	(80)
Settlements/repayments	(11)	-

	For the year ended April 4, 2020	
	Loans and advances to customers	**Investment securities**
Transfers out of Level 3 portfolio	-	-
As at April 4, 2020	**128**	**18**

	For the year ended April 4, 2019		
	Investments in equity shares	**Net derivative financial instruments – liabilities**	**Loans and advances to customers**
		(£ million)	
As at April 4, 2018			
(Loss)/gain recognized in the income statement:	44	(4)	-
IFRS9 Transition [(1)]	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)
As at April 4, 2019	**81**	**-**	**129**

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 note 1 to our audited consolidated financial statements as of and for the year ended April 4, 2019.

	For the year ended April 4, 2018		
	Investments in equity shares	**Net derivative financial instruments – liabilities**	**Other deposits – PEBs**
		(£ million)	
As at April 4, 2017	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)	-	-
As at April 4, 2018	**44**	**(4)**	**-**

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:

	For the year ended April 4, 2020		
	Fair value	**Favorable changes**	**Unfavorable changes**
		(£ million)	
Investment securities:	**18**	**2**	**(1)**
Loans and advances to customers	128	4	(5)
Total	**146**	**6**	**(6)**

	For the year ended April 4, 2019		
	Fair value	**Favorable changes**	**Unfavorable changes**
		(£ million)	
Investment securities:	**81**	**36**	**(39)**
Net derivative financial instruments	129	4	(5)
Total	**210**	**40**	**(44)**

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 and the Chief Financial 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

Chris Rhodes succeeded Mark Rennison as Chief Financial Officer of the Society on September 16, 2019, and Mark retired from the Board.

Lynne Peacock retired from her position as the Senior Independent Director and Non-Executive Director of the Society on December 31, 2019. On January 20, 2020, the Society announced that Kevin Parry, Non-Executive Director, had succeeded Lynne as Senior Independent Director.

On March 10, 2020, the Society announced that Tony Prestedge had resigned from his position as Deputy Chief Executive and Executive Director following his acceptance of a senior role with Santander UK plc. As a result of his resignation, Tony stepped down from the Board with immediate effect. The position of Deputy Chief Executive has not been replaced, and Tony's accountabilities have been taken up by other members of the Society's senior leadership team.

Baroness Usha Prashar retired at the Society’s Annual General Meeting held on July 16, 2020 and will continue to advise the Society on its diversity and community programs.

Tamara Rajah joined the Society as a Non-Executive Director on September 1, 2020.

Directors

The following table presents information with respect to current directors:

Name	Date of Birth	Position	Other Directorships
David Roberts	September 12, 1962	Chairman	Beazley plc Beazley Furlonge Limited Campion Willcocks Limited NHS England NHS Improvement
Joe Garner	June 23, 1969	Chief Executive Officer	British Triathlon Foundation Trust UK Finance
Chris Rhodes	March 17, 1963	Chief Financial Officer	Arkose Funding Limited at.home nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited

Name	Date of Birth	Position	Other Directorships
			Jubilee Mortgages Limited NBS Ventures Management Limited First Nationwide LBS Mortgages Limited Nationwide Housing Trust Limited Nationwide Investment No.1 Limited NMC1Limited Nationwide Syndications Limited Staffordshire Leasing Limited Silverstone Securitisation Holdings Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited
Rita Clifton	January 30, 1958	Non-Executive Director	Ascential plc Rita Clifton Limited The Green Alliance Trust
Mai Fyfield	May 3, 1969	Non-Executive Director	ASOS plc BBC Commercial Holdings Limited Roku Inc
Tim Tookey	July 17, 1962	Non-Executive Director	Westmoreland Court Management (Beckenham) Limited Royal London Mutual Insurance Society Limited
Kevin Parry	January 29, 1962	Non-Executive Director	Daily Mail and General Trust plc KAH Parry Limited The Royal London Mutual Insurance Society Limited
Gunn Waersted	March 16, 1955	Non-Executive Director	Petoro AS Telenor ASA Lukris Invest AS Fidelity International (Bermuda) Saferoad ASA
Albert Hitchcock	January 16, 1965	Non-Executive Director	
Phil Rivett	June 27, 1955	Non-Executive Director	Standard Chartered Plc

Name	Date of Birth	Position	Other Directorships
Tamara Rajah	August 24, 1982	Non-Executive Director	Live Better With Limited Unforgettable Trading Limited Dot London Domains Limited London & Partners Limited London & Partners Ventures Limited Scale Up Institute

Biographies

David Roberts CBE

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:

Chair, Beazley plc

Chair, Beazley Furlonge Limited

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 Chair, Lloyds Banking Group plc

Executive director, Barclays Bank plc and CEO, International Retail and Commercial Banking

Chair 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's career started with Proctor & Gamble and Dixons Carphone. He later took on leadership roles and in 2004 was appointed as Head of HSBC's Retail and Commercial

Bank in the UK. In 2014 he became Chief Executive Officer of Openreach, BT's Infrastructure division. Since Joe joined us as CEO in 2016, inspired by our principle of mutuality, we have grown our membership to a record 16.3 million, delivered £2.5 billion in member financial benefit and continued to lead its peers on customer service. Joe's mission continues to be to inspire colleagues to remain true to our social purpose, using the power of the collective to improve people's lives.

Current external positions include:

Director, UK Finance

Member, Financial Conduct Authority Practitioner Panel

Chair and Trustee, British Triathlon Trust

Member, Economic Crime Strategy Board

Co-chair, Inclusive Economy Partnership Financial Capability and Inclusion Steering Committee

Previous positions include:

CEO, Openreach

Deputy CEO, HSBC Bank plc

Head, HSBC's UK Retail and Commercial Business

Non-executive director, Financial Ombudsman Service

Chris Rhodes

Chief Financial Officer

Chris joined Nationwide in April 2009 and was appointed Chief Financial Officer (CFO) in October 2019. 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. Prior to his appointment as CFO, Chris was our Chief Product and Propositions Officer. This broad background means he has a deep understanding of our business and the mutual business model and he is ideally placed to oversee our long-term financial stability, ensuring that we continue to invest for the future on behalf of our members.

Current external positions include:

Arkose Funding Limited

Silverstone Securitisation Holdings Limited

Previous positions include:

Trustee, National Numeracy

Director, Lending Standards Board Limited

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 organizations 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, Ascential plc (previously known as EMAP plc)

Member, Assurance and Advisory Panel, BP's carbon off-setting program

"Target Neutral"

Trustee, Green Alliance

Director, Rita Clifton Limited

Fellow, WWF-UK

Visiting Fellow, Saïd Business School, Oxford University

Previous positions include:

Non-executive director, ASOS plc

Chair, BrandCap

Director, Brandcap Group Limited

London CEO and Chair, Interbrand

Vice Chair, Saatchi & Saatchi

Non-executive director, Dixons Retail plc

Trustee, WWF (Worldwide Fund for Nature)

Non-executive director, Bupa

Non-executive director, Populus Limited

Member, the UK Government's Sustainable Development Commission

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 Chief Strategy and Commercial Officer at Sky until October 2018, where she led strategy and commercial partnerships across the Sky Group, an organization she joined in 1999. Mai is a champion of diversity and helping women succeed in senior management and Board positions.

Current external positions include:

Non-executive director, Roku Inc.

Non-executive director, Asos Plc

Non-executive director, BBC Commercial Holdings Limited

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 analyze and test the Society's financial and risk strategies.

Current external positions include:

Non-executive director, Royal London Mutual Insurance Society Limited

Director, Westmoreland Court Management (Beckenham) Ltd

Previous positions include:

Chief Financial Officer, Quilter plc (previously known as Old Mutual Wealth Management Limited)

Chair, 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 OBE

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 Chair of the Homes and Communities Agency, his perspective on housing is a valuable asset to the Society. He is Chair of Royal London, the largest mutual insurer in the UK. He was a trustee and former Chair of the Royal National Children's SpringBoard Foundation, a charity providing life transforming opportunities through education to disadvantaged children.

Current external positions include:

Chair, Royal London Group

Non-executive director and Chair of the Audit and Risk Committee, Daily

Mail and General Trust plc

Director, KAH Parry Limited

Previous positions include:

Chair, Intermediate Capital Group plc

Trustee, Royal National Children's Springboard Foundation

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

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 programs to improve customer experience. She is a strong advocate of the need for strong people cultures and creating genuinely diverse organizations.

Current external positions include:

Chair, Telenor ASA

Chair, Petoro AS

Member, Fidelity International.

Non-executive director, Saferoad Holding 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

CEO, Sparebank 1 Group

Albert Hitchcock

Non-Executive Director

Albert is a leader in information technology with over 30 years in the technology industry. His experience is of huge value to the Society as we continue our ambitious transformation program to meet the expectations of our members today and in the future.

Current external positions include:

Chief Technology and Operations Officer, Pearson plc

LLP Member, Cumberland House BPRA Property Fund LLP

Previous positions include:

Technology Advisor to the Board, Royal Bank of Scotland plc

Group Chief Information Officer, Vodafone plc

Global Chief Information officer, Nortel Networks

Philip Rivett

Non-Executive Director

Philip is a Chartered Accountant with over forty years' experience of professional accountancy and audit with a focus on banks and insurance companies. He brings to the Board a wealth of experience advising major financial services providers in the UK and globally; he has an exceptional leadership track record advocating a collaborative and inclusive approach.

Current external positions include:

Non-executive director, Standard Chartered Plc

Previous positions include:

Global Chair, Financial Services Group, PricewaterhouseCoopers LLP

Tamara Rajah

Non-Executive Director

Tamara has significant experience in entrepreneurial ventures and technology, including as founder and CEO of award-winning global healthcare platform, Live Better With. Prior to launching Live Better With, Tamara was one of the youngest partners at strategy firm, McKinsey & Co, where she spent a decade in the healthcare practice and led McKinsey's knowledge and client work on entrepreneurship and technology clusters in life sciences, digital and technology.

Current external positions include:

Live Better With Limited (CEO and Director)

Unforgettable Trading Limited

Dot London Domains Limited (Chair)

London & Partners Limited (Chair)

London & Partners Ventures Limited

Scale Up Institute

Previous positions include:

Partner, McKinsey & Co

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 Nationwide Leadership Team (NLT) and the Executive Risk Committee.

The **Audit Committee** provides oversight and advice to the Board in respect of among 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 Inclusion and Diversity 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.

Management Committees

The **Nationwide Leadership Team** is our key operational committee which oversees the day-to-day operations of our business. This Committee meets weekly, reviews all matters that are to be presented to the Board of Directors, and is composed of our Chief Executive Officer, Chief Financial Officer and 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 CEO, the CFO and a number of other members of the NLT. 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 Marketing Officer, Chief Risk Officer, Director of Treasury, Deputy Chief Financial Officer 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 Marketing 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 Director of Risk & Operational Resilience, Director of Retail Risk, Director of Reward and Pensions Strategy, Director of Financial Controls & Operations, Director of Shared Services and Director of Fraud.

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 Change Risk & Compliance, Director of Regulated Advice, Chief Product and Marketing Officer, Chief People Officer, Compliance Director, Director of Home Proposition, Director of Member Services & Complaints, Director of Risk & Operational Resilience, Director of Shared Services, Director of Nationwide Digital, Head of Member Vulnerability Access & Inclusion and Director of Product Operations.

Compensation

For the year ended April 4, 2020 the aggregate amount of compensation that we paid to the Executive Directors on the Board as a group totaled £3.45 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 that 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. For performance periods commencing April 2017, 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. For the financial year ending April 4, 2021, the maximum variable pay opportunities (including both the upfront and deferred elements) have been reduced to: 51% of base salary for the Chief Executive and 37% of base salary for the executive directors. For these awards, 37% and 29% of base salary is payable for target performance for the Chief Executive and other executive directors respectively. In the event that the Society's financial performance in the financial year ended April 4, 2021 materially exceeds expectations, the Committee retains the discretion to make an award above these levels (subject to the overall limits within this policy).

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, 2020, we had loans to directors or persons connected to directors totaling £0.56 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. While 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 and Chris Rhodes) receive a cash allowance in lieu of pension.

Related-Party Transactions

For information on transactions with related parties, see note 35 to our audited condensed consolidated financial statements incorporated by reference herein.

COMPETITION

Industry Background

Our main competitors are the five largest UK banking groups. In addition we also compete with a range of other smaller banks, with other building societies and with insurance companies. In recent years, new competitors have emerged in all areas of the UK 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 UK Banks

The UK financial services market is dominated by the five largest banking groups, namely Lloyds Banking Group, Royal Bank of Scotland, Barclays, HSBC and Santander UK. These are our principal competitors in our core mortgages, savings and personal account markets.

In the recent past, prior to the coronavirus pandemic, mortgage competition was being driven by certain ring-fenced banks as they deployed surplus liquidity in lending markets. They had a further advantage from the lower cost of their deposits which stemmed from their significant market shares in low/zero cost transactional balances associated with personal current accounts.

In personal current accounts, and their associated non-rate-sensitive deposit balances, the scale of the existing customer bases and strategic investment programs of these banks makes them prime competitors.

Smaller UK Banks

We also compete with a series of smaller UK banks that have emerged as challengers to the industry leaders (e.g. TSB, CYBG, Co-op Bank 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. We have been unable to offset the scale advantages of the largest banks.

Building Societies

Over the past 30 years, many building societies have merged with other building societies or, in a number of cases, transferred their businesses to the subsidiary of another mutual organization or demutualized and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 137 in 1985 to 43 as at April 4, 2020. Building societies today continue to hold an important share of the UK mortgage and savings market. For further information about the UK residential mortgage market and UK retail deposit market see below.

UK Insurance Companies

The UK insurance industry is dominated by large general and life insurance companies originating a range of products, distributed through building societies, banks, direct sales forces and independent financial advisors.

Other Competitors

A number of large retailers sell financial services to their customers, often through cooperation 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 UK personal financial services, particularly the mortgage and retail savings markets, and a number of companies have expressed a desire to enter the market.

The growth of internet price comparison sites has enabled consumers to have access to information that has increased price competition particularly in certain insurance markets. Online automated advice is likely to have an increasing impact on investment and protection markets. Companies are using low cost telephone, internet and mobile 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 either already using their core businesses as a platform for financial services, particularly in the payments arena, or being in a strong position to do so in the future should they choose to (e.g. the so-called Tech Giants). The continued development of the intermediary sector also allows new entrants to gain access to the UK mortgage market and increase price based competition on larger mortgage lenders. Competition regulation has and may eventually further assist potential entrants if it enforces the breakup of some of the larger participants or the sale of those in public ownership.

The UK Residential Mortgage Market

The table below sets out information for the last three years concerning year-end balances of UK lending secured on residential property and the proportions held by building societies, banks and us:

Year ended December 31,	Total Balances[(1)]	Banks & Building Societies[(1)]	Others	Our share of total UK residential mortgages[(1)]
		(£ billion, except percentages)		
2019	1,453.3	86.3%	13.7%	13.0%
2018	1,408.8	85.8%	14.2%	13.0%
2017	1,369.5	87.2%	12.8%	12.8%

Note:

(1) *Source*: Bank of England, 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 tax reforms and in response to changes in underwriting standards. During the first period of lockdown from March 2020 to June 2020, mortgage activity across the UK fell sharply as a result of the measures imposed by the UK government in response to the Covid-19 pandemic, and had since recovered strongly, particularly for house purchases. However, during the second period of lockdown that began in England in November 2020, there appears to have been a modest slowing in mortgage activity, though it is too early to measure the impact of the subsequent restrictions. There has been a decline in the proportion of the UK population owning their own homes, from a peak of around 71% in 2003 to around 64% in 2019 (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. This has been improving in recent years, though the pandemic has led to increased caution amongst lenders and a withdrawal of some high LTV products. For further information, see "*Risk Factors—Risks Related to Our Business—Changes to interest rates or monetary policy, whether by the UK, 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 11.4% during the year ended April 4, 2020 was slightly below our par share of 13.0% as at January 1, 2019.

