



Nationwide Building Society

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

U.S.\$25,000,000,000

**Senior Preferred, Senior Non-Preferred and Subordinated Medium-Term
Note Programme**

This supplement (the “**Supplement**”) to the base prospectus dated June 26, 2023, as supplemented by the supplementary prospectus dated November 17, 2023 (the “**Base Prospectus**”) constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 and is prepared in connection with the U.S.\$25,000,000,000 Senior Preferred, Senior Non-Preferred and Subordinated Medium-Term Note Programme (the “**Programme**”), established by Nationwide Building Society (the “**Issuer**” or the “**Society**”). Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and any other supplements to the Base Prospectus issued by the Issuer.

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 applicable U.S. state securities laws, and are being offered and sold outside of the United States to persons other than U.S. persons in reliance on Regulation S under the Securities Act and in the United States only to Qualified Institutional Buyers or “QIBs” in reliance on, and as defined by, Rule 144A under the Securities Act (“**Rule 144A**”) and, in each case, in compliance with applicable securities laws. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each 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 the Base Prospectus, and, in connection therewith, may be required to provide confirmation of its compliance with such resale and other transfer restrictions in certain cases (see “*Transfer Restrictions*” and “*Plan of Distribution*” in the Base Prospectus).

This Supplement has been approved as a supplement 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 Supplement 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 subject of this Supplement and investors should make their own assessment as to the suitability of investing in the Notes.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information

contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Purpose of this Supplement

The purpose of this Supplement is to:

- (a) update the Overview section;
- (b) update the Risk Factors section;
- (c) update the Capitalization and Indebtedness section;
- (d) update the Management's Discussion and Analysis of Financial Condition and Results of Operations section;
- (e) update the Description of Business section;
- (f) update the Selected Statistical Information section;
- (g) update the Management section;
- (h) update the Supervision and Regulation section; and
- (i) update the Terms and Conditions of the Notes section.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

If documents which are incorporated by reference to this Supplement themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Supplement for the purposes of the Prospectus Regulation except where such information or other documents are specifically incorporated by reference to the Supplement.

Copies of this Supplement, the Base Prospectus and all documents which are incorporated by reference in the Base Prospectus are available at <https://www.nationwide.co.uk/investor-relations/>.

Save as disclosed in this Supplement and the supplementary prospectus dated November 17, 2023, there has been no other significant new factor, material mistake or material inaccuracy relating to information included in the Base Prospectus since the publication of the Base Prospectus.

Following the merger of UBS Group AG and Credit Suisse Group AG, Credit Suisse Securities (USA) LLC has been removed from the Programme.

This section should be read together with the sections titled “Overview” in the Base Prospectus.

OVERVIEW

The first paragraph of the subsection entitled “Ranking of Senior Preferred Notes” will have the words “and deposits” added immediately succeeding the words “...(which includes certain member share accounts”.

The following supplements and replaces the final paragraph in the subsection entitled “Ranking of Senior Preferred Notes”

“**Ranking Legislation**” means (i) the Building Societies Act 1986, as amended, (ii) the Insolvency Act, (iii) the Hierarchy Order, (iv) if and to the extent applicable to the Issuer, any other law or regulation which is amended by the Hierarchy Order, and (v) any other law or regulation from time to time which is applicable to the Issuer and relevant for determining the rights of members and creditors of the Issuer in a winding up or dissolution of the Issuer; and

references to a “**winding up or dissolution**” in respect of the Issuer (which term includes, where the context admits, a Successor Entity which has been substituted in place of the Issuer) shall include (as applicable): (i) an order being made, or an effective resolution being passed, for the winding up or dissolution of the Issuer; (ii) following the appointment of an administrator in respect of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend; or (iii) the liquidation of the Issuer, or any procedure similar to that described in paragraph (i) or (ii) of this definition occurring in respect of the Issuer, including (if applicable) any building society or bank insolvency procedure or building society or bank administration procedure pursuant to the Banking Act 2009.”

The following supplements and replaces the entirety of the subsection entitled “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 (including, without limitation, compensation or retention), counterclaim or netting 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 (including, without limitation, compensation or retention), counterclaim or netting.”

The subsection entitled “Substitution and Variation in respect of the Senior Non-Preferred Notes” shall be deleted and replaced with the title “Substitution or Variation in respect of Senior Non-Preferred Notes and Subordinated Notes”.

The following supplements and replaces the entirety of the subsection entitled “Substitution and Variation in respect of Senior Non-Preferred Notes”.

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

This section should be read together with the sections titled “Risk Factors” in the Base Prospectus.

RISK FACTORS

The following supplements and replaces the subsection “Risk Factors – Economic and Financial Risks – Credit Risk” in the Base Prospectus.

Credit Risk

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. The Bank of England has started to tighten monetary policy in response to high inflation and a buoyant labor market. The Bank of England base rate of interest has been raised to 5.25% as of November 2023, an increase of 515 basis points since December 2022. Even though interest rates are at their highest since 2008, it is possible that the Bank of England may need to increase rates further to bring inflation back to target.

The relatively long period of stimulus measures 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 under-employment, 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 vulnerable to increases in unemployment, rising interest rates and/or falling house prices. Between 2009 and 2022, both variable and fixed interest rates have been at relatively low levels. Changes in the Bank Rate affect interest rates payable on a significant portion of our outstanding mortgage loan products over time. Rising interest rates would put pressure on borrowers whose loans are subject to a variable rate of interest, or who following a fixed rate period can only re-mortgage at a higher rate of interest. Such borrowers may experience financial stress in repaying at increased rates in the future, which ultimately may result in higher delinquency rates and losses in the future. Increased unemployment or underemployment could also lead to impacted borrowers being unable to service their loan repayments in a timely fashion, which would result in higher levels of arrears, thus increasing our impairment charges in respect of these portfolios. These events, alone or in combination, may contribute to higher delinquency rates and losses.

The value of the properties in our mortgage portfolio is also influenced by UK house prices, and a significant portion of our revenue is derived from interest and fees paid on our mortgage portfolio. A decline in house prices in the UK such as the recent fall in house prices 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.

In addition, we also have a significant portfolio of buy to let (“**BTL**”) and legacy mortgages. 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. Furthermore, if the UK government (the “**Government**”) passes

legislation that increases tax burdens or requires costly upgrades to BTL properties, such as proposed legislation that would increase Minimum Energy Efficiency Standards for BTL properties from E to C by 2028, it could reduce potential returns on certain BTL property investments. 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. Higher rates of stamp duty land taxes have gradually been implemented across the UK on the purchase of additional properties, with higher rates applying to persons not resident in the UK in certain circumstances. These factors, and any future changes resulting in higher rates, 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. On June 16, 2022, the Government published a White Paper “A Fairer Private Rented Sector” which proposes certain changes in relation to the standard of rented housing, the ability of tenants to challenge rent increases and fetters on the ability of a landlord to terminate a rental agreement where the tenant is not in breach of the contractual terms. It remains to be seen whether the proposals change as they go through the legislative process and what impact that will have, if any, on the performance of our BTL portfolio and, consequently, on our business, financial condition or results of operations.

The Government’s intervention into the housing market through buyer assistance schemes, changes to stamp duty thresholds, 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, TFS and TFSME), may also contribute to volatility in house prices. This could occur, for example, as a result of the extension of funding scheme to the banking sector, 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.

A reduction in UK house prices, or other deterioration in economic conditions, may also have an adverse impact on our Common Equity Tier 1 (“CET1”) ratio. 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. However, existing published results do not include the impact of redeveloped “internal ratings based” (IRB) models following the PRA’s updates to SS11/13 “IRB approaches” which came into effect from January 1, 2022. These included changes which aim to increase the consistency of IRB model approaches across different firms and, whilst leading to an increase in mortgage risk weights, will act to reduce the volatility of capital requirements across differing economic conditions.

In addition, the UK Financial Policy Committee (“FPC”) took the decision on June 20, 2022 to withdraw its affordability test recommendation with effect from August 1, 2022. Although lenders are not required to make changes as a result of the withdrawal, this decision has changed our assessment of affordability in the medium term. We have maintained a robust process, taking account of the future view of interest rates across any fixed rate deal period, and have moved to revising this monthly. We have also included a future view of inflation into our assumptions around household expenditure.

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.

The following supplements and replaces the subsection “Risk Factors – Economic and Financial Risks – Liquidity and Funding” in the Base Prospectus.

Liquidity and Funding

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 totalled £191 billion as at September 30, 2023, £187 billion as at April 4, 2023, £178 billion as at April 4, 2022 and £170 billion as at April 4, 2021, equal to 75.6%, 74.6%, 71.1% and 73.2%, 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 general level of retail deposits in the economy;
- the confidence of retail depositors in the economy in general and in us in particular;
- contagion impact due to concerns about the financial conditions of other UK banks;
- the impact of technology and ‘Open Banking’;
- the risk that significant portions of the UK savings and private current accounts market move to digital currencies such as the Bank of England’s proposed Central Bank Digital Currency
- the financial services industry specifically; and
- the availability and extent of deposit guarantees, such as under the FSCS.

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 could have a negative impact on our margins and profit. These or other factors could lead to a reduction in our ability to access retail deposit funding on appropriate terms in the future.

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. We expect to have sufficient liquidity to meet our funding requirements in a market-wide stress scenario. However, 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 or cost 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. Further, such circumstances could affect our ability to meet our financial obligations as they fall due, meet our regulatory minimum liquidity requirements, or fulfil our commitments to lend.

These risks could 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 outside of our control, such as general market conditions, regulatory requirements and loss of confidence in the UK banking system.

The Government has in recent years provided significant support to UK financial institutions. 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.

In addition to the factors mentioned above, 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 the liquidity and funding of all UK financial services institutions, including us. Such a loss of sentiment could also potentially occur as a result of a downgrade to the UK's sovereign rating or loss of confidence in the creditworthiness of the UK government more generally. 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 lead to a loss of customers and counterparties willing to trade with us.

Any downgrades may also create new obligations or requirements for us under existing contracts with our counterparties. For example, as at September 30, 2023 we would have needed to provide additional collateral amounting to £0.6 billion in the event of a two notch downgrade (subject to management actions that could be taken to reduce the impact of the downgrades).

The following supplements and replaces the subsection "Risk Factors – Economic and Financial Risks – Financial Reporting Risk" in the Base Prospectus.

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 condensed consolidated interim financial statements for the half year ended September 30, 2023 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 8 to the condensed consolidated interim financial statements as at and for the half year ended September 30, 2023) and the assumptions underlying our calculations of retirement benefit obligations (see note 14 to the condensed consolidated interim financial statements as at and for the half year ended September 30, 2023).

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.

From time to time, the International Accounting Standards Board (the “IASB”) proposes changes to the IFRS, as adopted for use within the UK. 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.

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.

The following supplements and replaces the subsection “Risk Factors – Economic and Financial Risks – Pension Risk” in the Base Prospectus.

Pension Risk

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 November 2020, Nationwide and the Trustee of the Nationwide Pension 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.

Following the closure of the Fund to future accrual on March 31, 2022, there were no employer contributions made in respect of future benefit accrual during the year. There were also no employer deficit contributions into the Fund for the year ended April 4, 2023 and none are scheduled for the year ending April 4, 2024.

Nationwide and the Trustee agreed to a new Schedule of Contributions following the finalisation of the Fund's March 31, 2022 Triennial Valuation. As the Triennial Valuation indicated a funding surplus, a recovery plan requiring employer deficit contributions was not needed. The effective date of the Fund's next Triennial Valuation is March 31, 2025. As the Fund is closed to future accrual, there were no employer contributions made in respect of future benefit accrual during the year. There were also no employer deficit contributions into the Fund for the year ended April 4, 2023 and none are scheduled for the year ending April 4, 2024.

In June 2023, Employer deficit contributions of £1 million were made in respect of the Group's defined benefit scheme in the Nationwide (Isle of Man) Limited subsidiary.

In May 2023, the Fund entered into a longevity swap transaction to manage the scheme's longevity risk in relation to £1.7 billion of pension liabilities, covering approximately 7,000 pensioners. This transaction will provide income to the Fund in the event that pensions are paid out for longer than expected, mitigating the financial impact and reducing the scheme's longevity risk exposure by

approximately one third. The swap is included in the Fund's assets, with future changes to its fair value expected to broadly offset changes in the scheme's liabilities relating to updates to life expectancy for those pensioners covered.

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.

Furthermore, the Fund's position can also be impacted by volatility in investment returns from its assets and the value of its liabilities, including, in each case, any derivative positions it may hold. The Fund holds a significant proportion of return-seeking assets, including equities and credit investments. Return seeking assets are expected to outperform liabilities in the long-term, but they are riskier and volatile in the short to medium-term. There is also a risk that the Fund's liabilities increase to a level which is not supported by asset performance, whether through discount rate changes, increases in long-term inflation expectations, or increases in the life expectancy (longevity) of Fund members. Over the long term, the Trustee intends to reduce further the Fund's risk factors, and we actively engage with the Trustee to ensure broad alignment on investment objectives and implementation. Potential risk management initiatives include, but are not limited to, adjusting the asset allocation (reducing the allocation to return-seeking assets and increasing the allocation to liability matching assets), longevity hedging and implementing derivative and other hedging strategies. The above-mentioned risks and failure to successfully implement risk management initiatives could have a material adverse effect on the performance of the Fund, our business, financial condition, results of operations, liquidity and/or prospects.

The following supplements and replaces the subsection "Risk Factors – Regulatory Risks – We are subject to extensive legislation and regulation" in the Base Prospectus.

We are subject to extensive legislation and regulation

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, authorisation 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, compounded by the UK's exit from the European Union, and significant resources have 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 our business due to sanctions, fines or other action imposed by the regulatory authorities.

This is particularly the case in the current market environment, which continues to witness significant levels of Government intervention in the banking, personal finance and real estate sectors. For example, on July 27, 2022, the FCA confirmed its plans to bring in a new Consumer Duty which will set higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first. The Consumer Duty is constituted of four high-level outcomes:

- a new Principle for Businesses and a new individual conduct rule, applicable to us, to "deliver good outcomes for retail customers",
- three cross-cutting rules to (i) act in good faith, (ii) avoid foreseeable harm to retail customers, and (iii) support those customers to pursue their financial objectives.

These four outcomes focus on products and services, price and value, consumer support and consumer understanding. Firms must implement the Consumer Duty for all new and existing products and services that are currently on sale by July 31, 2023. The rules will be extended to closed book products (i.e., those which are no longer on sale) by July 31, 2024.

The Consumer Duty also includes requirements for firms to end unfair charges and fees, make it as easy to switch or cancel products as it was to take them out in the first place, provide helpful and accessible customer support, act quickly to respond to customer queries, provide timely, clear and easily understandable information to customers regarding products and services, provide products and services that are appropriate for their customers, and focus on the real and diverse needs of their customers, including those in vulnerable circumstances, at every stage and in each interaction. Firms will also need to monitor, evidence and report against many of the requirements. There may be added costs associated with making necessary changes in order to ensure that we are compliant with these new rules. If we fail to comply with these new rules, there is a risk of an adverse impact on our business due to penalties imposed by the FCA, costs and payments associated with any investigations and/or required remediation and potential reputational damage. The FCA's business plan for 2023/24 includes amongst its priorities sector-specific supervisory work relating to the implementation of the Consumer Duty. 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 other legislative and regulatory changes 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 full effect that any of these changes and proposals will have on our operations, business and prospects. Following the UK's departure from the EU and the end of the Brexit transition period at the end of 2021, 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. However, it appears likely that the UK regulatory position will diverge to a material extent from that of the EU in the medium term. HM Treasury set out the government's approach to repealing and replacing retained EU law ("**REUL**") on financial services in December 2022 in the so-called "**Edinburgh Reforms**". The Edinburgh Reforms may result in material changes to the UK regulatory regime. 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 materialise 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 reposessions 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 investing significantly to ensure that we will be able to comply with developing regulatory requirements. If we are unsuccessful in efficiently adopting any requisite new compliance practices, this may adversely impact our ability to operate in the financial services markets and to deliver an appropriate level of operational and financial performance.

In recent years, the FCA has undertaken several studies on the mortgage market and has published advice according to its findings. It is possible that further changes may be made to the FCA's Mortgages and Home Finance: Conduct of Business sourcebook ("**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.

On November 30, 2022, the PRA published Consultation Paper 16/22 on the implementation of the final Basel standards (which the PRA refers to as Basel 3.1) in the UK. Taking into account the publicly announced implementation timetables in other major jurisdictions, and the need to provide firms with sufficient time to implement the final policies, the PRA has proposed a five-year transitional period for implementation that will become effective on January 1, 2025. The consultation closed on March 31, 2023. The implementation of the final Basel standards may have an impact on our risk management framework, which could adversely affect our business or operations.

The following supplements and replaces the second paragraph of the subsection "Risk Factors – Risks related to the Notes – The notes rank junior to most of our liabilities" with the sub-paragraph heading "The notes rank behind liabilities which are preferred by law."

"In addition to the priority status given to secured debt and certain employee and tax claims, the English insolvency regime applicable to the Society 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, medium and large sized enterprises (but excluding financial institutions), which are eligible for protection by the Financial Services Compensation Scheme (the **FSCS**) (up to 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 sized enterprises (this definition being narrower than the definition of eligible deposit referred to in paragraph (i) above), 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 non-UK branch of a credit institution authorised by the competent authority of the United Kingdom. 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."

The following supplements and replaces the second paragraph of the subsection "Risk Factors – Risks related to the Notes – The notes rank junior to most of our liabilities" with the sub-paragraph heading "Relative ranking of notes issued under the program."

"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 (including interest accruing on such claims for the period commencing after the winding up);

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 (including interest accruing on such claims for the period commencing after the winding up); 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 (including interest accruing on such claims for the period commencing after the winding up)."

The subsection entitled "Substitution or Variation of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event" contained in the section entitled "Risk Factors – Risks related to the Notes" shall be deleted and replaced with the title "Substitution or Variation of Senior Non-Preferred Notes and Subordinated Notes following a Loss Absorption Disqualification Event, Tax Event or Regulatory Event".

The following supplements and replaces the entirety of the subsection entitled Substitution or Variation of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event" contained in the section entitled "Risk Factors – Risks related to the Notes".

Unless, in the case of any series of senior non-preferred notes, "*Substitution or Variation*" is specified in the Final Terms as being 'Not Applicable', upon the Issuer having satisfied the Trustee that a Tax Event, a Regulatory Event or a Loss Absorption Disqualification Event, as applicable, has occurred and is continuing in respect of any series of senior non-preferred notes or any series of subordinated notes, as the case may be, the Issuer may, (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*") without the need for any consent of the noteholders, substitute all (but not some only) of such series of senior non-preferred notes or subordinated notes for, or vary the terms of such series so that they remain or become, Compliant Notes.

In the case of a substitution or variation of the notes, while the new substituted or varied notes must have terms not materially less favourable to noteholders than the terms of the notes, there can be no assurance that, whether due to the particular circumstances of each noteholder or otherwise, such substituted or varied notes will be as favourable to such noteholder in all respects. 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 such notes prior to such substitution or variation. The substitution or variation of the notes may result in tax or stamp duty consequences for noteholders. There can also be no assurance that such notes will trade at prices that are equal to the prices at which the notes would have traded on the basis of their original terms and may not satisfy any present or future investor expectations.

Further, the Compliant Notes in the case of senior non-preferred 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. Compliant Notes in the case of subordinated notes are required to have terms such that they rank equally with the ranking of subordinated notes.

The first paragraph of the subsection entitled “U.S. tax consequences of substitution or variation in terms pursuant to a Loss Absorption Disqualification Event” contained in the section entitled “Risk Factors – Risks related to the Notes” shall have the words “Loss Absorption Complaint Notes” deleted and replaced with the words “Compliant Notes”.

The following supplements and replaces the section “Capitalization and Indebtedness” in the Base Prospectus.

CAPITALIZATION AND INDEBTEDNESS

The following is a summary of our consolidated capitalization and indebtedness extracted from our condensed consolidated interim financial statements as at September 30, 2023:

	September 30, 2023
	<i>(£ million)</i>
Consolidated Indebtedness⁽¹⁾	
Deposits from banks and similar institutions ⁽⁷⁾	20,494
Other deposits.....	6,263
Debt securities in issue	29,456
Total Senior Debt	56,213
Subordinated liabilities⁽¹⁾⁽²⁾⁽⁶⁾	6,280
Total Subordinated Debt	6,280
Subscribed Capital ⁽¹⁾⁽³⁾⁽⁴⁾	169
Total Permanent Interest Bearing Shares	169
Members' Funds	
CCDS ⁽¹⁾	1,157
Other equity instruments ⁽¹⁾	1,336
General reserve.....	14,709
Revaluation reserve	37
Cash flow hedge reserve.....	163
Fair value through other comprehensive income reserve	(10)
Other hedging reserve	(38)
Shares ⁽¹⁾⁽⁵⁾	191,331
Total members' funds	208,685
Total capitalization	271,347

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 £73 million is included.
- (3) For consistency with other indebtedness, accrued interest of £2 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 October 2024, February 2026 and March 2030, respectively. The floating rate PIBS payable at 4.2% above SONIA is callable in September 2030.
- (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 2024, eight issues maturing 2026, two issues maturing 2027, six issues maturing 2028, five issues maturing 2029, two issues maturing 2030, one issue maturing 2032, one issue maturing 2033, and one issue maturing in 2036, a number of which are callable ahead of maturity.
- (7) During the six months ended September 30, 2023, we repaid £4.1 billion of TFSME drawings from the Bank of England’s Term Funding Scheme with additional incentives for SMEs.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalization, indebtedness, guarantees or contingent liabilities since April 4, 2023.

The remainder of the section should be read together with and form part of the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

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

The following section should be inserted before “Financial Performance” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

Financial Performance for the six months ended September 30, 2023

Underlying profit before tax for the six months has increased to £1,262 million (September 30, 2022: £980 million) and statutory profit before tax for the six months increased to £989 million (September 30, 2022: £969 million), reflecting income growth and a reduction in charges for credit impairments, partially offset by higher costs and the Nationwide Fairer Share Payment of £344 million which accounted for the majority of the difference between underlying and statutory profit during the period.

Total underlying income increased by £259 million, as our net interest margin (“NIM”) improved to 1.66% (September 30, 2022: 1.48%). Member financial benefit has increased by £565 million to £885 million (September 30, 2022: £320 million), supported by our competitive savings and mortgages products; we passed a greater proportion of interest rate rises to savers than the market average.

Our capital position remains strong. The CET1 ratio increased to 27.4% (April 4, 2023: 26.5%) due to an increase in CET1 capital of £0.6 billion partially offset by an increase in RWAs of £0.6 billion. The CET1 capital resources increase was driven by £0.7 billion profit after tax, partially offset by £0.1 billion of capital distributions. RWAs increased, predominantly due to an increase in net residential mortgage lending. The leverage ratio increased to 6.4% (April 4, 2023: 6.0%), with Tier 1 capital increasing by £0.6 billion as a result of the CET1 capital movements referenced above. In addition, there was a decrease in leverage exposure of £3.5 billion, with an increase in net residential mortgage lending more than offset by a reduction in treasury investments in the period. Leverage requirements continue to be Nationwide’s binding Tier 1 capital constraint, as the combination of minimum and regulatory buffer requirements are in excess of the risk-based equivalent. We have continued to support our members’ borrowing and lending needs during the year, and as a result have sustained overall growth in our deposit and mortgage balances. Total residential mortgage lending was £12.1 billion (September 30, 2022: £19.7 billion). Our market share of gross advances was 10.5% in the six months ended September 30, 2023 (September 30, 2022: 11.8%). Net deposit growth of £4.2 billion (September 30, 2022: £3.2 billion) driven by growth in savings balances of £5.1 billion (September 30, 2022: £1.3 billion) supported by competitive fixed rate products, including the Fairer Share Bond, and increased levels of accrued interest due to higher average savings rates. Credit balances on current accounts reduced by £0.9 billion (September 30, 2022: £1.9 billion growth), driven by a competitive savings market. Our market share of all deposit balances remained at 9.6% (April 4, 2023: 9.6%).

Total administrative expenses have increased by £32 million to £1,115 million (September 30, 2022: £1,083 million) with inflationary increases mitigated by efficiencies within strategic investment and the nonrepeat of restructuring incurred in the prior period.

The credit impairment charge of £54 million for the half year to September 30, 2023 (September 30, 2022: charge of £108 million) reflects the resilience of our lending and continued economic uncertainty and affordability pressures on borrowers. Mortgage arrears are increasing but remain low.

The following section replaces the sections titled “Impact of Economic Conditions in the UK Generally and Outlook”, “Net Interest Income” and “Interest Rate Management” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

Impact of Economic Conditions in the UK Generally and Outlook

During the period the UK has seen steady increases in bank rate aimed at reducing inflation. This has had a direct impact on borrowers through cost of living pressures and the rising cost of borrowing. Residential mortgage arrears have increased from historically low levels, but arrears remain below the industry average and well below the levels expected in our provisioning calculations.