The UK Retail Deposit Market

The UK retail deposit market is dominated by banks, building societies and NS&I. Below is a table breaking down the total UK retail deposit market by type of financial institution compiled from details published by the Bank of England:

Year ended December 31,	Total UK retail deposits[(1)]	Banks' & Building societies' share of total UK retail deposits[(1)]	Others[(1)]	Our share of total UK retail deposits[(1)]
		(£ billion, except percentages)		
2019	1581.3	88.9%	11.1%	9.9%
2018	1,521.4	89.1%	10.9%	10.1%
2017	1,473.0	89.6%	10.4%	10.0%

Note:

(1) *Source*: Bank of England, except for information regarding our balances which are taken from our own data.

The UK retail deposit market has become an increasingly commoditized market driven primarily by price, particularly for the flow of new money that generally seeks the most attractive rates available. However the bank failures of 2007 and 2008 and the limits of the FSCS appear to have led some customers to spread their savings across a number of different companies. Older deposit balances have traditionally subsidized the cost of new retail deposits, primarily reflecting customer inertia.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance/life assurance companies and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing players in the market and have impacted the flow of new retail deposits.

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 £5.7 billion in the year ended April 4, 2020.

Competitive Outlook

Prior to the coronavirus pandemic, while some weaknesses remained, the major banks had largely completed the process of financial repair upon which they embarked following the financial crisis. The end of significant costs for PPI customer redress and the completion of costly and disruptive ring-fencing re-organization had also left this group better able to compete and in recent years the major banks had begun to compete more aggressively.

With the onset of the coronavirus pandemic, despite the availability of cheap Bank of England funding, the sharp fall in Base Rate has compressed the net interest margins of the ring-fenced banks, which, with their cost of deposits already very low, are left with less scope than other competitors to widen deposit spreads. Additionally, the ring-fenced banks, with their large corporate and consumer finance loan exposures, face the possibility of significant credit losses in the face of economic weakness in the aftermath of the pandemic. Consequently, it remains unclear whether this mortgage pricing environment will endure, influenced as it is by the level of competitors' confidence in the economic outlook and strength of any recovery in their financial performance.

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 and to frustrate newer entrants and fintech innovators as they urgently seek to establish a volume base to secure their financial viability.

SUPERVISION AND REGULATION

EUROPEAN UNION LEGISLATION

The framework for supervision and regulation of banking and financial services in the UK has been heavily influenced by European Union legislation. Many aspects of the Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee) have 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 were published in the Official Journal of the European Union on June 27, 2013.The CRR established a single set of harmonized prudential rules for financial institutions and certain minimum capital and 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 EEA without the need for any implementing legislation at member-state level) are required to be transposed into national law. CRD IV reinforced capital standards and established 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 of certain requirements until 2027. As CRD IV permits the exercise of 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 CRD requirements were implemented in the UK before the UK's exit from the EU; the UK framework was then amended to reflect the UK's exit from the EU. The CRR has been onshored in the UK by the Capital Requirements (Amendment) (EU Exit) Regulations 2018 (as amended). 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. For completeness, CRD IV has undergone significant revisions. For further information about these amendments see "—*Revisions to the CRD IV Package*" below.

CRD IV also addressed the "passport" concept, which permits a credit institution authorized in its "home" state to establish branches in, and to provide cross-border services into, other EEA member states. Given the UK's departure from the single market, UK authorized credit institutions no longer benefit from the passport concept.

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. Under UK laws and regulations pertaining to the authorization of credit institutions in the UK, the relevant regulators in the UK are the PRA and the FCA. For further information about regulation in the UK see "—*UK Regulation*" below.

CRD IV substantially reflects the Basel III capital and liquidity standards. Subject to prior regulatory approval, CRD IV also makes provision for (among other things) requirements to reduce reliance by credit institutions on external credit ratings, by requiring that their 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.

The CRR gives express recognition for CET1 capital instruments for mutuals and cooperatives 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 a package of legislative proposals providing for reform of the prudential and resolution frameworks for EU banks and credit institutions. These proposals covered amendments to CRR, CRD IV, the BRRD and Regulation (EU) No. 806/2014 (the "**Single Resolution Mechanism Regulation**" or "**SRMR**"). The final legislation implementing these proposals was published in the EU Official Journal on June 7, 2019. The legislation consists of Regulation (EU) No. 2019/876, Directive (EU) No. 2019/878, Directive (EU) No. 2019/879 and Regulation (EU) No. 2019/877 and came into force on June 27, 2019 (the "**Banking Reform Package**"), with certain provisions applying from June 27, 2019, one provision relating to exemptions from deductions of equity holdings applying retrospectively from January 1, 2019 and other provisions gradually being phased in and/or being subject to national implementation.

The EU Banking Reform Package amends many existing provisions set out in CRD IV, the BRRD and the SRMR. It includes:

- revisions to the standardized approach for counterparty credit risk;
- changes to the market risk rules which include the introduction of a reporting requirement pending implementation of the Fundamental Review of the Trading Book at a global level;
- the introduction of a binding leverage ratio requirement as a backstop to risk-weighted capital requirements and set at 3% of an institution's Tier 1 capital; and
- a binding NSFR (which will require credit institutions and systemic investment firms to finance their long-term activities (assets and off-balance sheet items) with stable sources of funding (liabilities) in order to increase banks' resilience to funding constraints). This means that the amount of available stable funding will be calculated by multiplying an institution's liabilities and regulatory capital by appropriate factors that reflect their degree of reliability over a year. The NSFR will be expressed as a percentage and set at a minimum level of 100%, indicating that an institution holds sufficient stable funding to meet its funding needs during a one-year period under both normal and stressed conditions. The NSFR will apply at a level of 100% to credit institutions and systemic investment firms from June 28, 2021.

The EU Banking Reform Package allows for a phased implementation period with significant elements entering into force in 2021 (and others subject to a delay due to Covid-19). Certain elements of the package introduced under Directive 2019/878 (which amends CRD IV) will also need to be implemented into national law. The UK has implemented the majority of the provisions under the EU Banking Reform Package which became applicable on December 28, 2020 but not those which became applicable on or after January 1, 2021. However, the UK has indicated that it is committed to implementing international standards including those aspects of Basel III which formed part of CRR II. Please see the section entitled "Impact of Brexit" below for further information. It is not yet clear what impact the changes introduced by the EU Banking Reform Package and final Basel III standards will have on our business.

Revisions to the BRRD framework

The EU Banking Reform Package also includes a number of significant revisions to the BRRD (known as "**BRRD2**"). The BRRD2 proposals were finalized in June 2019 and were due to be implemented in member states by December 28, 2020 with certain requirements relating to the implementation of the TLAC standard applying from January 1, 2022 and additional MREL requirements from January 2024. The UK implemented the majority of the BRRD2 provisions which became applicable on December 28, 2020 (although certain of those provisions were subject to a 'sunset' clause which disapplied them from January 1, 2021) but not those which became applicable on or after January 1, 2021. Please see the section below on "*Impact of Brexit*" for further information.

The BRRD2 package includes the integration of the Financial Stability Board's proposed minimum total loss-absorbing capacity into EU legislation and the framework requiring all relevant institutions to maintain a minimum requirements for own funds and eligible liabilities ("**MREL**"). The effects of BRRD2 (including in the form adopted in the UK) will be wide-ranging and, in particular, it will impact how institutions, such as the Society, absorb losses in certain stressed scenarios.

The Society's capital requirements

- *RWA-based capital requirements*: Under the current prudential framework, we are required to hold a minimum amount of regulatory capital equal to 8% of our risk-weighted assets (the "**Pillar 1 requirement**"), plus certain additional CET1 capital buffers (the "**buffer requirement**"). The buffer requirement as of September 2020 is equal to 3.5% of our risk-weighted assets. In addition, the PRA may impose additional individual capital requirements on

the Society, which may comprise an add-on to the Pillar 1 requirement (the "**Pillar 2A requirement**") to address risks to the Society which the PRA considers are not adequately covered by Pillar 1 requirements, and/or an add-on to the buffer requirement (the "**Pillar 2B requirement**") to provide for additional capital buffers in a financial stress scenario. Our Pillar 2A requirements must be met with at least 56.25% CET1 capital, at least 75% Tier 1 capital and not more than 25% Tier 2 capital. Our Pillar 2B requirements must be met solely with CET1 capital. We may also decide to hold additional amounts of capital as part of our risk and growth strategies. As at September 30, 2020, the Society's CET1 ratio was 34.5% and its total capital ratio was 48.4%.

- *Buffers:* Our RWA-based buffer requirements from time to time will consist of a capital conservation buffer of 2.5% of RWAs plus any applicable counter-cyclical and systemic risk buffers. The counter-cyclical buffer is based on a weighted average of the counter-cyclical buffer rates applicable from time to time in the jurisdictions where we have significant exposures, predominantly the UK. As at the date of this Base Prospectus, our counter-cyclical buffer requirement is 0%). The PRA introduced a systemic risk buffer for UK ring-fenced banks and large building societies, which applied from August 1, 2019 (the "**Systemic Risk Buffer**"). The PRA set a Systemic Risk Buffer rate of 1.0% of all RWAs for the Society, which applied to all exposures on a consolidated basis. The CRR, as retained (with certain adjustments) in UK domestic law under EUWA, also provides that an additional buffer requirement may be extended to institutions designated as 'other systemically important institutions' ("**O-SIIs**"). We have been designated as an O-SII. In PRA Policy Statement PS26/20 (setting out PRA's near-final policy which was subsequently confirmed in Policy Statement PS29/20 on December 28, 2020), the PRA confirmed that the O-SII buffer would take on the role previously performed by the Systemic Risk Buffer, and that while, going forwards, it has the power to use the Systemic Risk Buffer to set sectoral capital requirements for firms and approved holding companies, it did not propose to introduce such a Systemic Risk Buffer requirement at this time (but that it would consult on implementing the Systemic Risk Buffer in future if it were necessary and appropriate to apply it). Accordingly, the net effect of this change on the Society's buffers is neutral, with its Systemic Risk Buffer reducing from 1.0% to nil and its O-SII buffer increasing from nil to 1.0%.

- *EU leverage requirements*: The Banking Reform Package has introduced a binding leverage ratio, which is supplementary to the risk-based capital requirements. The calculation determines a ratio based on the relationship between Tier 1 capital and total exposures (i.e. non-risk-weighted assets), including off-balance sheet items. The leverage ratio does not distinguish between unsecured and secured loans, nor recognize the ratio of loan to value of secured lending. The leverage ratio has been set at 3% and will be applicable to all credit institutions. An additional leverage ratio buffer will apply to global systemically important institutions ("**G-SIIs**"). We are not presently designated as a G-SII.

- *UK leverage requirements*: Following recommendations from the Financial Policy Committee ("**FPC**") in 2016 the PRA introduced a UK leverage ratio framework. The UK leverage ratio framework is intended to mirror aspects of the risk-weighted capital requirement. The UK leverage ratio was originally set at 3% of risk-weighted assets and in 2017 was increased to 3.25% of exposures (excluding central bank reserve exposures), to reflect the removal of central bank deposits from the leverage exposure measure. At least three-quarters of the leverage ratio requirement must be met with CET1 capital and up to one-quarter may be met with AT1 capital. In addition, the UK leverage ratio framework includes two additional buffers that are to be met using CET1 capital only: an Additional Leverage Ratio Buffer ("**ALRB**"), applying to the largest UK banks and building societies and set at 35% of the corresponding risk-weighted systemic buffer rate, and a macro-prudential Countercyclical Leverage Buffer ("**CCLB**"), which is set at 35% of the corresponding risk-weighted countercyclical buffer (and rounded to the nearest 0.1%, with 0.05% being rounded up).

Our UK leverage ratio was 5.0% at September 30, 2020. Given the nature of our balance sheet, which is underpinned by residential mortgage assets with a low risk profile (as demonstrated by a low level of arrears compared to the industry average), our current binding capital constraint is based on leverage-based (rather than risk-based) capital requirements. Based on our current understanding of the proposed changes to risk-weights, and subject to final implementation, we currently expect that the leverage ratio will continue to be our binding capital constraint in the near-term.

RWA floors and IRB modeling

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardized approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a transitional period from 2023 to 2028 (deferred by 12 months in light of Covid-19). On August 2, 2019, the EBA published its draft policy advice on (among other things) the Basel III output floor. The EBA recommended that:

- the output floor, at the 72.5% level set in the Basel agreement, should be implemented by EU institutions;
- the floored RWAs should be used as the basis across RWA-based capital requirements (including the minimum capital requirement, Pillar 2 requirements and buffer requirements) and at all levels of a banking group (including group consolidated, sub-consolidated and individual level);
- the implementation of the output floor should follow the five-year transitional path from 2022 (now delayed to 2023) as set out in the Basel III agreement, including the transitional cap of a 25% increase in RWA; and
- the legislation implementing these changes to the Basel III framework should clarify that the principal loss absorption trigger in AT1 instruments should be based on floored ratios (i.e. the CET1 ratio(s) based on the floored RWAs).

On March 5, 2020, the EBA published an additional analysis regarding the output floor. The analysis is based on a sample of 221 institutions belonging to 51 banking groups. Overall, the EBA concluded that the impact of applying the output floor at the individual level does not seem to be particularly high (with the exception of cooperative banks, for which the output floor is the main driver, but for which the overall impact of the reform is the lowest).

On October 11, 2019, the European Commission published a public consultation document regarding implementation of the December 2017 Basel III reforms in the EU, with a view to informing its preparation, if considered appropriate, of a formal proposal in due course. The consultation period expired in January 2020 but there has been a further exchange of letters between the EBA and the European Commission with the EBA publishing its final advice in March 2020. Accordingly, the EU is expected to adopt the remaining Basel III recommendations by amending its legislation.

Following the expiration of the Brexit transition period, the application of the output floor in the United Kingdom is a matter for the UK legislature and our prudential regulators. HM Treasury and the PRA confirmed in April 2020 that they remain committed to the full, timely and consistent implementation of the Basel standards and will work together towards a UK implementation timetable that is consistent with the one year delay to the implementation of the December 2017 reforms announced by the Group of Central Bank Governors and Heads of Supervision in March 2020.

In addition, in June 2017, the PRA published a policy statement relating to residential mortgage risk-weights, including proposals to align firms' IRB modeling approaches for residential mortgage risk-weighted assets, and sets out a number of modifications to the IRB modeling methodologies for residential mortgages. The PRA has set the expectation for firms to update IRB models by the end of December 2021. On May 14, 2020, the

PRA published a policy statement on probability of default and loss given default estimation for credit risk (PS11/20). In PS11/20, the PRA provides feedback to its September 2019 consultation paper (CP21/19) which consulted on proposals to implement the EBA's regulatory products that relate to the probability of default and loss given default estimation. The provisions in this policy will take effect on January 1, 2022. The PRA also published a consultation paper on September 30, 2020 (CP 14/20) which sets out proposals to introduce new expectations on the IRB approach for UK mortgage risk weights. The purpose of these proposals is to address the prudential risks stemming from inappropriately low IRB UK mortgage risk weights, to narrow differentials between the IRB and standardized approach UK mortgage risk weights, and to limit future divergence. The PRA considers that this would support competition between firms on the different approaches. This consultation closes on January 30, 2021.

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. The final impacts are subject to uncertainty for future balance sheet size and mix, and the final detail of some elements of the regulatory changes remain at the PRA's discretion. However, the introduction of these RWA floors and IRB calibration changes is likely to lead to a significant increase in our risk weights over time and we currently expect the consequential impact on our reported CET1 ratio ultimately to be a reduction of approximately 45-50% relative to our current methodology. However, organic earnings through this transitional period are expected to mitigate the impact such that our reported CET1 ratio will in practice remain well in excess of the pro forma levels imposed by these changes, and we expect that leverage requirements will remain our binding capital constraint based on our latest projections. While we currently expect that the leverage ratio will continue to be our binding Tier 1 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.

MREL and resolution strategy

At an EU level, MREL requirements are being introduced as part of a regime designed to make it easier to manage the failure of banks and building societies in an orderly way, without reliance on taxpayer bail-outs. These rules require all institutions to meet an individual MREL requirement by issuing own funds (capital instruments) and other 'eligible liabilities' which are available to be bailed-in (i.e. written down or converted to equity on the occurrence of certain trigger points), calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities.

The Bank of England has set the Society an indicative MREL requirement of 6.5% of its UK leverage exposure). MREL requirements are split into two elements: firstly, a loss absorption amount, to cover losses up to and in resolution, based on a firm's minimum going concern capital requirement; and secondly, a recapitalization amount, intended to enable the firm to continue as a going concern post-resolution and to access funds in the capital markets (and accordingly the recapitalization amount is likely to be at least equal to the minimum going concern capital requirement). On May 7, 2020, the Bank of England announced that 2021 MRELs will reflect the PRA's policy changes to Pillar 2A capital setting announced on the same date. The Bank of England released a discussion paper on December 18, 2020 regarding its approach to setting MREL as a first stage of its expected MREL review and indicated that the review will complete in 2021, not 2020 as initially planned. The Bank of England confirmed in this discussion paper that it considers it appropriate for mid-tier credit institutions to be given a longer timeframe within which to meet higher MRELs, confirmed its view that for G-SIBs and D-SIBs (such as the Society) a bail-in resolution strategy remains appropriate and its commitment that such firms be resolvable by 2022.

In addition to our MREL requirement, we must also hold applicable leverage ratio buffers of 0.35% of our UK leverage exposure. Together the MREL requirement and applicable buffers represent our "loss-absorbing capacity" requirement. As at September 30, 2020, our MREL resources were equal to 8.5% of the UK leverage ratio exposure.

The preferred resolution strategy for the Society has been set by the Bank of England as "bail-in", reflecting our size and consequential risks of an insolvency process. 'Bail-in' would involve the write down or conversion to equity instruments (such as CCDS) of the liabilities of the Society, and would be expected to result

in the write down or conversion of all or a large part of our own funds and other eligible liabilities (and could in addition result in the write down or conversion of our other, more senior-ranking liabilities). Notwithstanding this, the actual approach taken, should we require resolution, will depend on the circumstances at the time of a failure, and all available options would be considered by the Bank of England (as our resolution authority).

Stress Tests

Since 2014, the Bank of England has conducted annual stress tests of the UK banking system. The annual cyclical scenario includes all major UK 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. This group includes the Society. The findings from the 2019 stress test (in which the FPC modeled deep simultaneous recessions in the UK and global economies that were more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct cost) showed that we would remain profitable, with capital levels well above regulatory requirements (CET1 capital falling to 13.1% at its lowest point — 5.2% above the hurdle rate—and UK leverage ratio falling to 4.8% at its lowest point), with full distributions continuing to be made on all Tier 1 capital instruments.

On March 20, 2020, the Bank of England announced that it was cancelling the 2020 bank stress tests, in light of the Covid-19 pandemic.

Impact of Covid-19

Regulators, legislatures and central banks in the UK and globally have also taken a number of steps with respect to prudential and resolution requirements in order to facilitate lending against the backdrop of the Covid-19 related disruption, including:

- the FPC's decision to reduce the UK counter-cyclical buffer rate to 0% with immediate effect from March 2020, and guiding that it expected to maintain the rate at 0% for at least 12 months. In December 2020, the FPC updated its guidance on the path for the UK counter-cyclical buffer rate, stating that it expects this rate to remain at 0% until at least the fourth quarter of 2021, such that any subsequent increase is not expected to take effect until the fourth quarter of 2022 at the earliest. The FPC also noted that the eventual pace of return to its targeted standard of 2% will depend on banks' ability to rebuild capital while continuing to support households and businesses;

- the PRA's decision, announced on May 7, 2020, to allow firms (subject to PRA approval) to fix their Pillar 2A requirements at a nominal amount in the 2020 and 2021 Supervisory Review and Evaluation Processes (as opposed to a percentage of their risk-weighted assets), based on RWAs as at December 31, 2019, with the effect of avoiding an absolute increase in Pillar 2A capital requirements in the current stress and potentially reducing Pillar 2A and thus the threshold at which firms are subject to maximum distributable amount (MDA) restrictions;

- the Bank of England's confirmation on May 7, 2020 that 2021 MRELs will reflect the above-referenced PRA policy change to Pillar 2A capital setting and a commitment to keep MRELs under review and monitor market developments carefully in the third quarter of 2020 to inform its approach in the fourth quarter of 2020 to setting January 2021 MRELs and indicative January 2022 MRELs, as well as re-affirming the Bank of England's discretion with respect to the transition time firms are given to meet higher MRELs;

- regulatory guidance, including from the PRA and via the EU Interpretative Communication published on April 28, 2020, as to the interpretation and flexibility of certain prudential and accounting requirements with respect to non-performing loans and other assets in the context of Covid-19 generally and also specifically in the context of payment holidays and other allowances and concessions afforded to borrowers, including guidance on how banks and building societies might approach key judgments as to whether and when borrowers should be

treated as in default under the prudential rules, or as having suffered a significant increase in credit risk (SICR) or credit impaired for accounting purposes under the expected credit loss assessments under IFRS 9;

- the Basel Committee on Banking Supervision's ("**BCBS**") deferral of the introduction of certain capital requirements, including a year's deferral in the implementation of and transitional arrangements for the Basel III standards finalized in December 2017, including that the RWA output floor will now be phased in from January 2023 to January 2028;

- alleviating operational burdens in the short-term, including: the Bank of England's decision to cancel the annual banks stress tests for 2020; extensions to certain resolution planning reporting and publication deadlines under the Resolvability Assessment Framework and SS19/13; and

- exceptional temporary measures, including the European Commission's proposals published on April 28, 2020 and approved in the European Parliament plenary session on June 19, 2020 for, amongst other things: a two-year extension of the current transitional arrangements under CRR for mitigating the impact of IFRS 9 provisions on regulatory capital, allowing banks and building societies to add back to their regulatory capital any increase in new ECL provisions incurred as of January 1, 2020 and recognized in 2020 and 2021 for financial assets which have not defaulted; a year's deferral (to January 1, 2023) of the introduction under CRR of the leverage ratio buffer requirement on G-SIIs; preferential capital treatment of certain publicly guaranteed loans and bringing forward the introduction of certain previously agreed measures to incentivize banks to finance employees, SMEs and infrastructure projects, as well as to invest in software.

Resolvability Assessment Framework

On July 30, 2019, the Bank of England and the PRA published final rules and policy in relation to the "*Resolvability Assessment Framework*" ("**RAF**"), under which the Bank of England and the PRA will assess the readiness of UK banks and building societies for resolution. The framework is set out in a Bank of England Statement of Policy ("**SoP**") and a new Resolution Assessment part of the PRA Rulebook (together with a PRA Supervisory Statement). The Bank of England SoP only applies to UK firms with a bail-in or partial transfer resolution. The Bank of England and PRA have delayed the application of this regime due to Covid-19, and initially published a 'modification by consent' to give effect to this. The PRA subsequently published a consultation paper (CP19/20) on October 28, 2020 proposing to amend their rules in accordance with the changes set out in the modification by consent, thereby extending by one year the dates by which firms are first required to submit a report of their assessment of their preparations for resolution to the PRA by October 2021 and to publish a summary of this report by June 2022. The consultation closes on January 31, 2021. The SoP specifies three "resolvability outcomes" which relevant firms must meet – (i) having adequate financial resources, (ii) being able to continue to do business through resolution and restructuring, and (iii) being able to communicate and coordinate within the firm and with authorities and markets. The new Resolution Assessment part of the PRA Rulebook applies to UK banks and building societies with £50 billion or more in retail deposits (so-called "**Major Firms**") and requires them to assess their preparations for resolution, submit reports of their assessment to the PRA every two years: we are subject to this requirement. In addition, the Bank of England will make public statements regarding each Major Firm's resolvability; these may highlight perceived shortcomings where the Bank of England considers that the firm in question has more work to do to be resolvable.

Impact of Brexit

On January 31, 2020, the United Kingdom ceased to be a member of the EU and the EEA. By virtue of the EUWA and the Article 50 Withdrawal Agreement, EU law and EU-derived domestic legislation continued to apply to and in the UK during a transition period which lasted until December 31, 2020. During the transition period the UK continued to be treated as a member state under EU law unless otherwise specified. Therefore, new EU legislation that took effect before the end of the transition period also applied to the UK.

On December 24, 2020, an agreement in principle was reached in relation to the EU-UK Trade and Cooperation Agreement (the "**Trade and Cooperation Agreement**"), to govern the future relations between the EU and UK following the end of the transition period. The Trade and Cooperation Agreement has provisional application from January 1, 2021 until the European Parliament gives its consent by February 28, 2021. The Trade and Cooperation Agreement is accompanied by a non-binding joint declaration committing the UK and the EU to cooperation in matters of financial regulation such as requirements for reporting under MiFID II, certain MAR requirements and the UK binding technical standards on strong customer authentication among others. The non-binding joint declaration is intended to be facilitated by a memorandum of understanding due to be agreed by March 2021.

Following the end of the transition period, the EUWA provides that certain existing EU legislation which had direct effect in the UK is retained in UK law as well as existing UK laws which implemented EU obligations. The UK government was given powers to amend this retained EU legislation so that it works effectively when the UK left the EU. The UK government has used this power to make numerous statutory instruments which amended retained EU financial services legislation. The UK government's intention was that the same rules and laws apply at the point the transition period ends, as far as possible, but with the necessary amendments to reflect the UK's position outside the EU.

The UK government has also conferred on the UK financial regulators (that is, the FCA, the Bank of England and the PRA) responsibility for amending and maintaining certain EU-binding technical standards which were retained in UK law at the end of the transition period. These technical standards specify detailed requirements for the purposes of various EU regulations and directives. In addition, the FCA and the PRA have amended their rules and regulations to ensure that these are consistent with the changes that the UK government made to retained EU law and so that it still works effectively following the end of the transition period.

Accordingly, following the end of transition period, the rules applicable to the Society changed. To help firms, like the Society, to adapt to the new requirements, the UK government has given the UK financial regulators the power to make transitional provisions in relation to financial services legislation for a temporary period. This is known as the "Temporary Transitional Power". The FCA and the PRA issued directions and guidance according to which the FCA and PRA are applying the Temporary Transitional Power on a broad basis from the end of the transition period until March 31, 2022. This means that firms do not generally need to prepare to meet the changes to their UK regulatory obligations. Where the Temporary Transitional Power applies, the Society will be able to continue to comply with the requirements which applied prior to the end of the transition period its existing requirements for a limited period and use the duration of the Temporary Transitional Power to prepare for full compliance with the new UK regulatory regime by March 31, 2022. However, there are certain areas where the Temporary Transitional Power does not apply. In these areas, the FCA and the PRA have stated that they expect firms to prepare to comply with the relevant changes from December 31, 2020. These areas include (but are not limited to) requirements on transaction reporting under UK MiFIR, certain requirements under UK MAR and the UK binding technical standards on strong customer authentication, as well as contractual recognition of bail-in rules, contractual stays and changes being made to the rules on depositor and policyholder protection.

Now that the transition period has ended, Nationwide's preparations have allowed it to comply with the new rules and regulations which took effect from January 1, 2021. The Society's Brexit Program continues its oversight of Brexit compliance via weekly Steering Committee and operational "Heartbeat" meetings. Changes which have now been implemented as a result of Brexit are currently spread across several organizational areas with primary activity occurring within the Product teams.

In addition to this, change has also occurred in the Digital and Channels space, encompassing several platforms, with content change and implementation being coordinated via the Brexit Program directly. Business readiness activities are substantially complete which ensured both colleagues and impacted business areas made the transition on December 31, 2020 and all areas remain well engaged.

Under the terms of the EUWA, EU regulations that were adopted but did not apply prior to the end of the transition period (such as provisions being phased in under the EU Banking Reform Package) and legislative

proposals that were in negotiation but not adopted before the end of the transition period are out of scope of the EUWA. This means these legislative measures do not and will not apply in the UK unless these are separately implemented by the UK government.

On October 21, 2020, the UK government presented the Financial Services Bill 2019-21. The government intends to use this bill to make extensive amendments to the legislative and regulatory framework for financial services following the end of the transition period. The bill sets out reforms relating to, among other things, prudential regulation of banks and investment firms (including the implementation of a number of Basel III measures which will not be onshored at the end of the transition period because the provisions do not apply in the EU until June 28, 2021), access to financial services markets and insider dealing and money laundering. The bill had its first reading in the House of Commons on October 21, 2020 and its second reading on November 9, 2020. According to the UK Parliament webpage on the progress of the bill, the Committee stage (that is, the line-by-line examination of the bill) concluded on December 3, 2020. The bill is now due to have its report stage and third reading on January 13, 2021. It is unclear at this stage when the bill will become law.

UK REGULATION

The UK Building Societies Act

The UK 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 UK Building Societies Act were repealed. However, a substantial part of the UK Building Societies Act, including the constitutional parts dealing with the principal purpose of building societies, nature limits and general governance, among others, still remain in force. The UK Building Societies Act has been amended and supplemented since its introduction by primary and secondary legislation.

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.

The UK Building Societies Act and related legislation has been amended by the Building Societies Legislation (Amendment) (EU Exit) Regulations 2018, as amended, ("**Building Societies EU Exit Regulations**") to equalize the treatment of EEA countries and other third countries after the end of the Brexit transition period. The amendments made under the Building Societies EU Exit Regulations came into effect at 23:00 GMT on December 31, 2020. The amendments have impacted our ability to diversify into lending secured on properties in EEA member states (as such loans 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 our current business strategy.

Nature of UK building society regulation

The following sections describe some of the concepts for a building society that is authorized under FSMA.

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 "UK retail member deposits" and people holding UK retail member deposits are referred to as "UK 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 UK Building Societies Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50% of its total funding. In calculating this amount, a specified amount of deposits made by individuals with a building society's subsidiaries in other EEA member states, 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 UK Banking Act 2009 for the purpose of modifying the application of the UK 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 Bank of England, 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

UK 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 UK 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 UK retail member depositors deposit or withdraw funds from their account. As a result shares in a building society do not form a permanent capital resource.

A building society's CET1 therefore consists primarily of its reserves (in our case, these have been built up over the years mainly from retained earnings – as we have 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 UK 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 building society 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 AT1 capital under the CRR.

Hedging

The UK Building Societies Act prohibits building societies and their subsidiaries from entering into any transaction involving derivative instruments unless the transaction falls within one of the specified exceptions, including where it is entered for the purpose of limiting the extent to which 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.

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.

Demutualization

The UK Building Societies Act permits a building society to demutualize by transferring the whole of its business to an existing company (referred to as a "**takeover**") or to a specially formed company (referred to as a "**conversion**") so long as the process meets statutory requirements. Any such demutualization must be approved by members and the PRA. The successor company will be a bank, which must be duly authorized to carry on its deposit-taking.

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 favor of a borrowing members' resolution to convert. On a demutualization as a result of a takeover by an existing bank or other company, the requirements would be similar except that 50% of shareholding members qualified to vote (or shareholding members representing 90% by value of the society's shares) must actually vote in favor of the requisite shareholding members' resolution. 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 UK 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. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favorable than those enjoyed by existing members of the holding mutual (or such parent undertaking, as the case may be).

A transfer of business to a subsidiary of another mutual society requires approval by members and confirmation by the PRA. The member approval thresholds require a shareholding members' resolution to be passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution and a borrowing members' resolution to be passed by more than 50% of borrowing members qualified to vote and voting on the resolution.

Directed transfers

The UK Building Societies Act confers power on the PRA, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The Financial Services Act 2012 also amended the UK Building Societies Act to extend this power of direction to a transfer of a building society's business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). Where any such direction is made, the PRA may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

The UK regulators

The PRA is currently the prudential regulator for building societies, banks, insurance companies and other deposit takers. The general objective of the PRA is promoting the safety and soundness of PRA-authorized persons.

The PRA supervises and regulates financial institutions, including building societies, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the FSMA, 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 FSMA, 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 UK financial services regime.

Operational Resilience

In July 2018, the Bank of England, 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 ("**FMIs**") (supervised by the Bank of England). The discussion paper introduces a number of important concepts which are relevant to all firms and FMIs including a concept of "impact tolerance". Firms and FMIs should set impact tolerances which quantify the amount of disruption that could be tolerated in the event of an incident. The discussion paper encourages firms to ensure key business services are sufficiently resilient to a wide range of threats and the deadline for responses to the paper was October 5, 2018.