We have supported the Mortgage Charter initiatives introduced by the UK government to mitigate the increase in mortgage costs and provide help and support to those who are in financial difficulty. Customer take-up has been relatively low to date.

The impairment provisions have remained broadly stable at £774 million as at September 30, 2023 (April 4, 2023: £765 million) and include a modelled adjustment for economic uncertainty totalling £170 million (April 4, 2023: £177 million). This modelled adjustment captures the affordability risks caused by inflation, and the increased cost of borrowing.

Net Interest Income

Net interest income (“NII”) increased by £282 million, or 13.7% in the six months ended September 30, 2023 to £2,337 million from £2,055 million in the six months ended September 30, 2022. Increases in the Bank Rate during the period have led to an increase in net interest income, reflecting the timing and level of pass through of interest rate changes to savings products, partially offset by a decline in mortgage net interest income. Member financial benefit has increased in the period, as we have passed a greater proportion of interest rate rises to savers than the market average.

The table below shows the calculation of net interest margin for the six months ended September 30, 2023 and 2022 and the years ended April 4, 2023, 2022 and 2021.

	For the six months ended September 30,		For the year ended April 4,		
	2023	2022	2023	2022	2021
	<i>(£ million, except percentages)</i>				
Net interest income.....	2,337	2,055	4,498	3,562	3,146
Weighted average total assets.....	287,222	282,823	285,610	281,872	260,500
Net interest margin.....	1.66%	1.48%	1.57%	1.26%	1.21%

(1) Net interest margin is calculated using annualised Net interest income earned on weighted average total assets

Globally, economies recovered more swiftly than expected, with original concerns about weak growth replaced by concerns about high inflation and labor supply shortages. All major central banks have continued to tighten monetary policy as a response, to ensure that high inflation does not become embedded in expectations and wage settlements. Due to high inflation squeezing households’ real incomes and monetary tightening, growth prospects have cooled, especially in the UK and the Eurozone. Continued uncertainty is expected within the UK economy, with interest rates continuing to rise in an effort to curb rising inflation. These factors, coupled with the temporary nature of the energy price cap that limits the amount energy providers can charge consumers, signal that there is likely to be more pressure on household budgets, causing a deterioration in credit performance.

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.

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 SONIA rates and average Bank of England's Bank Rates for the six months ended September 30, 2023 and 2022 and the years ended April 4, 2023, 2022 and 2021.

	For the six months ended September 30,		For the year ended April 4,		
	2023	2022	2023	2022	2021
			(%)		
Daily average SONIA	4.74	1.23	2.28	0.15	0.06
Average Bank of England's Bank Rate.....	4.81	1.29	2.34	0.20	0.10

Interest rates started to rise in December 2021 to combat higher inflation embedding within the economy. As at April 4, 2022, the rate was 0.75%. The Bank of England Monetary Policy Committee voted to raise its Bank Rate on eleven consecutive occasions since April 2022 to a rate of 5.25% at August 3, 2023 which was maintained at the meeting held on November 1, 2023 and a policy aim of returning inflation to the 2% target in the medium term.

The BMR is guaranteed to be no more than 2% above the Bank of England's Bank 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.

The following section shall be inserted prior to the section titled "Results of Operations for the Year Ended April 4, 2023 Compared with the Year Ended April 4, 2022" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Base Prospectus.

Results of Operations for the six months ended September 30, 2023

Introduction

The UK economy has experienced a period of uncertainty, with rising energy prices driving an increase in the cost of living and contributing to a high inflationary environment throughout the year. Additionally, increases to the Bank Rate have increased the cost of borrowing and put further pressure on household affordability. Household deposit growth has also slowed, mirroring the decline in mortgage lending. Despite this, our observed credit quality and performance have remained broadly stable, and our capital resources are robust.

Underlying profit before tax for the six months ended September 30, 2023 was £1,262 million (September 30, 2022: £980 million), with statutory profit before tax for the six months increasing to £989 million (September 30, 2022: £969 million). This profitability has supported us in maintaining a capital position materially above regulatory requirements, with our CET1 and leverage ratios at 27.4% and 6.4%, respectively (September 30, 2022: 25.5% and 5.8%, respectively).

Our NIM has increased to 1.66% (September 30, 2022: 1.48%) largely due to increases in the Bank of England's Bank Rate, partially offset by a decline in mortgage net interest income.

Our net credit impairment charge has decreased to £54 million for the six months (September 30, 2022: £108 million). The current period charge reflects broadly stable provisions for affordability risks as a result of ongoing elevated inflation and interest rates and their impact on retail lending. The higher charge in the prior year included the recognition of additional provisions to reflect the declining economic outlook at the time due to rising interest rate expectations. The arrears performance of our retail portfolios remained strong during the period, although residential mortgage arrears increased slightly. Our provisions allow for an increase in arrears from current levels due to borrower affordability pressures. Administrative expenses increased by £32 million to £1,115 million (September 30, 2022: £1,083 million). The increase is driven by inflationary increases mitigated by efficiencies within strategic investment and the nonrepeat of restructuring incurred in the prior period.

We have seen net deposit growth of £4.2 billion during the period (September 30, 2022: £3.2 billion), due to growth in savings balances of £5.1 billion (September 30, 2022: £1.3 billion) supported by competitive fixed rate products, including the Fairer Share Bond, and increased levels of accrued and capitalised interest due to higher average savings rates. Our market share of all deposit balances remained stable at 9.6% (April 4, 2023: 9.6%). Our total gross residential mortgage lending was lower than in the prior period at £12.1 billion (September 30, 2022: £19.7 billion). Our market share of mortgage balances was stable at 12.2% (April 4, 2023: 12.2%).

We maintain a strong liquidity position, with an average Liquidity Coverage Ratio (LCR) of 191% for the twelve months ended September 30, 2023 (September 30, 2022: 179%). We continue to manage our liquidity against internal risk appetite which is more prudent than regulatory requirements.

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, 2023					
	Underlying profit	FSCS and bank levy	Gain from derivatives and hedge accounting	Member reward payments	Statutory profit
	<i>(£ million)</i>				
Net interest income	2,337	-	-	-	2,337
Other income.....	112	-	-	-	112
Movements on derivatives and hedge accounting ⁽¹⁾	-	-	71	-	71
Total income	2,449	-	71	-	2,520
Administrative expenses	(1,115)	-	-	-	(1,115)
Pre-provision underlying profit.....	1,334	-	71	-	1,405
Impairment charge	(54)	-	-	-	(54)
Member reward payments.....	-	-	-	(344)	(344)
Provisions for liabilities and charges	(18)	-	-	-	(18)
Profit before tax⁽²⁾	1,262	-	71	(344)	989

Notes:

(1) Although derivatives 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:

- Although we only use derivatives to manage risks, their impact can be volatile. This volatility is largely due to accounting rules that do not fully reflect the economic reality of our approach to hedging financial risks.
- FSCS credits, which are excluded from statutory profit, are from FSCS recoveries related to failures provided for in previous years. Ongoing FSCS management expenses are included within underlying profit.

	For the six months ended September 30, 2022			
	Underlying profit	FSCS and bank levy	Gain from derivatives and hedge accounting	Statutory profit
		(£ million)		
Net interest income	2,055	-	-	2,055
Other income.....	135	-	-	135
Movements on derivatives and hedge accounting.....	-	-	(11)	(11)
Total income	2,190	-	(11)	2,179
Administrative expenses	(1,083)	-	-	(1,083)
Pre-provision underlying profit.....	1,107	-	(11)	1,096
Impairment release.....	(108)	-	-	(108)
Provisions for liabilities and charges	(19)	-	-	(19)
Profit before tax	980	-	(11)	969

The following discussion considers our results for the six months ended September 30, 2023 compared to our results for the six months ended September 30, 2022:

Total income

Our total income increased to £2,520 million in the six months ended September 30, 2023 compared to £2,179 million in the six months ended September 30, 2022. The following table sets forth the components of income for the six months ended September 30, 2023 and 2022, respectively:

For the six months ended September 30,		
	2023	2022
	(£ million)	
Net interest income.....	2,337	2,055
Net fees and commissions	66	84
Other operating income	46	51
(Losses) /gains from derivatives and hedge accounting	71	(11)
Total.....	2,520	2,179

Net interest income

NII increased by 13.7% to £2,337 million for the six months ended September 30, 2023 compared with £2,055 million for the six months ended September 30, 2022. This was primarily driven by increases in the Bank of England's Bank Rate during the period, which have led to an increase in net interest income, reflecting the timing and the level of pass through of interest rate changes to savings, partially offset by a decline in mortgage net interest income. Member financial benefit has increased in the period, as Nationwide has passed a greater proportion of interest rate rises to savers than the market average.

The following table sets forth the components of net interest income for the six months ended September 30, 2023 and 2022, respectively:

	For the six months ended September 30,	
	2023	2022
	<i>(£ million)</i>	
Interest receivable and similar income:		
On residential mortgages	2,955	2,230
On other loans	339	278
On investment securities	1	1
On investment securities measured at FVOCI	237	114
Other liquid assets, including reserves at central banks	997	253
Net income on financial instruments hedging assets in a qualifying hedge accounting relationship	2,147	357
Interest on net defined benefit pension surplus	22	13
Other interest and similar income	14	5
Total interest and similar income	6,712	3,251
Interest expense and similar charges:		
On shares held by individuals	2,253	469
On subscribed capital	5	5
On deposits and other borrowings:		
Subordinated liabilities	124	129
Deposits from banks and similar institutions and other deposits	935	273
Debt securities in issue	548	294
Net expense on financial instruments hedging liabilities	510	26
Total interest expense and similar charges	4,375	1,196
Net interest income	2,337	2,055

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 measured at FVOCI increased by 107.9% to £237 million for the six months ended September 30, 2023, compared with £114 million for the six months ended September 30, 2022.

Net income on financial instruments hedging assets in a qualifying hedge accounting relationship

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. If derivatives are subject to hedge accounting, the floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets in a qualifying hedge accounting relationship.” In the six months ended September 30, 2023, we generated a net income of £2,147 million on these instruments, compared with £357 million in the six months ended September 30, 2022.

Interest expense and similar charges

The average interest rate that we paid to UK retail member depositors increased to 1.18% for the six months ended September 30, 2023 compared with 0.26% for the six months ended September 30, 2022. There was also an increase of 6.2% in the average balance of UK retail member deposits held to £190,380 million in the six months ended September 30, 2023 from £179,222 million in the six months ended September 30, 2022. We maintained our market share of current accounts at 10.4%.

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, 2023, interest on subordinated liabilities decreased to £124 million from £129 million in the six months ended September 30, 2022. Average balances decreased by £869 million to £6,514 million in the six months ended September 30, 2023 from £7,383 million in the six months ended September 30, 2022.

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, 2023, other interest expense on deposits and other borrowings increased by 242.5% to £935 million from £273 million in the six months ended September 30, 2022. The increase was due to rising interest rates.

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, 2023, interest expense on debt securities in issue increased by 86.4% to £548 million from £294 million in the six months ended September 30, 2022. The increase was due to a number of factors, including higher rates on new issuances.

Net 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 expense on financial instruments hedging liabilities.” In the six months ended September 30, 2023, net expense on financial instruments used to hedge our fixed rate liabilities was £510 million, compared with £26 million in the six months ended September 30, 2022. The increase was due to a rise in floating interest rate expense, as a result of higher interest rates and their resultant impact on borrower affordability.

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, 2023, net fees and commissions decreased by 21.4% to £66 million compared with £84 million in the six months ended September 30, 2022.

Other operating income

In the six months ended September 30, 2023, other operating income decreased by £5 million to a £46 million gain (September 30, 2022: £51 million). Other operating income in the six months ended September 30, 2023 includes write down of inventory, fair value movements on balances relating to previous investment disposals, the net amounts 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.

(Losses)/gains from 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 £71 million in the six months ended September 30, 2023 compared to losses of £11 million in the six months ended September 30, 2022. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

Operating expenses and similar charges

Operating expenses and similar charges decreased in the six months ended September 30, 2023 to £1,187 million compared to £1,210 million in the six months ended September 30, 2022. The following table sets forth the components of operating expenses and similar charges for the six months ended September 30, 2023 and 2022, respectively:

	For the six months ended September 30,	
	2023	2022
	<i>(£ million)</i>	
Administrative expenses.....	887	829
Depreciation and amortization	228	254
Total Administrative expenses	1,115	1,083
Impairment (reversals)/losses on loans and advances to customers	54	108
Provisions for liabilities and charges.....	18	19
Total.....	1,187	1,210

Administrative expenses

Total administrative expenses have increased by £32 million to £1,115 million (September 30, 2022: £1,083 million).