On December 5, 2019 the Bank of England, PRA and FCA published consultation papers in line with the concepts introduced in the July 2018 discussion paper. These proposals expect firms and FMIs to identify their important business services that, if disrupted, could cause harm to consumers or market integrity, threaten the viability of firms or cause instability in the financial system. Impact tolerances should be set for each important business service and firms and FMIs should take actions to be able to remain within their impact tolerances through a range of severe but plausible disruption scenarios. Firms and FMIs will also be expected to identify and document the people, processes, technology, facilities and information that support their important business services. The proposed policies will comprise new rules (for the FCA and PRA), principles, expectations and guidance, and will be implemented through the authorities' respective supervisory areas. On March 20, 2020 the Bank of England, PRA and FCA announced an extension to their respective consultations until October 1, 2020. It is planned that firms and FMIs will not need to meet requirements resulting from the consultations before the end of 2021.

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 institutional level, the Basel Committee on Banking Supervision ("**BCBS**") has established the Operational Resilience Working Group and in December 2018 the BCBS published a report on cyber resilience. This report identifies areas which further policy work is likely to be undertaken. In view of Covid-19, on April 16, 2020 the Basel Committee also published a brief entitled "Covid-19 and operational resilience: addressing financial institutions' operational challenges in a pandemic", which states that financial institutions' cyber resilience processes should remain vigilant in order to identify and protect vulnerable systems. These processes should also be able to detect, and respond to cyber attacks, as well as assist with the relevant institution's recovery from them.

Market Competition

On September 28, 2018, the CMA received a super-complaint from Citizens Advice about loyalty pricing issues in the mobile, broadband, cash savings, home insurance and mortgages markets. The CMA investigated the complaint and published its response on December 19, 2018. In its response, the CMA recommended eight key reforms to address problems related to the "loyalty penalty" across all five markets together with market-specific reforms. In the case of cash savings, the CMA supports the FCA's work around the introduction of a basic savings rate, as well as recommending that the FCA considers if collective switching can be applied. In relation to mortgages, the CMA strongly supports the FCA's work on the mortgages market study and recommended that the FCA find out more about customers who could switch, but do not, and look at what measures can be taken to help or protect these customers where needed. The Government responded to the CMA's recommendations on June 18, 2019 indicating that it welcomed the CMA's recommendations for financial services and that the FCA has ongoing work in the cash savings, insurance and mortgage markets. In its 2019/2020 Business Plan, the FCA states that it will consider what action will best address the fact that those customers who shop around often get much better rates in the cash savings and insurance market and will publish proposals to address this, including exploring whether price interventions may be relevant. On October 4, 2019, the FCA also published an interim report on its Market Study MS 18/1 "General insurance pricing practices market study". In the report, the FCA found that the home and motor insurance markets are not working well for all consumers and considered that regulatory intervention is required. On September 22, 2020, the FCA published the final report of its market study, proposing significant reform of these markets through measures which seek to enhance competition, ensure consumers will receive fair value, and increase trust in these markets. The reforms proposed by the FCA include that, when a customer renews their home or motor insurance policy, the relevant customer should pay no more than they would if they were new to the provider through the same sales and channels. The FCA is also considering other new measures to further boost competition and deliver fair value to all insurance customers. These include proposed new product governance rules, additional reporting requirements and rules on making it simpler to stop automatic renewals across all general insurance products. The FCA is seeking views on its proposals by January 25, 2021.

On January 9, 2020 the FCA also published a Consultation Paper CP 20/1 "Introducing a Single Easy Access Rate for cash savings". The consultation was due to close in April 2020 and was extended until December 15, 2020 due to the impact of Covid-19. Given the continuing impact of Covid-19 and the low-interest rate environment, the FCA decided to stop this consultation altogether. The FCA stated that as interest rates for new products fall, so does the gap between rates paid to new and longstanding customers, and the size of the harm falls. Accordingly, the FCA does not consider that introducing a single easy access rate for cash savings would be proportionate to the current level of harm in this market. However, the FCA will continue to monitor the market and may revisit this decision if the FCA sees significant harm to consumers in the future. See "*CMA and FCA regulation to increase competition*" below for further information in respect of regulatory action to increase competition and to protect customers.

Authorization under the FSMA

The FSMA prohibits any person from carrying on a "regulated activity" by way of business in the UK unless that person is authorized or exempt under the FSMA. Regulated activities include amongst other things: 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 UK unless the promotion is issued or approved by an authorized person or is exempt from such requirements. The FSMA imposes criminal and civil sanctions for firms acting without appropriate authorization as well as in relation to the communication of financial promotions which are not otherwise approved or exempt.

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.

The FSMA was amended in the UK by numerous statutory instruments, including but not limited to Financial Regulators' Powers (Technical Standards) (Amendment etc.) (EU Exit) Regulations 2018 and the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019, to reflect the UK's exit from the EU.

Lending

Consumer credit

The regulatory framework in this area consists of the FSMA and secondary legislation and the Consumer Credit Association ("**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 FSMA (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.

On July 15, 2020, the draft Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020 ("**Breathing Space Regulations"**) were laid before the UK Parliament, which will implement a new breathing space scheme from May 4, 2021. The scheme would allow individuals struggling with problem debt an extra 60 days to get their finances under control, while they receive debt advice via professional debt advice providers in order to enter an appropriate debt solution. The scheme also provides for an alternative means to access the protections of a moratorium where individuals are receiving mental health crisis treatment, which will enable the protections to be in place for the duration of their crisis treatment. No interest and fees on debts can be charged and almost all enforcement action will be paused during the moratorium period. However individuals would not be protected from enforcement action on any debts arising from failure to pay ongoing household liabilities, such as rent or mortgage payments. The breathing space will include almost all personal debts. On October 21, 2020 the FCA published a consultation paper (CP20/21)

outlining changes to the FCA Handbook as a result of the Breathing Space Regulations. The proposed changes amend certain parts of CONC to clarify how the rules will apply where the Breathing Space Regulations also apply. The FCA is seeking views on the proposals, and the deadline for responses to the consultation is January 6, 2021. The Government intends to publish guidance on the Breathing Space Regulations for creditors and debt collectors giving debt advice.

There are also pending legislative changes to default notices required by the CCA. On October 7, 2020 HM Treasury announced that as part of the Government's effort to support people in problem debt, it will legislate to change the language and presentation of information in debt letters (i.e. Default Notices), providing that the new rules will make debt letters less threatening by restricting the amount of information that must be made prominent and requiring the use of bold or underlined text rather than capital letters. Lenders and owners will also now be able to replace legal terms with more widely understood words and letters will clearly signpost people to the best sources of free debt advice. The Consumer Credit (Enforcement, Default and Termination Notices) (Coronavirus) (Amendment) Regulations 2020, implementing these changes, were published on November 11, 2020 and came into force on December 2, 2020. All lenders will then be required to make the changes within six months. The Society will need to ensure the relevant changes are made to its template default notices in accordance with the implementation timescale in order to ensure the default notice remains valid under section 87 and 88 CCA.

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 UK; and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person. 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 (among 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.

The Mortgage Directive was implemented in the UK prior to the UK's exit from the EU and the UK regime was subsequently amended to reflect the UK's exit from the EU to ensure the rules continue to operate effectively in the UK. Notably, mortgage contracts entered into following the end of the transition period only qualify as regulated mortgage contracts for the purposes of the regime to the extent they relate to land in the UK (while mortgage contracts over land in the EEA which were entered into prior to the end of the transition period continue to qualify as regulated mortgage contracts). For the most part, the 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 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 UK'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 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 certain 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 FSMA 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) £355,000 for complaints referred to us on or after April 1, 2020; (ii) £350,000 for complaints about acts or omissions by firms on or after April 1, 2019 and (iii) £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 UK, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the "**1999 Regulations**"), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the "**UTCCR**"), apply to agreements made on or after July 1, 1995 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 Consumer Rights Act (the "**CRA**") reforms and consolidates consumer law in the UK. 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 (as defined below), 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. The CRA was amended by the Consumer Protection (Amendment etc.) (EU Exit) Regulations 2018 (as amended) to reflect the UK's exit from the EU to ensure the legislation continues to operate effectively in the UK.

Responsibility for enforcing the UTCCR and the CRA, which came into force from an unfair contract terms perspective on October 1, 2015 (the "**CRA Commencement Date**"), 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. UCTA and UTCCR will continue to apply to contracts entered into prior to the CRA Commencement Date.

The CRA 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.

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". However, 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 favorable 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 finalized 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. The finalized 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 finalized guidance will apply to FCA authorized persons and their appointed representative in relation to any consumer contracts which contain variation terms.

In view of the Covid-19 pandemic, the CMA published a statement on April 30, 2020, setting out its general views about how the law operates in relation to cancelation and refunds, noting that ultimately the position will be determined by the courts. On August 28, 2020 the CMA updated this statement to provide that where lockdown laws mean the service which can be provided is radically different to what was agreed the consumer would normally be able to cancel and receive a full refund, but if the differences in the service provided are only minor, a consumer should be able to choose between cancelling on the trader's standard terms (provided these are fair) or going ahead and receiving a proportionate discount. Further, where compliance with Covid-19 restrictions imposed as a matter of government guidance (rather than legislation) would prevent a consumer receiving a service, the consumer would have to cancel on the trader's standard terms, provided these are fair.

This area of law is rapidly developing and new regulatory guidance and case law as a result of this new legislation can be expected. During a Commons debate on February 11, 2020, the Parliamentary Under-Secretary of State of the Department for Business, Energy & Industrial Strategy (**BEIS**), announced that that BEIS will publish a consumer and competition Command Paper in spring 2020 (not yet published) and carry out a five-year review of the Consumer Rights Act 2015 later in the year. The Command Paper was not published in spring 2020, and the status of the Command Paper and the CRA review is unknown.

CMA and FCA regulation to increase competition

Following 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 FCA published PS19/16 entitled "*High-Cost Credit Review: Overdrafts policy statement*" on June 7, 2019 setting out the FCA's final rules. The rules require (among other things) firms to align the prices of unarranged overdrafts so that they are no more expensive than arranged overdrafts and simplify their overdraft pricing structures to charge a single annual rate of interest for both arranged and unarranged overdrafts. The overdraft pricing rules came into force on April 6, 2020. On June 7, 2019, the FCA published Consultation Paper CP19/18 entitled "*Overdraft pricing and competition remedies*", which sets out proposals requiring firms to publish overdraft prices and fees to improve transparency and promote more effective competition for overdrafts. The FCA published amendments to its rules in PS19/25 on October 2, 2019. The amendments require firms to publish overdraft pricing information alongside information on current accounts. The rules came into force on April 6, 2020 along with the overdraft pricing rules.

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. A Financial Services (Duty of Care) Bill was introduced in the House of Lords in October 2019. The Bill would have required the FCA to make rules in relation to the duty of care financial services firms owe to consumers. The Bill was re-introduced on January 9, 2020. 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 FCA was due to publish a policy paper on the possibility of introducing a new duty of care for financial services firms in early 2020, which will seek detailed views on specific options for change. However, as a result of Covid-19 this work has been delayed to Q1 2021.

The aim of open banking is to create more transparency and fairness in the UK banking and financial services market through greater competition and innovation. It has the potential to disrupt traditional personal financial services models significantly and to reshape the banking landscape in the UK radically. Open banking requires financial institutions such as Nationwide 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. On December 17, 2019, the FCA published Call for Input to explore the opportunities and risks arising from open finance. The Call for Input was open until October 1, 2020. Open finance would extend open banking principles to give consumers and businesses more control over a wider range of their financial data, such as savings, insurance, mortgages, investments, pensions and consumer credit. It has the potential to increase competition among financial service providers and is aimed at delivering benefits for consumers and open finance participants alike.

Distance marketing

In the UK, the Financial Services (Distance Marketing) Regulations 2004 apply to, inter alia, credit agreements entered into on or after October 31, 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancelable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancelable 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 cancelable under these regulations, the borrower may send notice of cancelation at any time before the end of the 14th day after the day on which the cancelable agreement is made, where all the prescribed information has been received or, if later, the borrower receives the last of the prescribed information. The Financial Services (Distance Marketing) Regulations 2004 was amended by the Financial Services (Distance Marketing) (Amendment) (EU Exit) Regulation 2019 and Collective Investment Schemes (Amendment etc.) (EU Exit) Regulations 2019 to reflect the UK's exit from the EU.

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 canceled agreement, within 30 days beginning with the day of the borrower sending the notice of cancelation or, if later, the originator receiving notice of cancelation;

(b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the canceled 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 canceled agreement.

If a significant portion of the loans are characterized as being cancelable 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 UK law by the Consumer Protection from Unfair Trading Regulations 2008 (the "**CPUTR**"), which came into force on May 26, 2008. The CPUTR was amended by the Consumer Protection (Amendment etc.) (EU Exit) Regulations 2018 to reflect the UK's exit from the EU. 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 offense 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 CPUTR 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.

Covid-19 relevant legislation and regulation

We must also comply with FCA guidance introduced to support customers with other products including personal loans, credit cards and overdrafts. Amongst other matters, the personal loans and credit card guidance requires that where a customer with a personal loan or credit card is experiencing or reasonably expects to experience temporary payment difficulties as a result of circumstances relating to Covid-19, wishes to receive a full payment deferral and has not received such a deferral previously, the Issuer should grant the customer a three monthly payments deferral, unless the firm determines (acting reasonably) that it is obviously not in the customer's interests to do so. If the customer is unable to resume payments at the end of that payment deferral then the Issuer should consider whether it is appropriate to grant a further full or partial payment deferral for up to a further three months, or where that is not appropriate, to offer the customer alternative forbearance in accordance with the FCA rules. Where at the end of any further payment deferral period the customer is not able to resume payments, the Issuer should provide such appropriate forbearance in accordance with FCA rules and is also expected to waive the additional interest accrued during the payment deferral period as soon as reasonably practicable at the end of the deferment period. The effect of this is to ensure that a customer would not, in respect of the deferred payments, be in a worse position in terms of interest, than if they had paid those amounts in full in accordance with the agreement. Where credit card customers have been granted a payment deferral under the FCA Covid-19 guidance they should not have the use of their credit card or their credit facility suspended except where the firm is acting in accordance with section 98A of the CCA. Where a notice is given to the customer under section 98A of the CCA the Issuer should, at the same time, ask customers to contact them urgently if their need to use their card for essential living expenses or to purchase essential items. If they do, the Issuer must consider lifting or delaying the

suspension. The Issuer should not report a worsening status on any customer's credit file during any payment deferral period.

On November 19, 2020, the FCA updated the FCA Covid-19 guidance for personal loans and credit cards and published additional guidance to enhance support to consumer credit borrowers who face payment difficulties due to Covid-19 ("**Credit Tailored Support Guidance**"). The updated FCA Covid-19 guidance and the Credit Tailored Support Guidance came into force on November 25, 2020 and are expected to remain in force until July 31, 2021. The effect of the changes to the FCA Covid-19 guidance is that customers have until March 31, 2021 to request an initial or further payment deferral. Those who have not yet had a payment deferral will be eligible for two payment deferrals of up to six months in total. Those who currently have an initial payment deferral will be eligible for a further payment deferral of up to three months. No payment deferral offered under the updated FCA Covid-19 guidance can extend beyond July 31, 2021. Those customers who are not receiving a payment deferral under that guidance (including where they are not or are no longer eligible for such payment deferral) but who are experiencing payment difficulties as a result of Covid-19 should be offered tailored support under the Credit Tailored Support Guidance.

In the insurance sector, the FCA published "Coronavirus and customers in temporary financial difficulty: guidance for insurance and premium finance firms" on May 14, 2020. It sets out the FCA's expectations for firms when considering the fair treatment of existing customers, and in particular those customers experiencing or reasonably expecting to experience temporary financial difficulties due to Covid-19. Actions which we may need to take include re-assessing the risk profile of the customer, considering whether there are other products the firm can offer which would better meet the customer's needs and revising the cover accordingly, working with customers to avoid the need for cancelation (but if cancelation does take place, considering waiving cancelation fees) of necessary cover such as by considering payment deferrals and waiving any fees associated with adjusting a customer's policy in line with these assessments. On October 30, 2020, the FCA published additional guidance setting out its expectations of how firms should continue to seek to help customers who hold insurance and premium finance products and may be facing financial difficulty, due to the COVID-19 pandemic, after October 31, 2020. The guidance outlines the tailored support firms should provide to consumers who have already had a payment deferral and those newly in financial difficulty due to changed circumstances relating to Covid-19. In addition, in June 2020, the FCA published guidance setting out its expectations for insurers and insurance intermediaries to consider the value of their produces. On October 30, 2020, the FCA published a statement reminding insurance firms to review the value of their products in the light of the impact of the Covid-19 pandemic. Firms should complete their Covid-19 related review of product lines and decide what action to take by December 3, 2020.

Further, on May 1, 2020 the FCA published a letter to mortgage lenders and administers asking them, if they have customers who took out mortgages with higher risk characteristics before the financial crisis, to review the interest rates charged to such customers and consider if they are consistent with the obligation to treat customers fairly in the light of Covid-19. The FCA also published temporary mortgage guidance in March 2020 which was updated in June 2020 and which was due to expire on October 31, 2020 (the **Payment Deferral Guidance)**. The FCA published additional mortgage guidance in September 2020 and on November 2, 2020 published further draft guidance updating the Payment Deferral Guidance and additional tailored support guidance (the **Tailored Support Guidance**). On November 17, 2020, the FCA confirmed the updated Payment Deferral Guidance and Tailored Support Guidance came into force from November 20, 2020. The updated Payment Deferral Guidance requires firms to extend the availability of payment deferrals until July 31, 2021. The FCA expects firms to allow customers impacted by Covid-19 to defer up to six monthly payments in total, but firms should not provide deferrals under the guidance for payments extending beyond July 31, 2021. The Tailored Support Guidance is intended to support firms to treat consumers affected by Covid-19 fairly and to help consumers to bridge the crisis to get back to a more stable financial position. Under the Tailored Support Guidance firms are required to offer tailored support to customers facing payment difficulties due to circumstances related to Covid-19 who are not receiving payment deferrals (including where there are not or are no longer eligible for such payment deferral under the Payment Deferral Guidance). Tailored support could include the provision of further payment deferrals where appropriate, where firms agree to accept reduced or no payments for further periods without changing the contractual terms.

The FCA has also provided guidance in relation to overdrafts. This requires arranged overdrafts of up to £500 to be interest-free for a period of three months and those with a limit of £500 or below having an interest-free balance for the same period. For those in excess of this amount, the first £500 will be interest-free and the remaining balance will be subject to standard pricing. Customers are entitled to request and/or receive assistance under the overdrafts guidance at any point until October 31, 2020. Where a customer has not previously had support, the assistance should last for an initial three months but a customer may be entitled to receive a further three months of support where they request it. This means that the support provided to customers under this guidance can extend beyond October 31, 2020. We offered 3 month interest holidays from April 20, 2020 on the whole arranged balance (without limit) and those holidays were automatically extended until October 31, 2020. Customers can apply for new interest holidays until the October 31, 2020 and the holiday will last for 3 months from the date the holiday is applied. We must also ensure that during this period our customers are not paying more than they would have paid for their overdraft compared to the prices charged before the FCA's new rules on overdraft pricing came into force. On September 30, 2020, the FCA published further overdraft guidance setting out how firms should provide tailored support to: (i) users of arranged overdrafts who have benefited from support under its prior guidance and who continue to face financial difficulties; and (ii) those who face financial difficulties due to coronavirus after October 31, 2020. That tailored support guidance supplements the FCA guidance published on ovedrafts and coronavirus in July 2020 and came into force on October 2, 2020. It remains in force until varied or revoked. In draft guidance published by the FCA on November 4, 2020 the FCA confirmed that overdrafts will continue to be subject to the tailored support for overdrafts published on September 30, 2020. Tailored support could include reducing or waiving interest, agreeing a program of staged reductions in the overdraft limit or transferring the overdraft balance to an alternative credit product on more favorable terms.

The FCA continues to review its Covid-19 related guidance and may decide to update or amend it as the pandemic and its impact on the UK develops.

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 UK on June 26, 2017 by the Money Laundering, 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 was transposed into UK law in January 2020 through amendments to the Money Laundering, Terrorist Financing and the Transfer of Funds (Information on the Payer) Regulations 2017. The Money Laundering, Terrorist Financing and the Transfer of Funds (Information on the Payer) Regulations 2017 was again amended by the Money Laundering and Transfer of Funds (Information) (Amendment) (EU Exit) Regulations 2019 (as amended) to reflect the UK's exit from the EU.

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 UK'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 UK to have a comprehensive AML/CTF regime and ensure that the UK's financial system is an increasingly hostile environment for ML/TF.

The General Data Protection Regulation ("**GDPR**") came into force on May 25, 2018 and applies to personal data that is processed by automated means or as part of a filing system. Personal data is broadly defined to mean any information relating to an identified or identifiable natural living person. The GDPR has been supplemented in the UK by the Data Protection Act 2018. The GDPR was onshored in the UK through EUWA,

with adjustments as provided in the Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations 2019.

Investment services regulation, Directive 2004/39/EC ("**MiFID**"), and its various implementing measures were recast as a revised directive (Directive 2014/65/EU) ("**MiFID II**") and a regulation (Regulation 600/2014/EU, the Markets in Financial Instruments Regulation or MiFIR), 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 MiFID requirements were implemented in the UK before the UK's exit from the EU and then amended to reflect the UK's exit from the EU. MiFIR was onshored in the UK by the Markets in Financial Instruments (Amendment) (EU Exit) Regulation 2018 (as amended).

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. PSD 2 was transposed into UK law with the PSRs 2017 repealing and replacing Payment Services Regulations 2009. The PSRs 2017 came into force on January 13, 2018 and were amended by the Electronic Money, Payment Services and Payment Systems (Amendment and Transitional Provisions) (EU Exit) Regulations 2018 (as amended) to reflect the UK's exit from the EU.

Key changes from the PSRs 2017 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. The requirements on strong customer authentication ("**SCA**") were due to come into force in September 2019 but UK and European authorities have agreed to establish a period of non-enforcement for payment service providers to implement SCA. For online banking, SCA obligations had to be implemented in the UK by March 2020. For e-commerce, due to Covid-19, the FCA has extended the deadline from March 2021 until September 2021. 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. The SCA requirements were due to come into force in September 2019, but the UK and European authorities have agreed to establish a period of non-enforcement for payment services providers to implement SCA. For online banking, SCA obligations had to be implemented in the UK by March 2020. For e-commerce, the FCA has given firms until March 14, 2021. In the exceptional circumstances of the Covid-19 crisis, the FCA gave the industry an additional six months to implement SCA for e-commerce, i.e., until September 14, 2021. 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 came into force on July 1, 2019. The Payment Services (Amendment) Instrument 2018 contains corresponding changes to the FCA Handbook.

On November 1, 2009, the British Bankers' Association, the Building Societies Association and The UK 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. While 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 UK.

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 February 24, 2020 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 and a procedure for building societies proposing business model diversification on this basis.

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 UK 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 UK 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. On October 28, 2020, the PRA published a consultation paper (CP20/20) revising its operational continuity in resolution policy. The proposals would result in a new supervisory statement, which would supersede the existing supervisory statement entitled "Ensuring operational continuity in resolution" (SS9/16). The proposals in CP20/20 require firms, inter alia, to consider the operational arrangements supporting the viability of the firm, and its key drivers of revenue and profit, in addition to those supporting its critical functions. The consultation closed on January 31, 2020. The PRA has proposed that the changes resulting from CP20/20 will come into force on January 1, 2022. It intends to publish its final policy in H1 2021.

Sustainable finance

The UK regulators have recently focused on sustainable finance. The PRA, together with the FCA, has established a Climate Financial Risk Forum ("**CFRF**") to build intellectual capacity and share best practice. The CFRF brings together senior representatives from across the financial sector, including banks, insurers, and asset managers. It established a number of working groups to develop a guide on best practice and recommendations for industry, which was published in June 2020 ("**CFRF Guide**"). The "Disclosures" chapter of the CFRF Guide sets out guidance on different approaches for banks, asset managers and insurers, as well as gaps and barriers. It recommends that firms aim to complete high level, mainly qualitative, disclosures by mid-2021 and add

quantitative disclosures by the end of 2022. The CFRF is expected to develop further recommendations on climate-related data, methodologies and metrics in the next 12-18 months.

In its 2019 supervisory statement on climate financial risk, the PRA made it clear that it expects firms to integrate climate related financial risk into their existing risk management frameworks, including requirements to identify, measure, monitor, manage and report on their exposures to such risks. Firms are expected to use both short-term and long-term time horizons to assess climate financial risks and to use scenario analysis where proportionate to inform their response to exposures. Firms will also need to include all material exposures relating to climate financial risk in their Internal Capital Adequacy Assessment Process (ICAAP). As a complement to the new expectations, the CFRF published chapters on risk management and scenario analysis setting out practical guidance on the topics for financial institutions.

The Bank of England is utilizing its stress testing framework to assess the impact of climate-related risks on the UK financial system. The Bank of England announced plans to test the UK financial system's resilience to the financial risks from climate change as part of the 2021 Biennial Exploratory Scenario ("**BES**"). In December 2019, the Bank of England published a discussion paper setting out the proposal for the 2021 BES on climate-related risks. The objective of the BES is to test the resilience of the largest banks, insurers and the financial system to different possible climate pathways and provide a comprehensive assessment of the UK financial system's exposure to climate-related risks. The deadline for responses was March 18, 2020. In June 2020, the Network for Greening the Financial System ("**NGFS**") published a set of climate scenarios that will serve as the basis for the scenarios in the 2021 BES.

On December 21, 2020 the FCA also published a policy statement on proposals intended to enhance climate-related disclosures by listed issuers and clarify existing disclosure obligations. The changes will broadly require companies to include a statement in their annual financial reports setting out whether their disclosures are consistent with the international Financial Stability Board recommendations and explain if they have not done so. The changes apply in relation to accounting periods beginning on or after January 1, 2021.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING HOLDERS OF NOTES

Subject to the withholding tax requirements set out under the subsection entitled "*Taxation–UK Taxation*," there are currently no UK laws, decrees or regulations that would reduce the payment by the issuer of interest or other payments to holders of notes who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the subsection entitled "*Taxation–UK Taxation*." There are also no restrictions under our memorandum and rules or under current UK laws that limit the right of non-resident or foreign owners to hold the notes or to vote, when entitled to do so.

TERMS AND CONDITIONS OF THE NOTES

This section describes the material terms and provisions of the notes to which any Final Terms may relate. We will describe in each Final Terms the particular terms of the notes that we offer by that Final Terms and the extent, if any, to which the general provisions described below may apply to those notes. Capitalized terms used but not defined in this section have the meanings given to them in the senior 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

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 (or the holder of any interest therein), 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 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 or CET1 Capital (including the Issuer's core capital deferred shares) and in priority to any other claims (including, without limitation, the Issuer's PIBS) which rank, or are 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 (or the holder of any interest therein), 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 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, SOFR 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:

(i) in the case of notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as so specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year;

(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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" 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_1 is greater than 29, in which case D_2 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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" 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_2 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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" 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_1 will be 30; and

"D_2" 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_2 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 favorable 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 UK 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 any other relevant authority 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 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 UK 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 other relevant authority.

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 or CET1 Capital (including the Issuer's core capital deferred shares) and claims in respect of the Issuer's PIBS.

"**Supervisory Authority**" means, from time to time, the Prudential Regulation Authority, the Bank of England 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.

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 SA/NV ("**Euroclear**") or Clearstream Banking, S.A. ("**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, or otherwise the Maturity Date), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any, or otherwise the Maturity Date) (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 the Reset Reference Rate is either Mid-Swaps or the Reference Bond Yield (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 any Reset Period, the second Reset Business Day prior to the first day of such 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) any of the CMT Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, EURIBOR, the Federal Funds Rate, Compounded Daily SONIA, SOFR, the Prime Rate, or the Treasury Rate, each as described in "*Interest—Interest on Floating Rate Notes*" and, for such purposes, references therein to "Floating Rate Notes" shall be deemed to be to "Reset Notes" and "*Interest—Interest on Floating Rate Notes*" shall be construed accordingly, or (ii) if Mid-Swaps is specified in the applicable Final Terms the Mid-Swap Rate, or (iii) 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 the Reset Reference Rate is either Mid-Swaps or the Reference Bond Yield (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:

(a) the Mid-Swap Rate as if determined as at the latest date (the **Latest Publication Date**) on which the relevant swap rate (if "*Single Mid-Swap Rate"* is specified in the applicable Final Terms) or swap rate quotations (if *"Mean Mid-Swap Rate"* is specified in the applicable Final Terms) for

a swap in the Specified Currency with a term equal to the relevant Reset Period was/were published on the Relevant Screen Page (deeming such latest rate or rates, as applicable, to apply to a swap commencing on the relevant Reset Date, whether or not this is the case); or

(b) if this is more recent than the Latest Publication Date, or if for any reason the relevant Reset Reference Rate cannot otherwise be determined accordance with paragraph (a) above, the Mid-Swap Rate determined as at the last preceding Reset Date (or, 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 willful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Calculation Agent, the other paying agents and all noteholders and (in the absence as aforesaid) no liability to the Issuer or the noteholders 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. For the avoidance of doubt, the provisions in this section in respect of Floating Rate Notes shall also apply to Reset Notes when the Reset Reference Rate includes one of the Interest Rate Basis described in this section.

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;
- SOFR;
- 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, SOFR 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, SOFR 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*." Unless otherwise specified in the applicable Final Terms, 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 US 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;
- SOFR will be the first US Government Securities Business Day falling after the last day of the relevant Observation Period;
- 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**" 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 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 or Reset 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 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 under the caption "Treasury Constant Maturities," or

(c) if the rate referred to in clause (b) does not so appear in H.15, 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, 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 5:00 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 5:00 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 or Reset 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 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 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, 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 5:00 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 5:00 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 or Reset 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 or Reset 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 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, 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 or Reset 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:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

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 or Reset 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 (if any), all as determined by the Calculation Agent.

"**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 (and subject to "*—Benchmark discontinuation*" if applicable) (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_o**" is the number of London Banking Days in the relevant Interest Accrual Period;

"**i**" is a series of whole numbers from one to d_o, 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_i**", 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 "Lag Period" 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_x**"), is a reference rate equal to the daily Sterling Overnight Index Average ("**SONIA**") rate for such LBD_x 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_x; and

"**$SONIA_{i\text{-}pLBD}$**" 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 or Reset Notes for the first scheduled Interest Period had the Floating Rate Notes or Reset 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 or Reset Notes becomes due and payable in accordance with "*Terms and Conditions of the Notes – Events of Default—Senior Preferred Notes*" or "*Terms and Conditions of the Notes – Events of Default—Subordinated Notes and 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 or Reset Notes become due and payable in accordance with "*Terms and Conditions of the Notes – Events of Default—Senior Preferred Notes*" or "*Terms and Conditions of the Notes – Events of Default—Subordinated Notes and 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 or Reset Notes become so due and payable, and such rate of interest shall continue to apply to the Floating Rate Notes or Reset Notes for so long as interest continues to accrue thereon as provided in the Indenture.

SOFR

Definitions

"Business Day" has the meaning set forth in "*—Certain definitions*" and, if (i) the relevant Final Terms specify that the Interest Rate Basis is "Compounded Daily SOFR" and (ii) a SOFR Index Cessation Date has not occurred, a US Government Securities Business Day.

"OBFR" means, on an Interest Payment Date, the Overnight Bank Funding Rate that appears on the Federal Reserve's website at 5:00 p.m. (New York time) for trades made on the related Interest Determination Date;

"OBFR Index Cessation Date" means, following the occurrence of an OBFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the Overnight Bank

Funding Rate), ceases to publish the Overnight Bank Funding Rate, or the date as of which the Overnight Bank Funding Rate may no longer be used, in each case as certified in writing by the Issuer to the Calculation Agent.

"OBFR Index Cessation Event" means the occurrence of one or more of the following events:

(i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the Overnight Bank Funding Rate) announcing that it has ceased or will cease to publish or provide the Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Overnight Bank Funding Rate;

(ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the Overnight Bank Funding Rate) has ceased or will cease to provide the Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Overnight Bank Funding Rate; or

(iii) a public statement by a regulator or other official sector entity prohibiting the use of the Overnight Bank Funding Rate that applies to, but need not be limited to, fixed income securities and derivatives, to the extent that such public statement has been acknowledged in writing by ISDA as an "OBFR index cessation event" under the 2006 ISDA Definitions as published by ISDA.