The following table sets forth the components of administrative expenses for the six months ended September 30, 2023 and 2022, respectively:

	For the six months ended September 30,	
	2023	2022
	<i>(£ million)</i>	
Employee costs:		
Salaries, bonuses and social security costs.....	402	340
Pension costs	86	76
Other administrative expenses.....	399	413
Total.....	887	829

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, 2023, salaries, bonuses and social security costs increased to £402 million from £340 million in the six months ended September 30, 2022.

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.

The Fund was closed to future accrual on March 31, 2022. 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. The next Triennial Valuation is due in 2025.

In November 2020, Nationwide and the Trustee of the Fund entered into an arrangement whereby Nationwide has agreed to provide £1.7 billion of collateral (a contingent asset) in the form of self-issued 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.

In May 2023, the Fund entered into a longevity swap transaction to manage the scheme’s longevity risk in relation to £1.7 billion of pension liabilities, covering approximately 7,000 pensioners. This transaction will provide income to the Fund if pensions are paid out for longer than expected, mitigating the financial impact and reducing the scheme’s longevity risk exposure by approximately one third. The swap is included in the Fund’s assets, with future changes to its fair value expected to broadly offset changes in the scheme’s liabilities relating to updates to life expectancy for those pensioners covered.

Other administrative expenses decreased by 3.4% to £399 million for the six months ended September 30, 2023 from £413 million for the six months ended September 30, 2022.

The cost income ratio has improved on an underlying basis to 45.5% (September 30, 2022: 49.5%) as a result of items above.

Depreciation and amortization

For the six months ended September 30, 2023 depreciation and amortization expenses decreased by 10.2% to £228 million from £254 million for the six months ended September 30, 2022.

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 charges on loans and advances to customers for the six months ended September 30, 2023 were £54 million (September 30, 2022: £108 million).

Impairment charges for the six months include the impact of both reduced disposable monthly income and the relationship it has with default rates.

The following table analyses the impairment losses on loans and advances to customers for the six months ended September 30, 2023 and 2022, respectively:

	For the six months ended September 30,	
	2023	2022
	<i>(£ million)</i>	
Residential lending	27	69
Consumer banking	22	41
Retail lending	49	110
Commercial and other lending	5	(2)
Impairment losses on loans and advances	54	108

Closing residential mortgage provisions have increased to £305 million (September 30, 2022: £256 million) primarily due to higher interest rates, which have resulted in an increase in the provisions held to reflect mortgage affordability risks.

Provisions for liabilities and charges

	For the six months ended September 30,	
	2023	2022
	<i>(£ million)</i>	
FSCS	-	-
Customer redress and other provisions	(18)	(19)
Total	(18)	(19)

The underlying income statement charge for provisions for liabilities and charges for the six months ended September 30, 2023 decreased by 5.3% to £18 million (September 30, 2022: £19 million).

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and ongoing administration, including non-compliance with consumer credit legislation and other regulatory requirements. The customer redress charge of £18 million (September 30, 2022: £19 million charge) reflects judgements and estimates used in determining provisions for such matters.

Taxes

The tax charge for the period of £267 million (September 30, 2022: £241 million) represents an effective tax rate of 27.0% (September 30, 2022: 24.9%) which is higher than the statutory UK corporation tax rate of 25% (September 30, 2022: 19%). The effective tax rate is higher primarily due to the banking surcharge of £24 million (September 30, 2022: £54 million).

	For the six months ended September 30,	
	2023	2022
	<i>(£ million)</i>	
Current tax:		
Profit before tax	989	969
Tax calculated at a tax rate of 25% (September 30, 2022: 19%)	247	184
Tax credit on distribution to the holders of Additional Tier 1 capital	(10)	(6)
Banking surcharge	24	54

Expenses not deductible for tax purposes.....	5	3
Effect of deferred tax provided at different tax rates.....	1	6
Statutory tax charge.....	267	241

Balance Sheet Review

Total assets grew by 1.0% from £271.9 billion as of April 4, 2023 to £274.5 billion as of September 30, 2023, predominantly due to higher holdings of cash.

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 95.6% of our total loans and advances to customers at September 30, 2023 (April 4, 2023: 95.5%).

	As at September 30,	As at April 4,			
	2023	2023		2022	
	<i>(£ million, except percentages)</i>				
Prime residential mortgages	158,343	157,474	74.9%	154,354	74.4%
BTL and legacy residential mortgages	43,627	43,908	20.9%	43,579	21.0%
Total residential mortgages	201,970	201,382	95.8%	197,933	95.4%
Commercial and other lending	5,084	5,031	2.4%	5,475	2.6%
Consumer banking	3,867	3,939	1.8%	4,109	2.0%
Sub-total	210,921	210,352	100%	207,517	100%
Fair value adjustments for micro hedged risk....	377	430		549	
Total.....	211,298	210,782		208,066	

Residential mortgage portfolio

Gross mortgage lending in the period decreased to £12.1 billion (September 30, 2022: £19.7 billion), representing a market share of 10.5% (September 30, 2022: 11.8%).

Total mortgage balances decreased to £202.3 billion as at September 30, 2023 (September 30, 2022: £203.6 billion). BTL and legacy residential mortgage balances decreased slightly to £43.8 billion (September 30, 2022: £44.4 billion) and our owner-occupied mortgage balances decreased to £158.4 billion (September 30, 2022: £159.2 billion).

The average LTV of new lending in the six months ended September 30, 2023, weighted by value was 71% (September 30, 2022: 69%). The average LTV of prime new business completed in the period increased slightly to 72% (September 30, 2022: 70%). In the BTL portfolio, the average LTV of new business has decreased to 62% (September 30, 2022: 67%). The proportion of new lending at 80% LTV and above increased to 36% (September 30, 2022: 27%). The Nationwide House Price Index has decreased by 5.3% over the 12 months to September 2023. The Group average stock LTV has remained stable at 55% (April 4, 2023: 55%).

Arrears remain low and have increased during the year, with cases more than three months in arrears at 0.38% (September 30, 2022: 0.32%) of the total portfolio. Arrears levels are expected to increase further as a result of the rising cost of living including higher mortgage payments. Impairment provision balances have increased to £305 million (April 4, 2023: £280 million) primarily due to higher interest rates, which have resulted in an increase in the provisions held to reflect mortgage affordability risks.

The proportion of new lending to first time buyers has increased to 32% (September 30, 2022: 28%) due to our continued support for this segment. Buy to let lending reduced as a proportion of all new business to 13% (September 30, 2022: 17%) as the volume of both house purchases and remortgages in the buy to let market reduced due to rising interest rates adversely affecting landlord sentiment.

	As at September 30,	
	2023	2022
	<i>(percentages)</i>	
LTV distribution of residential mortgages:		
0% - 60%.....	26	27
60% - 75%.....	29	36
75% - 80%.....	9	10
80% - 85%.....	14	13
85% - 90%.....	17	11
90% - 95%.....	5	3
>95%.....	-	-
Total.....	100	100
 Average loan to value of stock.....	 55	 51
Average loan to value of new business	71	69
New business profile:		
First-time buyers	32	28
Home movers	29	30
Remortgagers	25	24
BTL	13	17
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, 2023 were £305 million, compared with £280 million at April 4, 2023 primarily due to higher interest rates, which have resulted in an increase in the provisions held to reflect mortgage affordability risks.

	As at September 30	As at April 4,
	2023	2023
	<i>(percentages)</i>	
Cases three months or more in arrears as (%) of total book of residential mortgages		
Prime	0.33	0.29
BTL and legacy	0.55	0.44
Total Group residential mortgages	0.38	0.32
 UK Finance (UKF) industry average ⁽¹⁾.....	 0.84	 0.72

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.

The proportion of cases more than 3 months in arrears has increased during the period to 0.38% (April 4, 2023: 0.32%). Arrears levels are expected to increase further as a result of the rising cost of living including higher mortgage payments.

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. During the six months ended September 30, 2023, there has been an increase in possessions to £40 million (April 4, 2023: £35 million) reflecting economic conditions, including rising interest rates.

The table below provides further information on the residential mortgage portfolio by payment due status as at September 30, 2023 and April 4, 2023:

	As at September 30,				As at April 4,			
	2023				2023			
	BTL and legacy				BTL and legacy			
	Prime		Total	(%)	Prime		Total	(%)
	<i>(£ billion, except percentages)</i>							
Not impaired:								
Not past due	156.5	42.9	199.4	98.6	155.9	43.3	199.2	98.8
Past due 0 to 1 month	1.2	0.4	1.6	0.8	1.0	0.4	1.4	0.7
Past due 1 to 3 months	0.3	0.2	0.6	0.3	0.3	0.2	0.5	0.2
Past due 3 to 6 months	0.2	0.1	0.3	0.1	0.2	0.1	0.3	0.1
Past due 6 to 12 months	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.1
Past due 12 months.....	0.1	0.1	0.2	0.1	0.1	0.0	0.1	0.1
Possession	0.0	0.0	0.0	—	0.0	0.0	0.0	—
Total	158.4	43.8	202.3	100	157.6	44.1	201.7	100

The balance of cases past due by more than three months has increased to £734 million (April 4, 2023: £600 million) reflecting economic conditions, including rising interest rates. There has been an increase in possessions to £40 million (April 4, 2023: £35 million).

For residential mortgage loans

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. The Group applies the European Banking Authority (“EBA”) definition of forbearance. Residential mortgages subject to forbearance at September 30, 2023 were £1,068 million compared to £1,154 million at April 4, 2023. Loans where more than one concession event has occurred are reported under the latest event.

Balances subject to forbearance as at September 30, 2023	Prime	BTL and legacy <i>(£ million)</i>	Total
Past term interest only	100	149	249
Interest only concessions.....	403	25	428
Capitalization	82	19	101
Capitalization – notification of death of borrower	77	117	194
Term extensions (within term)	47	17	64
Permanent interest only conversions.....	1	31	32
Total forbearance	710	358	1,068

Balances subject to forbearance as at September 30, 2023	Prime	BTL and legacy (£ million)	Total
Impairment provision on forborne loans	11	28	39

Balances subject to forbearance as at April 4, 2023	Prime	BTL and legacy (£ million)	Total
Past term interest only concessions	101	149	250
Interest only concessions.....	503	25	528
Capitalization	85	22	107
Capitalization – notification of death of borrower	75	105	180
Term extensions (within term)	41	18	59
Permanent interest only conversions	1	29	30
Total forbearance	806	348	1,154
Impairment provision on forborne loans	11	20	31

The balances outlined above apply to the prime residential mortgage portfolio. The table below shows outstanding loans as at September 30, 2023 and April 4, 2023 that are subject to forbearance in alignment with European Banking Authority definitions.

	As at September 30, 2023		As at April 4, 2023	
	<i>(£ million)</i>	<i>(%)</i>	<i>(£ million)</i>	<i>(%)</i>
Past term interest only concessions	249	23.3%	250	21.7%
Interest only concessions.....	428	40.1%	528	45.8%
Capitalization	295	27.6%	287	24.9%
Term extensions (within term)	64	6.0%	59	5.1%
Permanent interest only conversions	32	3.0%	30	2.5%
Total forbearance	1,068	100%	1,154	100%

The following table presents negative equity on residential mortgages:

	<u>As at September 30,</u> <u>2023</u>	<u>As at April 4,</u> <u>2023</u>
	<i>(£ million)</i>	
Stage 1 and 2	7	10
Stage 3	3	3
Total	10	13

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, 2023 and April 4, 2023. Loans where more than one concession event has occurred are reported under the latest event.

	<u>As at September 30,</u> <u>2023</u>	<u>As at April 4,</u> <u>2023</u>
	<i>(£ million)</i>	
Refinance	1	-
Modifications:		
Payment concession	11	79
Security amendment	-	-
Extension at maturity	8	16
Breach of covenant	86	21
Total	106	116
Impairment provision on forborne loans	16	14

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

Total forbearance (excluding FVTPL) has reduced to £106 million, comprising Commercial Real Estate (“CRE”) of £39 million and project finance of £67 million (April 4, 2023: £116 million; CRE £50 million and project finance £66 million), following a reduction in CRE balances through redemption or write off. There were no FVTPL commercial lending balances which were forborne (April 4, 2023: £36 million).