"SOFR" means, with respect to any US Government Securities Business Day (and subject to "*– Benchmark discontinuation – II. Benchmark discontinuation provisions for SOFR notes*" if applicable), the rate determined in accordance with the following provisions:

(i) the Secured Overnight Financing Rate that appears on the Federal Reserve's website at 3:00 p.m. (New York time) on the immediately following US Government Securities Business Day;

(ii) if the rate specified in paragraph (i) above does not so appear, and a SOFR Index Cessation Event has not occurred, then the Calculation Agent shall use the Secured Overnight Financing Rate published on the Federal Reserve's website for the first preceding US Government Securities Business Day on which the Secured Overnight Financing Rate was published on the Federal Reserve's website;

(iii) if a SOFR Index Cessation Date has occurred, the Calculation Agent shall calculate SOFR as if references to SOFR were references to the rate that was recommended as (and notified by the Issuer to the Calculation Agent being the replacement for the Secured Overnight Financing Rate by the Federal Reserve Board and/or the Federal Reserve Bank of New York or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the Secured Overnight Financing Rate (which rate may be produced by a Federal Reserve Bank or other designated administrator, and which rate may include any adjustments or spreads). If no such rate has been recommended within one US Government Securities Business Day of the SOFR Index Cessation Date, then the Calculation Agent shall use OBFR published on the Federal Reserve's website for any Interest Payment Date after the SOFR Index Cessation Date; and

(iv) if the Calculation Agent is required to use OBFR in paragraph (iii) above and an OBFR Index Cessation Date has occurred, then for any Interest Payment Date after such OBFR Index Cessation Date, the Calculation Agent shall use the short-term interest rate target set by the Federal Open Market Committee and published on the Federal Reserve's website, or if the Federal Open Market Committee does not target a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee and published on the

Federal Reserve's website (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range).

"SOFR Index Cessation Date" means, following the occurrence of a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the Secured Overnight Financing Rate), ceases to publish the Secured Overnight Financing Rate, or the date as of which the Secured Overnight Financing Rate may no longer be used, in each case as certified in writing by the Issuer to the Calculation Agent.

"SOFR Index Cessation Event" means the occurrence of one or more of the following events:

(i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate) announcing that it has ceased or will cease to publish or provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Secured Overnight Financing Rate;

(ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate) has ceased or will cease to provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Secured Overnight Financing Rate; or

(iii) a public statement by a regulator or other official sector entity prohibiting the use of the Secured Overnight Financing Rate that applies to, but need not be limited to, fixed income securities and derivatives, to the extent that such public statement has been acknowledged in writing by ISDA as a "SOFR index cessation event" under the 2006 ISDA Definitions as published by ISDA.

"SOFR Reset Date" means each US Government Securities Business Day in the relevant Interest Accrual Period, other than any US Government Securities Business Day in the Lock-out Period

"US Government Securities Business Day" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in US government securities.

Compounded Daily SOFR – Non-Index Determination

With respect to any Interest Determination Date relating to a Floating Rate Note or Reset Note for which the interest rate is determined on the basis of Compounded Daily SOFR and for which the applicable Final Terms specify "*Index Determination"* to be *"Not Applicable"*, the Rate of Interest for each Interest Accrual Period, subject as provided below, will be Compounded Daily SOFR plus or minus (as indicated in the applicable Final Terms) the applicable Margin (if any), all as determined by the Calculation Agent.

"Compounded Daily SOFR" means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment (with the Secured Overnight Financing Rate as the interest rate basis for the calculation of interest) as calculated by the Calculation Agent as at the relevant Interest Determination Date as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right]\times\frac{360}{d}$$

where:

"d" is the number of calendar days in:

(i) (where in the applicable Final Terms "Lag" or "Lock-out" is specified as the Observation Method) the relevant Interest Accrual Period; or

(ii) (where in the applicable Final Terms "Shift" is specified as the Observation Method) the relevant SOFR Observation Period;

"**d_0**" means:

(i) (where in the applicable Final Terms "Lag" or "Lock-out" is specified as the Observation Method) for any Interest Accrual Period, the number of US Government Securities Business Days in the relevant Interest Accrual Period; or

(ii) (where in the applicable Final Terms "Shift" is specified as the Observation Method) for any SOFR Observation Period, the number of US Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" is a series of whole numbers from 1 to 'd_0', each representing the relevant US Government Securities Business Day in chronological order from, and including, the first US Government Securities Business Day in:

(i) (where in the applicable Final Terms "Lag" or "Lock-out" is specified as the Observation Method) the relevant Interest Accrual Period; or

(ii) (where in the applicable Final Terms "Shift" is specified as the Observation Method) the relevant SOFR Observation Period;

"**Lock-out Period**" means the period from (and including) the day following the Interest Determination Date to (but excluding) the corresponding Interest Payment Date;

"**New York Fed's Website**" means the website of the Federal Reserve Bank of New York (or a successor administrator of SOFR) or any successor source;

"n_i" for any US Government Securities Business Day '*i*', means the number of calendar days from (and including) such US Government Securities Business Day '*i'* up to (but excluding) the following US Government Securities Business Day;

*"**p**"* means:

(i) where in the applicable Final Terms "Lag" is specified as the Observation Method, the number of US Government Securities Business Days specified as the "Lag Period" in the applicable Final Terms (or, if no such number is so specified, five US Government Securities Business Days); or

(ii) where in the applicable Final Terms "Lock-out" is specified as the Observation Method, zero US Government Securities Business Days; or

(iii) where in the applicable Final Terms "Shift" is specified as the Observation Method, the number of US Government Securities Business Days specified as the "Shift Period" in the applicable Final Terms (or, if no such number is specified, five US Government Securities Business Days);

"**SOFR$_i$**" means the SOFR for:

(i) where in the applicable Final Terms "Lag" is specified as the Observation Method, the US Government Securities Business Day falling p US Government Securities Business Days prior to the relevant US Government Securities Business Day '*i*';

(ii) where in the applicable Final Terms "Lock-out" is specified as the Observation Method:

(A) in respect of each US Government Securities Business Day '*i*' that is a SOFR Reset Date, the SOFR for the US Government Securities Business Day immediately preceding such SOFR Reset Date; and

(B) in respect of each US Government Securities Business Day '*i*' that is not a SOFR Reset Date (being a US Government Securities Business Day in the Lock-out Period), the SOFR for the US Government Securities Business Day immediately preceding the last SOFR Reset Date in the relevant Interest Accrual Period (such last SOFR Reset Date coinciding with the Interest Determination Date); or

(iii) where in the applicable Final Terms "Shift" is specified as the Observation Method, the relevant US Government Securities Business Day '*i*'; and

"SOFR Observation Period" means the period from (and including) the date falling '*p*' US Government Securities Business Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling '*p*' US Government Securities Business 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.

Average SOFR

With respect to any Interest Determination Date relating to a Floating Rate Note or Reset Note for which the interest rate is determined on the basis of Average SOFR, the Rate of Interest for each Interest Accrual Period will be Average SOFR plus or minus (as indicated in the applicable Final Terms) the applicable Margin (if any), all as determined by the Calculation Agent as at the relevant Interest Determination Date (and rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards).

"**Average SOFR**", in relation to any Interest Accrual Period, means:

(a) where in the applicable Final Terms "Lag" is specified as the Observation Method, the arithmetic mean of the SOFR in effect for each calendar day during the relevant SOFR Observation Period, calculated by multiplying each relevant SOFR by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant SOFR Observation Period. For these purposes, the SOFR in effect for any calendar day which is not a US Government Securities Business Day shall be deemed to be the SOFR in effect for the US Government Securities Business Day immediately preceding such calendar day; and

(b) where in the applicable Final Terms "Lock-out" is specified as the Observation Method, the arithmetic mean of the SOFR in effect for each calendar day during the relevant Interest Accrual Period, calculated by multiplying each relevant SOFR by the number of days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Accrual Period, provided however that for any calendar day of such Interest Accrual Period falling in the Lock-out Period, the relevant SOFR for each day during that Lock-out Period will be deemed to be the SOFR in effect for the SOFR Reset Date immediately preceding the first day of such Lock-out Period. For these purposes, the SOFR in effect for any calendar day which is not a US Government Securities Business Day shall, subject to the proviso

above, be deemed to be the SOFR in effect for the US Government Securities Business Day immediately preceding such calendar day.

Defined terms used in this section "*Average SOFR*" and not otherwise defined herein have the meanings set out under the section entitled "*Compounded Daily SOFR*" above.

SOFR Unavailable

Subject to "*–Benchmark discontinuation*" below, if, where any rate of interest is to be calculated pursuant to the sections "*Compounded Daily SOFR – Non-Index Determination" or "Average SOFR"* above, in respect of any US Government Securities Business Day in respect of which an applicable SOFR is required to be determined, such SOFR is not available, such SOFR shall be the SOFR for the first preceding US Government Securities Business Day in respect of which the SOFR was published on the New York Fed's Website.

In the event that the rate of interest cannot be determined in accordance with the foregoing provisions of the sections *"Compounded Daily SOFR – Non-Index Determination"* or *"Average SOFR"* above, but without prejudice to "*–Benchmark discontinuation*" below, the rate of interest shall be calculated in accordance, *mutatis mutandis*, with the fallback provisions of paragraphs (i) and (ii) of the section *"Compounded Daily SONIA"* above.

Compounded Daily SOFR –Index Determination

With respect to any Interest Determination Date relating to a Floating Rate Note or Reset Note for which the interest rate is determined on the basis of Compounded Daily SOFR and for which the applicable Final Terms specify "*Index Determination*" to be "Applicable", the Rate of Interest for each Interest Accrual Period, subject as provided below, will be Compounded SOFR plus or minus (as indicated in the applicable Final Terms) the applicable Margin (if any), all as determined by the Calculation Agent.

"**Compounded SOFR**" means, with respect to an Interest Accrual Period, the rate determined by the Calculation Agent in accordance with the following formula (and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards):

$$\left(\frac{SOFRIndex_{End}}{SOFRIndex_{Start}} - 1\right) x \frac{360}{d_c}$$

where:

"$\mathbf{d_c}$" is the number of calendar days from (and including) the day in relation to which SOFR $\text{Index}_{\text{Start}}$ is determined to (but excluding) the day in relation to which SOFR $\text{Index}_{\text{End}}$ is determined;

"**Relevant Number**" is the number specified as such in the applicable Final Terms (or, if no such number is specified, five);

"**SOFR**" means the daily secured overnight financing rate as provided by the SOFR Administrator on the SOFR Administrator's Website;

"**SOFR Administrator**" means the Federal Reserve Bank of New York (or a successor administrator of SOFR);

"**SOFR Administrator's Website**" means the website of the SOFR Administrator, or any successor source;

"**SOFR Index**", with respect to any US Government Securities Business Day, means the SOFR index value as published by the SOFR Administrator as such index appears on the SOFR Administrator's Website at or around 3.00 p.m. (New York time) on such US Government Securities Business Day (the "**SOFR Determination Time**");

"**SOFR Index$_{Start}$**", with respect to an Interest Accrual Period, is the SOFR Index value for the day which is the Relevant Number of US Government Securities Business Days preceding the first day of such Interest Accrual Period; and

"**SOFR Index$_{End}$**", with respect to an Interest Accrual Period, is the SOFR Index value for the day which is the Relevant Number of US Government Securities Business Days preceding (A) the Interest Payment Date for such Interest Accrual Period, or (B) such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Accrual Period).

If, as at any relevant SOFR Determination Time, the relevant SOFR Index is not published or displayed on the SOFR Administrator's Website by the SOFR Administrator, the Compounded SOFR for the applicable Interest Accrual Period for which the relevant SOFR Index is not available shall be "Compounded Daily SOFR" determined in accordance the section entitled "*Compounded Daily SOFR – Non-Index Determination"* above as if *"Index Determination"* were specified in the applicable Final Terms as being '*Not Applicable'*, and for these purposes: (i) the *"Observation Method"* shall be deemed to be *"Shift"* and (ii) the *"Shift Period"* shall be deemed to be equal to the Relevant Number of US Government Securities Business Days, as if such alternative elections had been made in the applicable Final Terms.

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 or Reset 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 or Reset 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 or Reset 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 or Reset 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 or Reset 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 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, 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 or Reset 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 or Reset 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 or Reset 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 or Reset 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 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, 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 or Reset 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 or Reset 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 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, 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 Reset Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

"**Bond Equivalent Yield**" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N \times 100}{360 - (D \times M)}$$

where "**D**" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis, "**N**" refers to 365 or 366, as the case may be, and "**M**" refers to the actual number of days in the applicable Interest Reset Period.

Minimum and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

The interest rate on Floating Rate Notes or Reset 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 or Reset 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 or Reset Notes is specified in the applicable Final Terms as being *"Compounded Daily SONIA"*, *"Compounded Daily SOFR—Non-Index Determination"*, *"Average SOFR"* or *"Compounded Daily SOFR – Index Determination"*, 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 or Reset 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 or Reset 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 or Reset Notes is specified in the applicable Final Terms as being *"Compounded Daily SONIA"*, *"Compounded Daily SOFR – Non-Index Determination", "Average SOFR" or "Compounded Daily SOFR – Index Determination"*, 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 or Reset 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 Business 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 or Reset 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 willful 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

I. Benchmark discontinuation provisions for all notes other than SOFR notes

The provisions contained in this subsection "*–Benchmark discontinuation – I. Benchmark discontinuation provisions for all notes other than SOFR notes*" are applicable to all notes other than Floating Rate Notes or Reset Notes (other than Reset Notes which reset only once) whose interest basis is SOFR. These provisions "*—Benchmark discontinuation*" apply 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 (other than in relation to a Benchmark Event occurring in relation to SOFR, in which case the terms set forth in "*–Benchmark discontinuation – II. Benchmark discontinuation provisions for SOFR notes*" shall apply) 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 endeavors 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 endeavors, 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 inquiry 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 subsection *"—I. Benchmark discontinuation provisions for all notes other than SOFR notes":*

"**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 Regulation (EU) 2016/1011 as that Regulation applies in the European Union and/or as it applies in the United Kingdom in the form retained as domestic law in the United Kingdom under the European Union (Withdrawal) Act 2018 as amended, 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.

II. Benchmark discontinuation provisions for SOFR notes

The provisions contained in this subsection "*–Benchmark discontinuation – II. Benchmark discontinuation provisions for SOFR notes*" are applicable to all notes Floating Rate Notes or Reset Notes (other than Reset Notes which reset only once) whose interest basis are SOFR. These provisions "*—Benchmark discontinuation*" apply only if "*Benchmark Replacement*" is specified to be applicable in the applicable Final Terms.

Notwithstanding the provisions of "*—Benchmark discontinuation—I. Benchmark discontinuation provisions for all notes other than SOFR notes*" above, if the Issuer determines on or prior to the relevant Interest Determination Date that a Benchmark Transition Event has occurred with respect to SOFR, then the following provisions shall apply.

(a) If the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any determination of the Benchmark on any date applicable to any SOFR notes, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to any SOFR notes in respect of such determination on such date and all determinations on all subsequent dates.

(b) In connection with the implementation of a Benchmark Replacement with respect to any SOFR notes, the Issuer will have the right to make Benchmark Replacement Conforming Changes with respect to any SOFR notes from time to time.

(c) 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 Replacement Conforming Changes (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.

(d) In connection with any such variation in accordance with the provisions in this subsection, we shall comply with the rules of any stock exchange on which the notes are for the time being listed or admitted to trading.

(e) We shall notify the Trustee, the Calculation Agent, the Paying Agents and, in accordance with "-Notices", the noteholders, promptly of any Benchmark Replacement and Benchmark Replacement Adjustment as well the specific terms of any Benchmark Replacement Conforming Changes, determined pursuant to the provisions of this subsection. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Replacement Conforming Changes, if any.

(f) No later than notifying the Trustee of the same, we shall deliver to the Trustee a certificate signed by two authorized signatories:

(1) confirming (i) that a Benchmark Transition Event has occurred, (ii) the Benchmark Replacement, (iii) the applicable Benchmark Replacement Adjustment and (iv) the specific terms of the Benchmark Replacement Conforming Changes (if any), in each case as determined in accordance with the provisions of this sub section; and

(2) certifying that the Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of such Benchmark Replacement and the applicable Benchmark Replacement Adjustment.

(g) The Trustee shall be entitled to rely on such certificate (without inquiry or liability to any person) as sufficient evidence thereof. The Benchmark Replacement and the applicable Benchmark Replacement Adjustment and Benchmark Replacement Conforming Changes (if any) specified in such certificate will (in the absence of manifest error in the determination of the Benchmark Replacement and the applicable Benchmark Replacement Adjustment and the Benchmark Replacement Conforming Changes (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.

(h) Notwithstanding the definitions of business day, OBFR, OBFR Index Cessation Date, OBFR index cessation event, SOFR, SOFR Index Cessation Date, SOFR Index Cessation Event, and US Government Securities Business Day set out above, the following definitions shall apply with respect to this section titled "*– II. Benchmark discontinuation provisions for SOFR notes*":

"**Benchmark**" means, initially, SOFR; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to SOFR or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement.

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(1) the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the Benchmark Replacement Adjustment;

(2) the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment;

(3) the sum of: (a) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current

Benchmark for any SOFR notes, as applicable, at such time and (b) the Benchmark Replacement Adjustment.

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(1) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected, endorsed or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(2) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;

(3) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for any SOFR notes at such time.

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes with respect to any SOFR notes (including changes to the definition of "interest period", timing and frequency of determining rates and making payments of interest, changes to the definition of "Corresponding Tenor" solely when such tenor is longer than the interest period and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement with respect to any SOFR notes in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary).

"**Benchmark Replacement Date**" means:

(1) in the case of paragraph (1) or (2) of the definition of "Benchmark Transition Event" below, the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the relevant Benchmark permanently or indefinitely ceases to provide such Benchmark, or

(2) in the case of paragraph (3) of the definition of "Benchmark Transition Event" below, the date of the public statement or publication of information;

provided, however, that on or after the 60th day preceding the date on which such Benchmark Replacement Date would otherwise occur (if applicable), the Issuer may give written notice to holders of any SOFR notes in which the Issuer designates an earlier date (but not earlier than the 30th day following such notice) and represents that such earlier date will facilitate an orderly transition of any SOFR notes to the Benchmark Replacement, in which case such earlier date shall be the Benchmark Replacement Date.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(1) a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that the administrator has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;

(2) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark; or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

"**Corresponding Tenor**" with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark.

"**Federal Reserve Bank of New York's website**" means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source (for the avoidance of doubt, this website (and/or any successor source) and the contents thereof do not form part of this base prospectus).

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time.

"**ISDA Fallback Adjustment**" means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is USD LIBOR, 11:00 a.m. (London time) on the day that is two London Banking Days preceding the date of such determination, (2) if the Benchmark is SOFR, 2:00 p.m. (London time) on the day that is two London Banking Days preceding the date of such determination and (3) if the Benchmark is not SOFR, the time determined by the Issuer in accordance with the Benchmark Replacement Conforming Changes.

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

"**SOFR**" with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the Benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's website.

"**Term SOFR**" means the forward-looking term rate for the applicable corresponding tenor based on SOFR that has been selected or recommended by the relevant governmental body.

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the applicable Benchmark Replacement Adjustment.

(a) To the extent that there is any inconsistency between the conditions set out in this subsection titled "*– II. Benchmark discontinuation provisions for SOFR notes*" and any provisions in this section "*--Terms and Conditions of the Notes*", the statements in this subsection shall prevail with respect to any SOFR notes.

(b) Nothing in this subsection titled "– *II. Benchmark discontinuation provisions for SOFR notes*" affects the rights of the noteholders other than any SOFR notes.

(c) For the avoidance of doubt, the Issuer may propose that a Benchmark Replacement replace the then-current Benchmark and any Benchmark Replacement Conforming Changes on more than one occasion provided that the conditions set out in this subsection titled "– *II. Benchmark discontinuation provisions for SOFR notes*" are satisfied.

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 all senior preferred notes, 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 all subordinated notes and senior non-preferred notes, 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) 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) 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) owing to a combination of clauses (1) through (4) above; or

(7) 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 canceled 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 Reset Notes (other than Reset Notes which reset only once)) or on any Interest Payment Date (if such notes are Floating Rate Notes or Reset Notes (other than Reset Notes which reset only once)) 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 UK 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 relevant 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 Reset Notes (other than Reset Notes which reset only once)) or on any Interest Payment Date (if such notes are Floating Rate Notes or Reset Notes (other than Reset Notes which reset only once)) 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 Reset Notes (other than Reset Notes which reset only once)) or on any Interest Payment Date (if such notes are Floating Rate Notes or Reset Notes (other than Reset Notes which reset only once)) 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 cancelation.

Preconditions to Redemption and Purchase of Subordinated Notes

Any redemption or purchase of subordinated notes prior to the Maturity Date 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) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that either: (A) the Issuer has (or before or at the same time as the relevant redemption or purchase will have) 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 own funds and eligible liabilities of the Issuer would, following such redemption or purchase, exceed its minimum requirements (including any buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; and

(c) in the case of any redemption or purchase 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;

  (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 subordinated notes is sufficiently certain and was not reasonably foreseeable as at the Issue Date;

  (C) in the case of a repurchase, the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that the Issuer has (or, before or at the same time as the relevant purchase, will have) 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, and the relevant Supervisory Authority having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances; or

  (D) the subordinated notes being purchased for market-making purposes in accordance with the prevailing Regulatory Capital Requirements.

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 or purchase prior to the Maturity Date, or any 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; 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, including, in the case of a redemption or purchase and to the extent then so required, the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that (A) it has (or, before or at the same time as the relevant redemption or purchase, will have) replaced the senior non-preferred notes with own funds or eligible liabilities instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the own funds and eligible liabilities of the Issuer would, following such redemption or purchase, exceed its minimum requirements for own funds and eligible liabilities by a margin that the relevant Supervisory Authority considers necessary at such time; or (C) the partial or full replacement of the senior non-preferred notes with own funds instruments is necessary to ensure compliance with the own funds requirements laid down in the prevailing Regulatory Capital Requirements for continuing authorization.

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 endeavors 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 UK Bail-in Power

Notwithstanding, and to the exclusion of, any other term of any notes or any other agreements, arrangements or understandings between the Issuer and any noteholder (or the Trustee on behalf of any noteholder), by its acquisition of any note (or any interest therein), each noteholder acknowledges and accepts that the Amounts Due arising under the notes may be subject to the exercise of the UK Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents, and agrees to be bound by:

(a) the effect of the exercise of the UK Bail-in Power by the Resolution Authority, that may include and result in (without limitation) any of the following, or some combination thereof:

(i) the reduction of all, or a portion, of the Amounts Due;

(ii) the conversion of all, or a portion, of the Amounts Due on the notes into shares, deferred shares (including core capital deferred shares), other securities or other obligations of the Issuer or another person (and the issue to or conferral on the noteholder of such shares, deferred shares (including core capital deferred shares), securities or obligations), including by means of an amendment, modification or variation of the terms of the notes;

(iii) the cancellation of the notes; and/or

(iv) the amendment or alteration of the maturity of the notes or amendment of the amount of interest payable on the notes, and/or the date on which the interest becomes payable, including by suspending payment for a temporary period; and

(b) the variation of the terms of the notes and the Indenture, if necessary, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.

No repayment or payment of Amounts Due on the notes, will become due and payable or be paid after the exercise of any UK Bail-in Power by the Resolution Authority if and to the extent such amounts have been reduced, converted, cancelled, suspended (for so long as such suspension or moratorium is outstanding), amended or altered as a result of such exercise.

Neither a reduction or cancellation, in part or in full, of the Amounts Due or the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Issuer, nor the exercise of the UK Bail-in Power by the Resolution Authority with respect to the notes, will be an Event of Default or otherwise constitute a breach of or default under the terms of the notes or the Indenture nor a default or event of default for any other purpose.

Upon the exercise of the UK Bail-in Power by the Resolution Authority with respect to any notes, the Issuer shall promptly give notice to the noteholders in accordance with "*—Notices*" and to the Trustee and the Paying Agents. Any delay or failure by the Issuer in delivering any notice referred to in this section "*—Agreement*

with Respect to the Exercise of UK Bail-in Power" shall not affect the validity or enforceability of the UK Bail-in Power.

For the purposes of this section "—Agreement with Respect to the Exercise of UK Bail-in Power":

(a) "**Amounts Due**" means the principal amount of, any premium on, and any accrued but unpaid interest on, the notes. References to such amounts will include (but will not be limited to) amounts that have become due and payable, but which have not been paid, prior to the exercise of the UK Bail-in Power by the Resolution Authority;

(b) "**Resolution Authority**" means the Bank of England or any successor or replacement thereto and/or such other authority in the United Kingdom with the ability to exercise the UK Bail-in Power; and

(c) "**UK Bail-in Power**" means any write-down, conversion, transfer, modification, moratorium and/or suspension power (including, without limitation, any write-down or conversion powers which may be exercised by the Resolution Authority independently of resolution proceedings) existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, building societies, financial holding companies, mixed financial holding companies, credit institutions and/or investment firms (and/or any group company of any of the foregoing) incorporated in the United Kingdom in effect and applicable in the United Kingdom to the Issuer or other members of its group, including but not limited to any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of a resolution regime in the United Kingdom under the Banking Act 2009 and/or the Loss Absorption Regulations, in each case as amended from time to time.

By its acquisition of the notes, each holder of the notes waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee will not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK Bail-in Power by the relevant Resolution Authority with respect to the notes.

Upon the exercise of the UK Bail-in Power by the Resolution Authority with respect to the notes, we will provide a written notice to DTC as soon as practicable regarding such exercise of the UK Bail-in Power for purposes of notifying holders of the notes of such occurrence. We will also deliver a copy of such notice to the Trustee for information purposes.

Our obligations to indemnify the Trustee shall survive the exercise of the UK Bail-in Power by the Resolution Authority with respect to any notes.

By its acquisition of the notes, each noteholder acknowledges and agrees that, upon the exercise of any UK Bail-in Power by the relevant Resolution Authority with respect to such notes, (a) the Trustee shall not be required to take any further directions from noteholders of the affected notes and (b) the Indenture shall impose no duties upon the Trustee whatsoever with respect to the exercise of any UK Bail-in Power by the relevant Resolution Authority. Notwithstanding the foregoing, if, following the completion of the exercise of the UK Bail-in Power by the Resolution Authority, any notes remain outstanding (for example, if the exercise of the UK Bail-in Power results in only a partial write-down of the principal of the notes), then the Trustee's duties under the Indenture shall remain applicable with respect to 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 UK Bail-in Power by the Resolution Authority, there shall at all times be a Trustee for the notes in accordance with the Indenture, and the resignation and/or removal of the Trustee and the appointment of a successor trustee will continue to be governed by the Indenture, including to the extent no additional supplemental indenture or amendment is agreed upon in the event the notes remain outstanding following the completion of the exercise of the UK Bail-in Power.

By its acquisition of the notes, each noteholder (a) acknowledges and agrees to be bound by and consents to the exercise of any UK Bail-in Power as it may be imposed without any prior notice by the Resolution Authority of its decision to exercise such power with respect to such notes and (b) shall be deemed to have authorized, directed and requested DTC and any direct participant in DTC or other intermediary through which it holds such notes to take any and all necessary action, if required, to implement the exercise of any UK Bail-in Power with respect to such notes as it may be imposed, without any further action or direction on the part of such holder or the Trustee.

For a discussion of certain risk factors relating to the UK bail-in power, see "*Risk Factors—Risks Related to the Notes.*"

Negative Pledge

The negative pledge applies to the senior 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 ratably 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

The following shall constitute "**Events of Default**" with respect to each series of senior 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 canceled, 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 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 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 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 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

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 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 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; 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 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 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 *Discontinuation*", "*-Substitution and Variation in Respect of Senior Non-Preferred Notes*" and "*Agreement with Respect to the Exercise of UK 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 UK resolution authority of the UK bail-in power.

Notices

Notices to holders of notes will be given by mail to addresses of such holders as they appear in the notes' register.

Governing Law

The Indenture and the notes shall be governed by and construed in accordance with the laws of the State of New York; except that 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.

Prescription

Claims for payment of principal in respect of the notes shall become void upon the expiry of ten years, and claims for payment of interest (if any) in respect of the notes shall become void upon the expiry of five years, in each case from the Relevant Date therefor, subject to the terms and conditions described under the subsection entitled "*—Payment of Principal, Premium, if any, and Interest, if any.*"

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. depositary for each of Clearstream and Euroclear, which U.S. depositaries will in turn hold interests on behalf of their participants' customers' securities accounts.

To facilitate subsequent transfers, all Global Notes deposited with DTC are registered in the name of DTC's partnership nominee, Cede. DTC has no knowledge of the actual owners of beneficial interests in the Global Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such beneficial

interests in Global Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede and any subsequent nominee of DTC. If less than all of the notes within a series are being redeemed, DTC's current practice is to determine *pro rata* or by lot the amount of the beneficial interest of each Direct Participant in such issue to be redeemed.

Principal and interest payments on the Global Notes will be made to DTC as the registered holder of the Global Notes. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is our responsibility, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct Participants and Indirect Participants.

A beneficial owner shall give notice to elect to have its beneficial interests in the Global Notes purchased or tendered, through its Participant, to the Trustee for a series of notes, and shall effect delivery of such beneficial interests in the Global Notes by causing the Direct Participant to transfer the Participant's beneficial interest in the Global Notes, on DTC's records, to the Trustee.

DTC may discontinue providing its services as securities depositary with respect to the Global Notes at any time by giving reasonable notice to us and the Placement Agents. Under such circumstances, in the event that a successor securities depositary is not obtained, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the subsection entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination*."

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depositary). In that event, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the 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 depositary.

Record Date

Unless we otherwise instruct the Trustee in writing, the record date for the determination of the holder of Global Notes entitled to receive payment in respect of a Global Note will be the date which is 15 calendar days prior to the applicable payment date on such Global Note in respect of such Global Note, provided that interest payable at Maturity will be payable to the person to whom principal shall be payable. If such 15th day is not a Business Day, the record date for determination will be the next succeeding Business Day. Whenever we or the Trustee deem it appropriate to fix a record date for the determination of the holder of Global Notes who should be entitled to receive payment or take any action in respect of Global Notes, the Trustee, with our consent, will set such record date at least 15 days prior to the date on which such payment is to be made or such action is to be taken.

Reports

The Trustee will send promptly to the applicable holders of the Global Notes any notices, reports and other communications from us that are received by the custodian as holder of the Global Notes and that we make generally available to holders of the notes.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each tranche of notes issued under the 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.][9]

[UK MiFIR 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") 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.]

[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 (the "**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 (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, 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.]]

[**Prohibition of sales to UK 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 United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[9] This legend to be included only where it accurately reflects the determination of the manufacturer(s) for the relevant series of notes.

[**Singapore Securities and Futures Act Product Classification –** 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, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), 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

[[The notes will only be admitted to trading on a specific segment of the London Stock Exchange's main market to which only qualified investors (as defined in the UK Prospectus Regulation)] can have access and shall not be offered or sold to non-qualified investors.]]

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 (the "**Base Prospectus**") for the purposes of Regulation (EU) (2017/1129) as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). This document constitutes the Final Terms of the notes described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).]