For consumer loans

The table below provides details of the consumer banking exposures which are subject to forbearance as at September 30, 2023 and April 4, 2023. Where more than one concession event has occurred, exposures are reported under the latest event.

	Overdrawn current accounts	Personal loans	Credit cards	Total
September 30, 2023		<i>(£ million)</i>		
Payment concession	3	-	13	16
Interest suppressed payment concession	27	31	9	67
Balances re-aged/re-written	-	2	2	4

	Overdrawn current accounts	Personal loans	Credit cards	Total
September 30, 2023			(£ million)	
Total forbearance	30	33	24	87
Impairment provision on forborne loans	13	26	11	50
April 4, 2023				
Payment concession	4	—	13	17
Interest suppressed payment arrangement	28	33	9	70
Balances re-aged/re-written	-	2	2	4
Total forbearance	32	35	24	91
Impairment provision on forborne loans	12	28	12	52

Commercial loan portfolio

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, project finance initiatives and commercial real estate investors. The project finance and commercial real estate portfolios are closed to new business and are in run-off. Overall credit quality has remained stable.

Commercial balances

	As at September 30, 2023	As at April 4, 2023
		(£ million)
Registered social landlords ⁽¹⁾	4,284	4,131
Commercial real estate (CRE)	299	326
Project finance ⁽²⁾	518	537
Commercial balances at amortized cost	5,101	4,994
Fair value adjustment for micro hedged risk ⁽³⁾	377	430
Commercial lending balances – FVTPL ⁽⁴⁾	2	53
Total	5,480	5,477

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.
- (4) FVTPL balances have reduced to £2 million (April 4, 2023: £53 million) following CRE loan redemptions, with the remaining balance relating to loans to registered social landlords.

During the six months, commercial balances have been stable at £5.5 billion (April 4, 2023: £5.5 billion). The overall portfolio includes registered social landlords with balances of £4.3 billion (April 4, 2023: £4.1 billion), project finance with balances of £0.5 billion (April 4, 2023: £0.5 billion) and commercial real estate balances of £0.3 billion (April 4, 2023: £0.4 billion). Both project finance and commercial real estate books are closed to new lending.

Impairment charge/(release) for the period for commercial provision

	For the six months ended September 30,	
	2023	2022
	(£ million)	(£ million)
Total impairment charge/ (release).....	5	(2)

Note:

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

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

Commercial product and staging analysis

	September 30,				April 4,			
	2023				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	(£ million)							
Gross balances								
Registered social landlords..	4,166	118	-	4,284	4,061	70	-	4,131
Project finance.....	439	79	-	518	459	78	-	537
CRE	232	43	24	299	274	19	33	326
Total.....	4,837	240	24	5,101	4,794	167	33	4,994
Provisions								
Registered social landlords..	1	-	-	1	1	-	-	1
Project finance.....	-	7	-	7	-	8	-	8
CRE	-	-	11	11	1	-	6	7
Total.....	1	7	11	19	2	8	6	16
Provisions as a (%) of total balance								
	(percentages)							
Registered social landlords..	0.01	0.20	-	0.02	0.01	0.26	-	0.02
Project finance.....	0.02	8.02	-	1.24	0.02	10.65	-	1.57
CRE	0.22	0.77	43.90	3.80	0.19	1.31	18.94	2.13
Total.....	0.02	2.87	43.90	0.36	0.02	5.26	18.94	0.32

Over the period, the performance of the commercial portfolio has remained stable, with 95% (April 4, 2023: 96%) of balances in stage 1. Of the £240 million stage 2 loans (April 4, 2023: £167 million), which represent 4.7% (April 4, 2023: 3.3%) of total balances, £0.4 million (April 4, 2023: nil million) were in arrears by 30 days or more.

The increase in stage 2 balance across each portfolio reflects isolated risk events, all considered capable of remedy with a low risk of loss. A reduction in asset values for remaining impaired loans has resulted in an overall increase to CRE stage 3 provisions to £11 million (April 4, 2023: £6 million).

Credit quality

Our goal is to 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

	September 30, 2023					April 4, 2023				
	Stage 1	Stage 2	Stage 3	Total	Provision Coverage	Stage 1	Stage 2	Stage 3	Total	Provision Coverage
	(£ million)				(percentages)	(£ million)				(percentages)
Strong	162	20	-	182	0.0	171	-	—	171	0.0
Good	67	-	-	67	0.4	97	1	—	98	0.3
Satisfactory	3	1	-	4	4.3	6	2	—	8	2.8
Weak	-	22	-	22	1.5	-	16	1	17	1.5
Impaired	-	-	24	24	43.9	-	-	32	32	19.1
Total	232	43	24	299	3.8	274	19	33	326	2.1

The risk grades in the table above are based upon the IRB supervisory slotting approach for specialized lending exposures. Exposures are classified into categories depending on the underlying credit risk, with the assessment based upon financial strength, property characteristics, strength of sponsor and any of other forms of security. The credit quality of the CRE portfolio has remained stable with 85% (April 4, 2023: 85%) of the portfolio balances rated as strong, good, or satisfactory.

Risk grades for the project finance portfolio use the same slotting approach as CRE lending, with 85% (April 4, 2023: 85%) of the exposure rated strong or good as of September 30, 2023.

The registered social landlord portfolio is risk rated using an internal PD rating model with the major drivers being financial strength, evaluations of the borrower's oversight and management, and their type and size. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults in the portfolio, the credit quality remains strong, with an average 12-month PD as of September 30, 2023 of 0.04% (April 4, 2023: 0.04%) across the portfolio.

In addition to the above, £2 million (April 4, 2023: £53 million) of commercial lending balances are classified as FVTPL following CRE loan redemptions, as of September 30, 2023. The remaining balance relates to loans to registered social landlords.

CRE Balances by LTV

The LTV distribution of CRE balances has remained stable, with 90% (April 4, 2023: 91%) of the portfolio having an LTV of 75% or less, and 54% (April 4, 2023: 47%) of the portfolio having an LTV of 50% or less.

Credit risk concentration by industry sector

Credit risk exposure continues 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 the CRE portfolio, the largest exposure is to the residential sector, which represents 47% (April 4, 2023: 39%) of total CRE balances, with a weighted average LTV of 36% (April 4, 2023: 35%). Exposure to office assets has reduced to 13% (April 4, 2023: 21%) of total CRE balances, with a weighted average LTV of 66% (April 4, 2023: 64%).

CRE balances by payment due status

CRE balances with arrears for the period have reduced to £17 million (April 4, 2023: £18 million). Of these, £8 million (April 4, 2023: £10 million) have arrears greater than 3 months and relate to loans that are in recovery or are being actively managed.

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,					As at April 4,				
	2023					2023				
	Overdrawn current accounts	Personal loans	Credit cards	Total		Overdrawn current account	Personal loans	Credit cards	Total	
	(Unaudited)									
	(£ million)				(%)	(£ million)				(%)
Not past due	220	2,243	1,512	3,975	92.1	265	2,386	1,423	4,074	92.4
Past due 0 to 1 month	16	46	19	81	1.9	8	49	14	71	1.6
Past due 1 to 3 months.....	4	14	9	27	0.6	4	15	8	27	0.6
Past due 3 to 6 months.....	4	10	6	20	0.5	5	11	6	22	0.5
Past due 6 to 12 months.....	3	8	1	12	0.3	4	11	1	16	0.4
Past due over 12 months	3	12	-	15	0.3	2	11	—	13	0.3
Charged off ⁽¹⁾	24	93	70	187	4.3	22	91	72	185	4.2
Total	274	2,426	1,617	4,317	100	310	2,574	1,524	4,408	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.

Of total balances excluding charged off accounts, arrears greater than three months have reduced to £47 million (April 4, 2023: £51 million), representing 1.1% (April 4, 2023: 1.2%) of these balances. Arrears balances of less than three months have increased to £108 million (April 4, 2023: £98 million). Arrears

levels are expected to increase further due to the affordability pressures which borrowers may face, due to high inflation and increasing interest rates.

Consumer banking gross balances

	As at September 30,		As at April 4,	
	2023		2023	
	(£ million)	(%)	(£ million)	(%)
	<i>(Unaudited)</i>			
Overdrawn current accounts.....	274	6	310	7
Personal loans.....	2,426	56	2,574	58
Credit cards	1,617	38	1,524	35
Total consumer banking	4,317	100	4,408	100

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

Impairment charge for the period

	As at September 30,	
	2023	2022
<i>(Unaudited)</i>	<i>(£ million)</i>	
Overdrawn current accounts.....	9	10
Personal loans.....	13	29
Credit cards	-	2
Total.....	22	41

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

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,				As at April 4,			
	2023				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	<i>(Unaudited)</i>							
Gross balances								
Overdrawn current accounts	113	104	57	274	160	91	59	310
Personal loans	1,224	1,069	133	2,426	1,378	1,063	133	2,574
Credit cards	945	586	86	1,617	845	591	88	1,524
Total	2,282	1,759	276	4,317	2,383	1,745	280	4,408
Provisions								
Overdrawn current accounts	4	23	39	66	5	21	38	64
Personal loans	7	52	116	175	9	54	117	180
Credit cards	10	120	79	209	11	136	78	225
Total	21	195	234	450	25	211	233	469

Consumer banking product and staging analysis

	As at September 30,				As at April 4,			
	2023				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	(Unaudited)							
Provisions as a (%) of total balance	<i>percentages</i>							
Overdrawn current accounts	4.02	21.36	67.92	24.03	3.10	22.90	64.80	20.57
Personal loans	0.55	4.90	87.68	7.23	0.67	5.09	87.66	7.00
Credit cards	1.06	20.54	91.92	12.95	1.25	22.96	88.85	14.73
Total	0.93	11.08	84.89	10.43	1.04	12.07	83.25	10.63

Balance sheet provisions of £450 million (April 4, 2023: £469 million) include a modelled adjustment of £83 million (April 4, 2023: £100 million) to reflect an increase to the probability of default to account for the combined risks of rising inflation, increasing interest rates and credit indicators which are judged to be temporary, such as reduced levels of arrears. This has resulted in £502 million (April 4, 2023: £585 million) of balances being moved to stage 2.

Credit performance continues to be strong, with the proportion of total balances in stage 3 remaining stable at 6.4% (April 4, 2023: 6.4%). 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, provisions amount to 6.5% (April 4, 2023: 6.9%) of gross balances.

The following section replaces the section titled “Funding and Liquidity – Funding Strategy” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

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,		
	2023	2023	2022	2021
<i>(£ billion)</i>				
Liabilities:				
Retail funding	191	187	178	170
Wholesale funding	56	58	67	60
Capital and reserves	24	24	24	22
Other	4	3	3	3
Total	275	272	272	255

	As at September 30,	As at April 4,		
	2023	2023	2022	2021
	(£ billion)			
Liabilities:				
Assets:				
Retail mortgages.....	202	201	198	191
Treasury (including liquidity portfolio)	58	56	59	46
Consumer lending	4	4	4	4
Commercial lending	6	6	6	7
Other assets	5	5	5	7
Total.....	275	272	272	255

The following section supplements and should be read together with the section titled “Funding and Liquidity – Managing liquidity and funding risk” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

The CET1 ratio increased to 27.4% (April 4, 2023: 26.5%) as a result of an increase in CET1 capital of £0.6 billion, partially offset by an increase in RWAs of £0.6 billion. The CET1 capital resources increase was driven by £0.7 billion profit after tax, partially offset by a £0.1 billion of capital distributions. RWAs increased, predominantly due to an increase in net residential mortgage lending.

The following section supplements and should be read together with the section titled “Funding and Liquidity – Liquidity” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

Our average LCR for the twelve months ended September 30, 2023 was 191% (April 4, 2023: 180%), which is above the regulatory minimum of 100%.

Based on current interpretations of expected regulatory requirements and guidance, our average NSFR for the four quarters ended September 30, 2023 was 149% (April 4, 2023: 147%) which exceeds the expected 100% minimum future requirement.

The following section supplements and should be read together with the section titled “Wholesale Funding” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

Wholesale funding

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

	As at September 30, 2023		As at April 4, 2023	
	<i>(£ billion, except percentages)</i>			
Repos	0.1	0%	2.1	4%
Deposits.....	13.4	24%	11.0	19%
Certificates of deposit.....	3.3	6%	1.0	2%
Covered bonds.....	14.5	26%	14.4	25%

	As at September 30, 2023		As at April 4, 2023	
	<i>(£ billion, except percentages)</i>			
Medium-term notes	11.7	21%	11.1	19%
Securitizations	1.6	3%	2.5	4%
Term Funding Scheme with additional incentives for SMEs (TFSME).....	13.2	23%	17.2	29%
Other.....	(1.6)	(3)%	(1.4)	(2)%
Total	56.2	100%	57.9	100%

The table below sets out our wholesale funding by currency as at September 30, 2023:

	As at September 30, 2023				
	GBP	EUR	USD	Other	Total
	<i>(£ billion)</i>				
Repos.....	0.1	-	-	-	0.1
Deposits.....	13.4	-	-	-	13.4
Certificates of deposit.....	3.3	-	-	-	3.3
Covered bonds.....	5.9	7.2	-	1.4	14.5
Medium term notes.....	1.9	4.5	4.0	1.3	11.7
Securitizations	1.4	-	0.2	-	1.6
Term Funding Scheme with additional incentives for SMEs (TFSME).....	13.2	-	-	-	13.2
Other.....	-	(1.3)	(0.2)	(0.1)	(1.6)
Total	39.2	10.4	4.0	2.6	56.2

The table below sets out our wholesale funding by currency as at April 4, 2023:

	As at April 4, 2023				
	GBP	EUR	USD	Other	Total
	<i>(£ billion)</i>				
Repos.....	1.4	0.1	0.6	-	2.1
Deposits.....	11.0	-	-	-	11.0
Certificates of deposit.....	1.0	-	-	-	1.0
Covered bonds.....	6.0	7.2	—	1.2	14.4
Medium term notes.....	1.1	4.8	3.9	1.3	11.1
Securitizations	2.3	-	0.2	-	2.5
Term Funding Scheme with additional incentives for SMEs (TFSME).....	17.2	-	-	-	17.2
Other.....	-	(1.1)	(0.2)	(0.1)	(1.4)
Total	40.0	11.0	4.5	2.4	57.9

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, 2023, cash, government bonds and supranational bonds included in the liquid asset buffer represented 233% (April 4, 2023:229%) 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, 2023 and April 4, 2023 respectively:

	As at September 30, 2023		As at April 4, 2023	
	<i>(£ billion, except percentages)</i>			
Less than one year.....	20.9	37.2%	19.7	34.0%
One to two years.....	17.7	31.5%	14.1	24.4%
More than two years.....	17.6	31.3%	24.1	41.6%
Total.....	56.2	100%	57.9	100%

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

As at September 30, 2023							
	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
	<i>(£ billion, except percentages)</i>						
							Total
Repos.....	0.1	-	-	-	0.1	-	-
Deposits	10.1	1.4	1.6	0.2	13.3	0.1	-
Certificates of deposit.....	3.3	-	-	-	3.3	-	-
Covered bonds	-	-	1.6	0.5	2.1	0.9	11.5
Medium-term notes.....	-	0.2	1.2	0.1	1.5	3.7	6.5
Securitizations.....	0.3	-	-	0.2	0.5	0.1	1.0
TFSME	0.1	-	-	-	0.1	13.1	-
Other.....	-	-	-	-	-	(0.2)	(1.4)
Total.....	13.9	1.6	4.4	1.0	20.9	17.7	56.2
Of which secured	0.5	-	1.6	0.7	2.8	14.1	11.5
Of which unsecured	13.4	1.6	2.8	0.3	18.1	3.6	6.1
% of total	24.7	2.9	7.8	1.8	37.2	31.5	31.3

As at April 4, 2023							
	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
	<i>(£ billion, except percentages)</i>						
							Total
Repos.....	2.1	—	—	—	2.1	—	—
Deposits	7.6	1.6	1.4	0.3	10.9	0.1	—
Certificates of deposit.....	1.0	—	—	—	1.0	—	—
Commercial paper.....	—	—	—	—	—	—	—
Covered bonds	0.8	0.1	—	1.6	2.5	1.1	10.8
Medium-term notes.....	0.7	—	—	1.4	2.1	0.8	8.2
Securitizations.....	0.7	—	0.2	0.2	1.1	0.3	1.1
TFSME	—	—	—	—	—	11.9	5.3
Other.....	—	—	—	—	—	(0.1)	(1.3)
Total.....	12.9	1.7	1.6	3.5	19.7	14.1	24.1
Of which secured	3.6	0.1	0.2	1.8	5.7	13.3	16.4
Of which unsecured	9.3	1.6	1.4	1.7	14.0	0.8	7.7
% of total	22.3	2.9	2.8	6.0	34.0	24.4	41.6

The following section amends the section titled “External Credit Ratings” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

Our long-term and short-term credit ratings from the major rating agencies as at the date of this Supplement are as set out below. The long-term rating for both Standard & Poor’s (S&P) 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	September 2023	Stable
Moody’s	A1	P-1	A3	Baa1	August 2023	Stable
Fitch	A+	F1	A	BBB+	July 2023	Stable

Our credit ratings were affirmed and outlook confirmed by Fitch in July 2023, Moody’s in August 2023 and S&P in September 2023.

The following section amends and supplements and should be read together with the section titled “Treasury Assets” and “Fair value through other comprehensive income reserve” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

Treasury Assets

Our liquidity and investment portfolio held on the balance sheet at September 30, 2023 of £58.1 billion (April 4, 2023: £56.1 billion) is held in two separate portfolios: liquid assets and other securities.

An analysis of our on-balance sheet portfolios by credit rating and geographical location is set out below.

Liquidity and investment portfolio by credit rating:	Credit Rating					Geography				
	£ million (£ million)	AAA	AA	A	Other	UK (percentages)	USA	Europe	Japan	Other
Liquid assets:										
Cash and reserves at central banks.....	28,676	-	100	-	-	100	-	-	-	-
Government bonds.....	18,366	5	78	17	-	37	24	12	13	14
Supranational bonds.....	2,991	46	54	-	-	-	-	-	-	100
Covered bonds.....	3,081	100	-	-	-	45	-	15	-	40
Residential mortgage backed securities (RMBS).....	705	100	-	-	-	62	-	38	-	-
Asset-backed securities (other).....	169	100	-	-	-	98	-	2	-	-
Liquid assets total.....	53,988	12	82	6	-	69	8	6	5	12
Other securities:										
RMBS FVOCI.....	836	100	-	-	-	100	-	-	-	-
RMBS amortized cost.....	11	100	-	-	-	100	-	-	-	-
Other investments.....	69	-	5	-	95	95	-	5	-	-
Other securities total.....	916	93	-	-	7	100	-	-	-	-
Loans and advances to banks	3,168	-	83	14	3	82	12	4	0	2
Total.....	58,072	12	81	6	-	71	8	5	4	12

Fair value through other comprehensive income reserve

Of the total £58.1 billion (April 4, 2023: £56.1 billion) liquidity and investment portfolio at September 30, 2023, £26.2 billion (April 4, 2023: £27.6 billion) was 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, £65 million (April 4, 2023: £54 million) were 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 11 in our condensed consolidated financial statements for the six months ended September 30, 2023.

As at September 30, 2023, the balance on the FVOCI reserve was a £10 million loss, net of tax (April 4, 2023: £14 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, 2023 investment securities classified as FVTPL totalled £10 million (April 4, 2023: £13 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, 2023				
	Level 1	Level 2	Level 3	Total
	(£ million)			
Financial Assets:				
Government, government guaranteed and supranational investments.....	21,357	-	-	21,357
Other debt investment securities.....	3,081	1,714	2	4,797
Investment in equity shares	-	-	63	63
Total investment securities^(b)	24,438	1,714	65	26,217
Interest rate swaps	-	5,321	-	5,321
Cross currency interest rate swaps.....	-	2,090	-	2,090
Forward foreign exchange	-	41	-	41
Inflation swaps	-	309	288	597
Bond forwards and futures	-	-	-	-
Total derivative financial instruments	-	7,761	288	8,049
Loans and advances to customers	-	-	43	43
Total financial assets	24,438	9,475	396	34,309
Financial liabilities:				
Interest rate swaps	-	(786)	-	(786)
Cross currency interest rate swaps.....	-	(829)	-	(829)
Foreign exchange swaps.....	-	(2)	-	(2)
Inflation swaps	-	(39)	-	(39)
Bond forwards and futures	-	-	-	-
Swaptions	-	-	(4)	(4)
Total derivative financial instruments	-	(1,656)	(4)	(1,660)
Total financial liabilities	-	(1,656)	(4)	(1,660)

As at April 4, 2023				
	Level 1	Level 2	Level 3	Total
	(£ million)			
Financial Assets:				
Government, government guaranteed and supranational investments.....	22,968	-	-	22,968
Other debt investment securities.....	2,843	1,707	2	4,552
Investment in equity shares	-	3	52	55
Total investment securities^(b)	25,811	1,710	54	27,575
Interest rate swaps	-	4,617	-	4,617
Cross currency interest rate swaps.....	-	1,801	-	1,801
Forward foreign exchange	-	13	-	13
Inflation swaps	-	265	157	422
Bond forwards and futures	-	70	-	70
Total derivative financial instruments	-	6,766	157	6,923

	As at April 4, 2023			
	Level 1	Level 2	Level 3	Total
	(£ million)			
Loans and advances to customers.....	-	-	100	100
Total financial assets	25,811	8,476	311	34,598
Financial liabilities:				
Interest rate swaps	-	(774)	-	(774)
Cross currency interest rate swaps.....	-	(663)	-	(663)
Foreign exchange	-	(6)	-	(6)
Inflation swaps	-	(52)	(8)	(60)
Bond forwards and futures	-	(18)	-	(18)
Swaptions.....	-	-	(3)	(3)
Total derivative financial instruments	-	(1,513)	(11)	(1,524)
Total financial liabilities.....	-	(1,513)	(11)	(1,524)

Note:

(i) Investment securities exclude £11 million (April 4, 2023: £40 million) of investment securities held at amortized cost.

The following section supplements and should be read together with the section titled “Financial Condition of Nationwide – Capital Resources” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Base Prospectus.

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

	As at September 30,	As at April 4,		
	2023	2023	2022	2021
	(£ million)			
General reserve	14,709	14,184	12,753	11,140
Core capital deferred shares (CCDS) ⁽ⁱ⁾	1,334	1,334	1,334	1,334
Revaluation reserve	37	38	46	44
FVOCI reserve	(10)	(14)	89	110
Cashflow hedge and other hedging reserves	125	129	142	(149)
Regulatory adjustments and deductions:				
FVOCI reserve temporary relief	-	-	(21)	(41)
Cashflow hedge and other hedging reserves ⁽ⁱⁱ⁾	(125)	(129)	(142)	(149)
Direct holdings of CET1 instruments ⁽ⁱ⁾	(177)	(101)	-	-
Foreseeable distributions ⁽ⁱⁱⁱ⁾	(63)	(67)	(71)	(71)
Prudent valuation adjustment ^(iv)	(86)	(119)	(80)	(39)
Own credit and debit valuation adjustments ^(v)	(11)	(27)	(12)	(3)
Intangible assets ^(vi)	(831)	(839)	(884)	(525)
Goodwill ^(vi)	(12)	(12)	(12)	(12)
Defined benefit pension fund asset ^(vi)	(519)	(614)	(654)	(112)
Excess of regulatory expected losses over impairment provisions ^(vii)	(49)	(45)	(48)	(1)
IFRS 9 transitional arrangements ^(viii)	-	15	31	183
Total regulatory adjustments and deductions	(1,873)	(1,938)	(1,893)	(770)
CET1 capital	14,322	13,733	12,471	12,007
Additional Tier 1 capital securities (AT1)	1,336	1,336	1,336	1,336
Total Tier 1 capital	15,658	15,069	13,807	13,343
Dated subordinated debt ^(ix)	1,737	1,835	2,643	2,833
Excess of expected loss over impairment ^(vii)	33	14	37	144
IFRS 9 transitional arrangements ^(viii)	-	(10)	(21)	(144)
Tier 2 capital	1,770	1,839	2,659	2,833

	As at September 30,	As at April 4,		
	2023	2023	2022	2021
		<i>(£ million)</i>		
Total regulatory capital.....	17,428	16,908	16,466	16,176

Notes:

- i. The CCDS amount does not include the deductions for the Group's repurchase exercises completed in February and June 2023. This is presented separately as a regulatory adjustment in line with UK Capital Requirements Regulation (CRR) article 42.
- ii. In accordance with CRR article 33, institutions do not include the fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value.
- iii. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under UK CRD V rules.
- iv. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under UK CRD V rules.
- v. 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 own credit standing and risk, as per UK CRD V rules.
- vi. Intangible, goodwill and defined-benefit pension fund assets are deducted from capital resources after netting associated deferred tax liabilities.
- vii. Where capital expected loss exceeds accounting provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where provisions exceed capital expected loss, the excess amount is added 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.
- viii. The transitional adjustments to capital resources apply scaled relief until April 4, 2025 due to the impact of the introduction of IFRS 9 and anticipated increases in expected credit losses due to the Covid-19 pandemic. Further detail regarding these adjustments is provided in the Group's interim Pillar 3 disclosure 2023-2024 at nationwide.co.uk.
- ix. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

Our key capital measures are summarized in the table below:

	As at September 30, 2023	As at April 4, 2023 2022 2021		
		<i>(£ million, except percentages)</i>		
Solvency ratios				
CET1 ratio	27.4%	26.5%	24.1%	36.4%
Total Tier 1 ratio.....	29.9%	29.1%	26.6%	40.5%
Total regulatory capital ratio	33.3%	32.7%	31.8%	49.1%
Leverage				
UK leverage Exposure ⁽¹⁾	£245,767	£249,299	£255,407	£248,402
Total Tier 1 capital	£15,658	£15,069	£13,807	£13,343
UK leverage ratio	6.4%	6.0%	5.4%	5.4%

Notes:

(1) 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.