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [*original date*] and incorporated by reference into the Base Prospectus dated [date]. This document constitutes the Final Terms of the notes described herein for the purposes of Regulation (EU) (2017/1129) as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**") 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 (the "**Base Prospectus**") for the purposes of the Prospectus Regulation, including the Terms and Conditions incorporated by reference in the Base Prospectus, in order to obtain all the relevant information. 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]
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:	[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:	[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/[SOFR-[Compounded Daily SOFR]/[Average SOFR]]/Eleventh District Cost of Funds Rate/EURIBOR/Federal Funds Rate/LIBOR/Prime Rate/Treasury Rate]
	(g)	Interest Determination Date(s):	[ ] [TARGET/[ ]] Business Days [in [ ]] prior to the [ ] day in each Interest Period/each Interest Payment Date][The [first/[ ]] [London Banking Day]/[TARGET Business Day]/[US Government Securities Business Day]/[[*City*] Banking Day] falling after the last day of the relevant [SOFR] Observation Period][(where "**[*City*] Banking Day**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in [*City*])] / [The date which is [two/[ ]] US Government Securities Business Days before the relevant Interest Payment Date (or other date on which payment of interest falls due)] / [ ]
	(h)	Designated CMT Reuters Page:	[Not Applicable] [Reuters 7051 Page/Reuters Page T7052]
	(i)	Designated EURIBOR Page:	[Not Applicable] [EURIBOR 01/[ ]]

	(j)	Designated LIBOR Currency:	[Not Applicable] [USD/[ ]]
	(k)	Designated LIBOR Page:	[Not Applicable] [LIBOR 01/[ ]]
	(l)	Relevant Screen Page in respect of Compounded Daily SONIA:	[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)]]
	(w)	Observation Method: -Lag Period: -Shift Period:	[Not Applicable/Lag/Lock-out/Shift] [5 / [ ] [London Banking Days] [US Government Securities Business Days] [Not Applicable] [5 / [ ] US Government Securities Business Days] [Not Applicable] (*NB: A minimum of 5 relevant business/banking days should be specified for the Lag Period or Shift Period, unless otherwise agreed with the Calculation Agent*)
	(x)	Index Determination:	[Applicable/Not Applicable]
		-Relevant Number	[[5 / [ ]] US Government Securities Business Days]/[Not Applicable] (*If 'Index Determination' is 'Not Applicable', delete 'Relevant Number'*) (*If 'Index Determination' is 'Applicable', insert number of days (expected to be five or greater) as the Relevant Number*)
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)	Calculation Date:		[ ]
(f)	Fixed Coupon Amount to (but excluding) the First Reset Date:		[ ] per Calculation Amount
(g)	Broken Amount(s):		[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
(h)	Reset Reference Rate:		[[CMT Rate/Commercial Paper Rate/Compounded Daily SONIA/[[Compounded Daily SOFR]/[Average SOFR]]/Eleventh District Cost of Funds Rate/EURIBOR/Federal Funds Rate/LIBOR/Prime Rate/Treasury Rate]/[Mid-Swaps]/[/Reference Bond]]
	(i)	Interest Determination Date(s):	[ ] [TARGET/[ ]] Business Days [in [ ]] prior to the [ ] day in each Interest Period/each Interest Payment Date][The [first/[ ]] [London Banking Day]/[TARGET Business Day]/[US Government Securities Business Day]/[[*City*] Banking Day] falling after the last day of the relevant [SOFR] Observation Period][(where "**[*City*] Banking Day**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in [*City*])] / [The date which is [two/[ ]] US Government Securities Business Days before the relevant Interest Payment Date (or other date on which payment of interest falls due)] / [ ]
	(ii)	Designated CMT Reuters Page:	[Not Applicable] [Reuters 7051 Page/Reuters Page T7052]
	(iii)	Designated EURIBOR Page:	[Not Applicable] [EURIBOR 01/[ ]]
	(iv)	Designated LIBOR Currency:	[Not Applicable] [USD/[ ]]
	(v)	Designated LIBOR Page:	[Not Applicable] [LIBOR 01/[ ]]
	(vi)	Relevant Screen Page in respect of Compounded Daily SONIA:	[Not Applicable] [ ]
	(vii)	Index Maturity:	[Not Applicable] [ ]
	(viii)	Designated CMT Maturity Index:	[Not Applicable] [ ]

	(ix)	Margin(s):	[plus/minus] [ ]% per annum
	(x)	Minimum Interest Rate (if any):	[ ]% per annum
	(xi)	Maximum Interest Rate (if any):	[ ]% per annum
	(xii)	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)]]
	(xiii)	Observation Method:	[Not Applicable/Lag/Lock-out/Shift]
		-Lag Period:	[5 / [ ] [London Banking Days] [US Government Securities Business Days] [Not Applicable]
		-Shift Period:	[5 / [ ] US Government Securities Business Days] [Not Applicable] (*NB: A minimum of 5 relevant business/banking days should be specified for the Lag Period or Shift Period, unless otherwise agreed with the Calculation Agent*)
	(xiv)	Index Determination:	[Applicable/Not Applicable]
		-Relevant Number	[[5 / [ ]] US Government Securities Business Days]/[Not Applicable] (*If 'Index Determination' is 'Not Applicable', delete 'Relevant Number'*) (*If 'Index Determination' is 'Applicable', insert number of days (expected to be five or greater) as the Relevant Number*)
(i)	First Reset Date:		[ ]
(j)	Second Reset Date:		[ ]/[Not Applicable]
(k)	Subsequent Reset Date(s):		[ ] [and [ ]] [Not Applicable]
(l)	Relevant Screen Page:		[ ]
(m)	Mid-Swap Rate:		[Single Mid-Swap Rate/Mean Mid-Swap Rate] [Not Applicable]
(n)	Mid-Swap Fallback Rate in respect of the first Reset Determination Date:		[[ ] %.] [Not Applicable]
(o)	Fixed Leg Swap Duration:		[12 months / 6 months / [ ]] [Not Applicable]
(p)	Floating Leg Swap Duration:		[12 months / 6 months / 3 months / [ ]] [Not Applicable]

	(q)	Reference Bond Reset Rate Time:	[ ]/[Not Applicable]
	(r)	Reference Bond Fallback Price in respect of the first Reset Determination Date:	[ ]/[Not Applicable]
	(s)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(t)	Reset Determination Date(s):	[[ ] in each year][Not Applicable]
	(u)	Business Centre(s):	[ ]
	(v)	Business Day Convention:	[Following Business Day/Modified Following Business Day/Preceding Business Day]
		• Adjusted:	[Applicable]/[Not Applicable]
		• Non-Adjusted:	[Applicable]/[Not Applicable]
	(w)	Calculation Agent:	[ ]
16.	Benchmark Replacement:		[Applicable/Not Applicable]

PROVISIONS REGARDING REDEMPTION/MATURITY

17.	Maturity Date:		[ ]/[Interest Payment Date falling [in/on] or nearest to [..]
18.	Redemption at Issuer's option:		[Applicable/Not Applicable]
	(a)	Early Redemption Date(s):	[ ]/[Any day falling in the period commencing on (and including) [ ] and ending on ([and including/but excluding]) [the [first] Reset Date]/[the Maturity Date]/[ ]]
	(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's main market and to be listed on the Official List of the Financial Conduct Authority
(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 UK Limited:	[ ]]
[Fitch Ratings Ltd.:	[A 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. The rating agenc[y/ies] above [has/have] published the following high-level description[s] of such rating[s]: - A rating of [ ] by Moody's Investors Service Limited is described by it as indicating [ ]. - A rating of [ ] by S&P Global Ratings UK Limited is described by it as indicating [ ]. - A rating of [ ] by Fitch Ratings Ltd. is described by it as indicating [ ].]

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)	Any clearing system(s) other than The Depository Trust Company and	[ ][Not Applicable]

	the relevant identification number(s):	
(e)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(f)	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 the FCA pursuant to Article 36 (Register of administrators and benchmarks) of the UK Benchmarks Regulation]/[As far as the Society is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the UK Benchmarks Regulation]/[Not Applicable]

6. **DISTRIBUTION**

Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]
Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable]

7. **REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS**

(a)	Reasons for the offer:	[See ["Use of Proceeds"] in the Base Prospectus /*Give details*]
(b)	Estimated net proceeds:	[ ]

8. **US 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

US 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 (except to the limited extent discussed below), 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, non-U.S., state or local tax considerations or special tax accounting rules as a result of any item of gross income with respect to the notes being taken into account on an applicable financial statement.

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 advisors concerning the U.S. federal income tax consequences to it and its partners of the acquisition, ownership and disposition of the notes by the partnership.

THE 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 ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Except as set forth below, interest (including the amount of any taxes withheld and 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 advisors 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 an 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 includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the "daily portions" of OID with respect to the Original Issue Discount Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Original Issue Discount Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Note may be of any length and may vary in length over the term of the Original Issue Discount Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Original Issue Discount Note's "adjusted issue price" at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "**adjusted issue price**" of an Original Issue Discount Note at the beginning of any accrual period is equal to its issue price increased by the amount of accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is treated as a "variable rate debt instrument" under U.S. Treasury regulations (a "**Floating Rate Note**"), both the "yield to maturity" and "qualified stated interest" generally will be determined solely for purposes of calculating the accrual of OID as though the Floating Rate Note will bear interest in all periods at a fixed rate generally equal to the value of the rate that would be applicable to interest payments on the note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Floating Rate Note is indexed in any manner. Different rules may apply if a Floating Rate Note is treated as a contingent payment debt instrument under U.S. Treasury regulations.

Certain notes may be treated as contingent payment debt instruments for U.S. federal income tax purposes. 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, exchange, retirement 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, retirement or other disposition 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 advisors 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, retirement or other disposition of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale, exchange, retirement 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, retirement or other disposition of, a note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such note at the time of such payment or disposition. In addition, the U.S. Holder 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 ratably during the period from the date of acquisition to the maturity date of the note on a straight-line basis, unless the U.S. Holder elects to accrue on a constant yield method. This election to accrue market discount on a constant yield method is to be made for the taxable year in which the U.S. Holder acquired the note, applies only to that note, and may not be revoked without the consent of the IRS. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or constant-yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

Acquisition Premium; Amortizable Bond Premium

A U.S. Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest will be considered to have purchased such note at an "acquisition premium." Under the acquisition premium rules, if the U.S. Holder does not make the election to treat all interest as OID (as described above) then the amount of OID which such U.S. Holder must include in its gross income with respect to such note for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

A U.S. Holder that purchases a note (including an Original Issue Discount Note), for an amount in excess of the sum of all amounts payable on the note after the purchase date other than qualified stated interest will be considered to have purchased the note at a "bond premium." A U.S. Holder generally may elect to amortize bond premium over the remaining term of the note on a constant yield method as an offset to interest when includible in income under the U.S. Holder's regular 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 advisors 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 characterized as Reportable Transactions based upon any of several indicia, including, in certain circumstances, a sale, exchange, retirement or other 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 advisors 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 advisors 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 the Foreign Account Tax Compliance Act ("**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 characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued 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 advisors 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.

UK Taxation

The following is a summary of our understanding of current United Kingdom ("**UK**") law and HM Revenue and Customs ("**HMRC**") published practice (which may or may not be binding on HMRC) relating to the UK withholding taxation treatment as at the date of this Base Prospectus in relation to payments of principal and interest in respect of the notes issued by Nationwide and does not deal with other UK tax aspects of acquiring, holding or disposing of the notes. This summary relates only to the position of persons who are absolute beneficial owners of the notes. Prospective holders should be aware that the particular terms of issue of any series of the notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of notes. This summary is a general guide and does not purport to be a complete analysis of all tax considerations relating to the notes, and you should treat it with appropriate caution.

The comments below are of a general nature and are not intended to be exhaustive. You should seek independent professional advice should you have any doubt as to your tax position. If you may be liable to taxation in jurisdictions other than the UK in respect of your acquisition, ownership, holding and disposition of notes, you are particularly advised to consult your professional advisors as to whether you are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the notes. In particular, you should be aware that you may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the notes, even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

The references to "interest" in this UK Taxation summary mean "interest" as understood in UK tax law. The statements in this summary do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions of the Notes or any related documentation. This description of the UK withholding tax position assumes that there will be no substitution of the Issuer of the notes pursuant to the Terms and Conditions of the Notes and does not consider the tax consequences of any such substitution.

UK Withholding Tax on Interest

Notes 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 FSMA) and admitted to trading on the London Stock Exchange. Provided that the notes are and continue to be quoted Eurobonds, payments of interest on the notes may be made without withholding or deduction for or on account of UK income tax.

Other Cases

If the notes do not qualify as quoted Eurobonds, as described in "—*Notes 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 UK income tax at the rate of (currently) 20%, subject to any direction to the contrary from HMRC in respect of such relief as may be available under the provisions of any applicable double taxation treaty.

Other Rules Relating to UK Withholding Tax

Where notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount for tax purposes, then any such element of premium may constitute a payment of interest. The discount element on Notes which are issued at a discount will not generally constitute a payment of interest for these purposes. Payments of interest are subject to UK withholding tax as outlined above.

In addition to the above, in relation to UK withholding tax, where interest has been paid under deduction of UK income tax, holders of notes who are not resident in the UK 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 color 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 ins 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 UK Financial Services and Markets Act 2000, as amended (the "**FSMA**"), with respect to anything done by it in relation to any notes in, from or otherwise, involving the UK; 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 FSMA) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the FSMA, as amended 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:

(a) 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 (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(3) not a qualified investor as defined in Regulation (EU) 2017/1129; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes.

Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, 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.

Prohibition of sales to UK retail investors

Unless the Final Terms in respect of any notes specifies "*Prohibition of Sales to UK 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 UK. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(1) a retail client as defined in point (8) of Article (2) of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA;

(2) a customer within the meaning of the provisions of FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of EUWA; or

(3) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes.

Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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 and may not be licensed to provide financial product advice in relation to the securities. 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;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

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

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, except where explicitly permitted by the relevant Final Terms:

(i) except as set out below, it will not make a public offer of the notes, directly or indirectly, in Switzerland, as such terms are defined or interpreted under the Swiss Financial Services Act ("**FinSA**");

(ii) the notes will not be admitted by it to trading on a trading venue (exchange or multilateral trading facility) in Switzerland;

(iii) it will not offer, sell, advertise or distribute the notes, directly or indirectly, in Switzerland, as such terms are defined or interpreted under the FinSA, except to professional clients as such term is defined or interpreted under the FinSA (the "**Professional Investors**"); and

(iv) no key information document pursuant to article 58(1) FinSA (or any equivalent document under the FinSA) has been or will be prepared in relation to any Notes and, therefore, any notes with a derivative character within the meaning of article 86(2) of the Swiss Financial Services Ordinance may not be offered or recommended to private clients within the meaning of the FinSA in Switzerland.

The notes may not be publicly offered, directly or indirectly, in Switzerland, except (i) to Professional Investors or (ii) in the case of notes, the Final Terms of which explicitly permit a public offer in Switzerland. Offering or marketing material relating to notes, the Final Terms of which do not explicitly permit a public offer in Switzerland, may not be distributed or otherwise made available in Switzerland, except to Professional Investors.

The notes shall not be admitted to trading on a trading venue (exchange or multilateral trading facility) in Switzerland except in the case of notes, the Final Terms of which explicitly provide for such an admission to trading in Switzerland.

The notes do not constitute participations in a collective investment scheme within the meaning of the Swiss Collective Investment Schemes Act ("**CISA**"). Therefore, the notes are not subject to the approval of, or supervision by, the Swiss Financial Market Supervisory Authority ("**FINMA**"), and investors in the notes will not benefit from protection under the CISA or supervision by FINMA.

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 advisors.

INDEPENDENT AUDITORS

The financial statements as at April 4, 2019 and 2018, 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.

At the Society's annual general meeting held on July 18, 2019, the members of the Society approved the appointment of Ernst & Young LLP ("**EY**"), Chartered Accountants and Registered Auditors, as the Society's auditors for the financial year ending April 4, 2020. EY has no material interest in the Group.

The financial statements as at April 4, 2020, and for the year then ended, incorporated by reference in this Base Prospectus, have been audited by Ernst & Young LLP, independent auditors, as stated in their report 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 main market of the London Stock Exchange is expected to take effect on or around January 7, 2021. 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 main 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 September 30, 2020, being the date to which our most recent unaudited consolidated interim financial statements have been prepared, there has been no significant change in the financial performance or financial position of Nationwide and its subsidiaries. Save as disclosed in "*Risk Factors—Risks relating to the impact of Covid-19*" and "*Description of the Society—Recent Developments—Prospects*", there has been no material adverse change in our prospects since April 4, 2020.

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 at https://www.nationwide.co.uk/about/investor-relations/funding-programmes/us-mtn-programme:

   (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, 2020, 2019 and 2018; our unaudited consolidated interim financial statements for the six months ended September 30, 2020;

   (f) the audit report of EY in respect of our audited consolidated financial statements as of and for the year ended April 4, 2020; 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 UK 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.

UK Term used in financial statements	U.S. equivalent or brief description
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 (UK retail member deposits)	No direct U.S. equivalent
Tangible fixed assets	Property, Plant & Equipment or Fixed Assets

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