Risk-based capital ratios has remained in excess of regulatory requirements with the CET1 ratio of 27.4% (April 4, 2023:26.5%) above Nationwide's CET1 capital requirement of 12.5%. This includes a minimum CET1 capital requirement of 7.0% (Pillar 1 and Pillar 2A) and the UK CRD V combined buffer requirements of 5.5% of RWAs.

The CET1 ratio increased to 27.4% (April 4, 2023: 26.5%) as a result of an increase in CET1 capital of £0.6 billion, partially offset by an increase in RWAs of £0.6 billion. The CET1 capital resources increase was driven by £0.7 billion profit after tax, partially offset by £0.1 billion of capital distributions. RWAs increased, predominantly due to an increase in net residential mortgage lending.

The leverage ratio was 6.4% (April 4, 2023: 6.0%), with Tier 1 capital increasing by £0.6 billion as a result of the CET1 capital movements referenced above. In addition, there was a decrease in leverage exposure of £3.5 billion, with an increase in net residential mortgage lending more than offset by a reduction in treasury investments for the period.

The following sets forth a breakdown of total risk-weighted assets for the periods indicated.

	As at September 30, 2023	2023	As at April 4, 2022 2021	
Credit risk ⁽¹⁾		(£ million)		
Retail mortgages.....	35,836	34,609	34,935	14,523
Retail unsecured lending	5,037	5,145	4,694	5,503
Commercial loans.....	1,793	1,883	2,272	2,671
Treasury.....	1,426	1,559	1,865	1,588
Counterparty credit risk ⁽³⁾	754	989	1,052	1,491
Other ⁽⁴⁾	1,634	1,715	1,798	2,365
Total credit risk	46,480	45,900	46,616	28,141
Operational risk ⁽²⁾	5,831	5,831	5,207	4,829
Total risk weighted assets (RWAs)	52,311	51,731	51,823	32,970

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) Other relates to equity, fixed and other assets.

DESCRIPTION OF BUSINESS

Recent Developments

The following should be read together with and form part of the section entitled “Description of Business” in the Base Prospectus, replacing the sub-section entitled “Recent Developments.”

The changing economic and political landscape in the UK, and particularly high inflation, stagnant house prices and increasing interest rates combined with continued volatility both in the global environment and the UK, have impacted both Nationwide and the members. Whilst the Bank Rate is probably close to its peak, the higher rates members pay on their mortgages are exacerbating existing pressure on members’ finances from heightened living costs, impacting both the housing market and mortgage trading volumes. We have, over the course of the current financial year, rolled out a number of measures to respond to these concerns. Some of the measures announced include:

- introducing cost-of-living support measures for members, with a dedicated freephone hotline, as well as cost of living training for front line advisors and financial health checks, for members experiencing financial worries;
- extending our branch promise, meaning that we will not leave any town or city in which we are based without a branch until at least 2026 (previously 2024) – we now have the largest branch network in the UK; and
- relaunching our current account switching incentive in September 2023, for customers who switch their account to one of our three main current account products.

Savings and Current accounts

The following should be read together with and form part of the section entitled “Description of Business” in the Base Prospectus, replacing the sub-section entitled “Savings and Current accounts.”

Member deposit balance growth of £4.2 billion to £191.3 billion as at September 30, 2023 from £187.1 billion as at April 4, 2023 was a result of increases in savings balances supported by competitive fixed rate products and increased levels of accrued interest due to higher average savings rates. The increase in deposit balances is due to growth in savings balances of £5.1 billion (September 30, 2022: £1.3 billion) supported by competitive fixed rate products, including the Fairer Share Bond, and increased levels of accrued interest due to higher average savings rates. Credit balances on current accounts reduced by £0.9 billion (September 30, 2022: £1.9 billion growth), driven by a competitive savings market and cost of living pressures. Our market share of deposit balances remained at 9.6%.

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.

The remainder of the section should be read together with and form part of the section entitled “Selected Statistical Information” in the Base Prospectus.

SELECTED STATISTICAL INFORMATION

Loan Loss Experience

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, 2023 and September 30, 2022 and the years ended April 4, 2023, 2022 and 2021:

September 30, 2023	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	158,343	74.94%	97	0.05%
Buy to let and legacy residential mortgages	43,627	20.65%	208	0.10%
Consumer banking	3,867	1.83%	450	0.21%
Commercial and other lending	5,461	2.58%	19	0.01%
Total	211,298	100%	774	0.37%

September 30, 2022	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	159,133	74.57%	91	0.04%
Buy to let and legacy residential mortgages	44,244	20.73%	165	0.08%
Consumer banking	4,110	1.93%	530	0.25%
Commercial and other lending	5,912	2.77%	28	0.01%
Total	213,399	100%	814	0.38%

April 4, 2023	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	157,474	74.71%	84	0.04%
Buy to let and legacy residential mortgages	43,908	20.83%	196	0.09%
Consumer banking	3,939	1.87%	469	0.22%
Commercial and other lending	5,461	2.59%	16	0.01%
Total	210,782	100%	765	0.36%

April 4, 2022	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	154,354	74.19%	73	0.05%
Buy to let and legacy	43,579	20.94%	114	0.26%
Consumer banking	4,109	1.97%	529	12.87%
Commercial and other lending	6,024	2.90%	30	0.50%
Total	208,066	100%	746	0.36%

April 4, 2021	Total Balance	(%) of Total	Provision	Provision/Total Balance
Prime residential mortgages	149,681	74.27%	93	0.05%
Buy to let and legacy	41,025	20.36%	224	0.11%
Consumer banking	3,902	1.94%	502	0.25%

Commercial and other lending	6,939	3.43%	33	0.02%
Total	201,547	100%	852	0.42%

Investment Securities Portfolios

As at September 30, 2023, our investment securities portfolios were carried at a book value of £26,228 million, representing 9.7% of our total financial 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, 2023 and September 30, 2022 and as at April 4, 2023, 2022 and 2021, respectively:

	As at September 30, 2023	As at September 30, 2022	As at April 4,		
			2023	2022	2021
	(£ million)				
Government, government guaranteed and supranational investment securities	21,357	20,480	22,968	20,897	21,363
Other debt investment securities	4,808	4,584	4,592	4,529	4,083
Investments in equity shares	63	43	55	58	27
Total	26,228	25,107	27,615	25,484	25,473

Investment portfolio by credit rating & country/region

	As at September 30, 2023 ⁽¹⁾									
	AAA	AA	A	Other	UK	US	Europe	Japan	Other	
	(£ million)									(percentages)
Liquid Assets:										
Cash and reserves at central banks	28,676	-	100	-	-	100	-	-	-	-
Government Bonds ⁽²⁾	18,366	5	78	17	-	37	24	12	13	14
Supranational bonds	2,991	46	54	-	-	-	-	-	-	100
Covered bonds	3,081	100	-	-	-	45	-	15	-	40
Residential mortgage backed securities (RMBS)	705	100	-	-	-	62	-	38	-	-
Asset backed Securities (other)	169	100	-	-	-	98	-	2	-	-
Liquid Assets total	53,988	12	82	6	-	69	8	6	5	12
Other Securities⁽³⁾										
RMBS FVOCI	836	100	-	-	-	100	-	-	-	-
RMBS amortized cost	11	100	-	-	-	100	-	-	-	-
Other Investments ⁽⁴⁾	69	-	5	-	95	95	-	5	-	-
Other securities total	916	93	-	-	7	100	-	-	-	-
Loans and advances to banks	3,168	-	83	14	3	82	12	4	0	2
Total	58,072	12	81	6	1	71	8	5	4	12

Notes:

(1) Ratings used are obtained from Standard & Poor's (S&P), Moody's or Fitch. For loans and advances to banks and similar institutions, internal ratings are used.

(2) Balances classified as government bonds include government guaranteed, agency and government sponsored 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 £10 million (April 4, 2023: £13 million).

As at September 30, 2022 ⁽¹⁾										
	AAA	AA	A	Other	UK	US	Europe	Japan	Other	
(£ million)	(percentages)									
Liquid Assets:										
Cash and reserves at central banks	32,890	-	100	-	-	100	-	-	-	-
Government Bonds ⁽²⁾	18,595	36	47	17	-	29	29	15	14	13
Supranational bonds	1,885	52	48	-	-	-	-	-	-	100
Covered bonds.....	2,721	100	-	-	-	48	-	17	-	35
Residential mortgage backed securities (RMBS)	624	100	-	-	-	68	-	32	-	-
Asset backed Securities (other).....	248	100	-	-	-	91	-	9	-	-
Liquid Assets total	56,963	20	74	6	-	71	9	6	5	9
Other Securities⁽³⁾										
RMBS FVOCI.....	915	100	-	-	-	100	-	-	-	-
RMBS amortized cost...	57	100	-	-	-	100	-	-	-	-
Other Investments ⁽⁴⁾	62	-	20	-	80	80	-	20	-	-
Other securities total .	1,034	94	1	-	5	99	-	1	-	-
Loans and advances to banks	4,029	-	72	24	4	87	5	7	-	1
Total.....	62,026	20	73	7	-	72	9	6	4	9

Notes:

(1) Ratings used are obtained from Standard & Poor's (S&P), Moody's or Fitch. For loans and advances to banks and similar institutions, internal ratings are used.

(2) Balances classified as government bonds include government guaranteed, agency and government sponsored 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 £17 million (April 4, 2022: £17 million).

The following should be read together with and form part of the section entitled “Supervision and Regulation” in the Base Prospectus, amending sub-sections entitled “European Union Legislation – Stress Tests” and “Operational Resilience”.

SUPERVISION AND REGULATION

European Union Legislation

Stress Tests

The 2022 stress test process was announced by the Bank of England in September 2022. On July 12, 2023, the Bank of England issued its results. The specified hypothetical annual cyclical scenario (“**ACS 2022**”) considered a 31 per cent fall in house prices, 8.5 per cent peak in unemployment and Bank Base Rate peak of 6 per cent, in the first year of the scenario. The results of the ACS 2022 show that the Society’s capital position remained robust with the common equity tier 1 ratio at its lowest point in the stress remaining significantly above the 7.4 per cent hurdle rate at 20.3 per cent. The leverage ratio remained unchanged at 5.6 per cent which was above the 3.6 per cent hurdle rate. Full distributions on all Tier 1 capital instruments continued to be made throughout the scenario.

Operational Resilience

The Society achieved compliance on March 31, 2022 by completing and submitting its first regulatory self-assessment to the FCA and PRA. Following this first milestone, the Society is now required to mature and develop its operational resilience by March 31, 2025. The Society recently refreshed its operational resilience strategy for the next 3 years in order to meet this second milestone, which has now been approved by its Board of Directors.

Post-Brexit changes to the UK prudential and resolution regimes

Following the UK’s withdrawal from the EU, the UK authorities have elected to diverge from the EU prudential and resolution frameworks in certain respects. For example, the following provisions of BRRD do not apply in the UK:

- Article 1(6) of BRRD II, which inserted a new Article 16a in BRRD to provide the resolution authority with the power to prohibit an entity from distributing more than the ‘maximum distributable amount’ relating to the minimum requirement for own funds and eligible liabilities (“**M-MDA**”), where the entity fails to meet the combined buffer requirement, subject to certain conditions;
- Article 1(20) of BRRD II, which introduced a new Article 48(7) of BRRD, making changes to priority of debts in insolvency;
- Article 1(21) of BRRD II, which updated Article 55 of BRRD on the contractual recognition of bail-in; and
- Article 1(30) of BRRD II, which amended the existing in-resolution moratorium power under Article 69 of BRRD.

Furthermore, the PRA has confirmed it intends to make further changes to the prudential regime, including changes to payment restrictions based on maximum distributable amount (“**MDA**”) calculations in order to improve firms’ ability to use their combined buffers as intended when subject to a severe but plausible stress. The proposed changes include (i) removing the restriction which precludes firms from making distributions that would cause their CET1 levels to fall into the combined buffer, and (ii) amending the definition of the MDA to include certain profits already recognised as CET1 over the preceding four calendar quarters, net of distributions.

In addition, the UK is proposing to transfer much of the EU prudential framework retained as law following the UK's withdrawal from the EU into the UK regulators' rulebooks, to improve flexibility. Following a consultation on the optimal structure for UK financial services post-Brexit, the Financial Services and Markets Act 2023 ("**FSMA 2023**") received royal assent on June 29, 2023. FSMA 2023 establishes a framework to revoke EU law relating to financial services, and will enable HM Treasury, the FCA and PRA to replace it with legislation and a regulatory rule set to deliver a comprehensive FSMA model of regulation. FSMA 2023 intends to move away from the onshored EU legislation towards the historic approach taken under the FSMA, whereby primary responsibility for regulation is delegated to the UK regulatory authorities, subject to the oversight of Parliament. FSMA 2023 establishes a framework to revoke EU law relating to financial services, and will enable HM Treasury, the FCA and PRA to replace it with legislation and regulatory rule sets to deliver a comprehensive FSMA model of regulation. On July 10, 2023, the Chancellor of the Exchequer's Mansion House Speech included a package of reforms (the "**Mansion House Reforms**"), which built on the Edinburgh Reforms and FSMA 2023, aims to deliver a smarter regulatory framework, and elaborates on how the Government intends to deliver the first two tranches. The Mansion House Reforms confirm that before the end of 2023: (i) statutory instruments will be laid to reform the Prospectus Regulation, and Securitisation Regulation amongst others; (ii) draft statutory instruments will be published proposing reform to the PRIIPs Regulation, the Short Selling Regulation and the Money Market Funds Regulations; (iii) a consultation will be published on the Taxonomy Regulation; (iv) a first round of "targeted reforms" will be made to payments and money rules; and (v) work will continue on Basel 3.1 implementation and the "strong and simple" framework for small banks and building societies.

The Retained EU Law (Revocation and Reform) Act 2023, which also received royal assent on June 29, 2023, establishes a framework for the repeal of non-financial services retained EU law and provides for the abolition of the supremacy of retained EU law and general principles of EU law interpretation. This will end the special status that retained EU law (including relating to financial services) has on the UK statute book.

Accordingly, divergence between the EU and UK prudential regimes may widen over time.

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus

TERMS AND CONDITIONS OF THE NOTES

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, amending the first paragraph of the section entitled “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”) *pari passu* and without any preference among themselves, junior to obligations required to be preferred by law (which includes certain member share accounts and deposits which are given preferential status by law) and at least equally with all other Ordinary Non-Preferential Debts of the Issuer.”

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, amending the first paragraph of the sub-section entitled “Waiver of set-off” of the section entitled “Status and ranking of senior non-preferred notes”.

“Subject to applicable law, no holder of a senior non-preferred notes may exercise, claim or plead any right of set-off (including, without limitation, compensation or retention), counterclaim or netting 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 (or the holder of any interest in) be deemed to have waived all such rights of set-off (including, without limitation, compensation or retention), counterclaim or netting. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of senior non-preferred notes against the Issuer is discharged by set-off (including, without limitation, compensation or retention), counterclaim or netting, 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 following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, amending the first paragraph of the sub-section entitled “Waiver of set-off” of the section entitled “Status and ranking of subordinated notes”.

“Subject to applicable law, no holder of any subordinated notes may exercise, claim or plead any right of set-off (including, without limitation, compensation or retention), counterclaim or netting 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 in), be deemed to have waived all such rights of set-off (including, without limitation, compensation or retention), counterclaim or netting. 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 (including, without limitation, compensation or retention), counterclaim or netting 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, trustee or other insolvency official of the Issuer and accordingly such discharge will be deemed not to have taken place.”

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, amending and/or adding the following definitions of the sub-section entitled “Certain definitions.”

“**deferred share investments**” has the meaning ascribed thereto in the Memorandum and Rules of the Issuer (and includes the Issuer’s PIBS and core capital deferred shares).”

“**Excluded Dissolution**” means each of (i) a winding up or dissolution of the Issuer for the purpose of a reconstruction, union, transfer, merger, amalgamation or substitution in place of the Issuer of a successor in business, the terms of which reconstruction, union, transfer, merger, amalgamation or substitution (x) have previously been approved by the Trustee and (y) do not provide that the notes shall thereby become redeemable or repayable in accordance with these terms and conditions 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).”

“**investing members**” has the meaning ascribed thereto in the Memorandum and Rules of the Issuer.”

“**Ranking Legislation**” means (i) the Building Societies Act 1986, as amended, (ii) the Insolvency Act, (iii) the Hierarchy Order, (iv) if and to the extent applicable to the Issuer, any other law or regulation which is amended by the Hierarchy Order, and (v) any other law or regulation from time to time which is applicable to the Issuer and relevant for determining the rights of members and creditors of the Issuer in a winding up or dissolution of the Issuer.”

“**Regulatory Capital Requirements**” means, at any time, any requirement contained in the law, regulations, requirements, guidelines and policies then in effect (whether or not having the force of law) 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.”

“**Senior Claims**” means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which are:

- i. claims of investing members of the Issuer as regards the principal and interest due on share investments other than deferred share investments; and
- ii. claims (including, as applicable, those of depositors) 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;

“**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 (or which otherwise rank or are expressed to rank junior to Senior Non-Preferred Claims), including (without limitation) claims 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.”

“a **Regulatory Event**” is deemed to have occurred in respect of a series of subordinated notes if there is a change (or pending change) in the regulatory classification of the subordinated notes which becomes (or will become) 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 nominal 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 nominal 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) and, for the avoidance of doubt, any amortisation of the Notes pursuant to Article 64 of the UK CRR (or any equivalent or successor provision) shall not comprise a Regulatory Event.”

“**“UK CRR”** means Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013 (as amended) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended or replaced from time to time).”

“references to a “**winding up or dissolution**” in respect of the Issuer (which term includes, where the context admits, a successor entity which has been substituted in place of the Issuer) shall include (as applicable): (i) an order being made, or an effective resolution being passed, for the winding up or dissolution of the Issuer; (ii) following the appointment of an administrator in respect of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend; or (iii) the liquidation of the Issuer, or any procedure similar to that described in paragraph (i) or (ii) of this definition occurring in respect of the Issuer, including (if applicable) any building society or bank insolvency procedure or building society or bank administration procedure pursuant to the Banking Act 2009.”

*The definition entitled “**Loss Absorption Disqualification Event**” will have the first paragraph deleted and replaced with the following:*

“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 (or pending change), any Loss Absorption Regulations, or any change (or pending change) in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective (or that will become effective) after the Issue Date of such series of senior non-preferred notes, either:”

*The definition entitled “**Loss Absorption Compliant Notes**” will be deleted and replaced with “**Compliant Notes**”.*

*The definition entitled “**Loss Absorption Compliant Notes**” will have the following sub-heading inserted “1. in the case of senior non-preferred Notes:” immediately preceding sub-paragraph (a). The following paragraph shall then be added immediately succeeding sub-paragraph (f):*

“2. in the case of subordinated notes:

(a) such securities are issued by the Issuer or any wholly-owned direct or indirect subsidiary of the Issuer with a subordinate guarantee of such obligations by the Issuer;

(b) such securities and any relative coupons rank (or, if guaranteed by the Issuer, benefit from a guarantee that ranks) equally with the ranking of subordinated notes;

(c) (subject to (b) above) such securities have terms not materially less favourable to holders of the subordinated notes than the terms of the subordinated notes (as reasonably determined by the Issuer in consultation with an independent adviser of recognised standing);

(d) (without prejudice to (c) above) such securities (1) contain terms such that they comply with the then applicable Regulatory Capital Requirements in relation to Tier 2 Capital; (2) bear the same rate of interest from time to time applying to the subordinated 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 subordinated 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; and (6) preserve any existing rights to any accrued and unpaid interest and any other amounts payable under the subordinated notes which has accrued to holders of subordinated notes and not been paid;

(e) such securities are listed on the same stock exchange or market as the notes or the London Stock Exchange or any other United Kingdom or EEA regulated market or any market in an Organisation for Economic Co-operation and Development (OECD) member state selected by the Issuer; and

(f) where the subordinated 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 notes (unless any downgrade is solely attributable to the ranking of the securities under (b) above);”

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, amending the first paragraph of the sub-section entitled “Redemption for Tax Reasons” of the section entitled “Redemption, Repurchase, Substitution and Variation” and the corresponding second paragraph contained in the Base Prospectus will then be joined to this new first paragraph.

“If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that a Tax Event has occurred”

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, amending the fourth paragraph of the sub-section entitled “Redemption for Tax Reasons” of the section entitled “Redemption, Repurchase, Substitution and Variation”.

“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 notes, the Issuer has paid or will or would on the next payment date be required to pay additional amounts as provided under “—Payment of additional amounts”;

(ii) any payment in respect of the notes would be a "distribution" or would otherwise not be deductible (in whole, or to a material extent) for United Kingdom tax purposes (or the deduction would be materially deferred);

(iii) in respect of subordinated notes and senior non-preferred notes only, 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 latest tranche of such subordinated notes or senior non-preferred notes or any similar system or systems having like effect as may from time to time exist);

(iv) in respect of subordinated notes and senior non-preferred notes only, such notes are or will be prevented from being treated as loan relationships for United Kingdom tax purposes;

(v) in respect of subordinated notes and senior non-preferred notes only, a future conversion into equity or write-down of the principal amount of such notes would result in a United Kingdom tax liability, or the receipt of income or profit which would be subject to United Kingdom tax;

(vi) in respect of subordinated notes only, such notes or any part thereof will or would become treated as a derivative or an embedded derivative for United Kingdom tax purposes; or

(vii) in respect of senior preferred notes only, on the next payment due in respect of such notes, the Issuer would be required to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the notes) calculated by reference to any amount payable in respect of the notes.”

The title of the sub-section entitled “Preconditions to Redemption and Purchase of Subordinated Notes” contained in the part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus shall be deleted and replaced with the title “Preconditions to Redemption, Purchase, Substitution or Variation of Subordinated Notes”.

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, replacing the first paragraph of the sub-section entitled “Preconditions to Redemption and Purchase of Subordinated Notes”.

“Any redemption, purchase, substitution or variation of the Notes prior to the Maturity Date in accordance with any applicable subsection of this section “*Redemption, Repurchase, Substitution and Variation*” is subject to...”

The title of the sub-section entitled “Substitution and Variation in Respect of Senior Non-Preferred Notes” contained in the part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus shall be deleted and replaced with the title “Substitution and Variation of Subordinated Notes and Senior Non-Preferred Notes”.

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, replacing the first paragraph of the sub-section entitled “Substitution and Variation of Senior Non-Preferred Notes”.

“This provision “*Substitution and Variation in Respect of Subordinated Notes and 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.”

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, replacing the second, third and fourth paragraphs of the sub-section entitled “Substitution and Variation in Respect of Senior Non-Preferred Notes” of the section entitled “Redemption, Repurchase, Substitution and Variation”.

“Upon the occurrence of a Tax Event, a Regulatory Event or Loss Absorption Disqualification Event (as applicable), 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, 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 Subordinated Notes and 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, Tax Event or Regulatory Event, as applicable 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 following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, replacing the definition of “UK Bail-In Power” contained in sub paragraph (c) of the sub-section entitled “Agreement with Respect to the Exercise of UK Bail-in Power.”

“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, and exercised in compliance with, any laws, regulations, rules, instruments, standards, guidelines or requirements relating to the recovery and resolution of banks, building societies, financial holding companies, mixed financial holding companies, credit institutions and/or investment firms (and/or certain group companies of any of the foregoing) (**relevant entities**) 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, instruments, standards, guidelines or requirements that are implemented, adopted or enacted within the context of the Banking Act 2009 and/or the Loss Absorption Regulations, in each case as amended from time to time, and pursuant to which, *inter alia*, any obligation of a relevant entity (or an affiliate thereof) can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of the relevant entity or any other person (or suspended for a temporary period) and any right in a contract governing obligations of a relevant entity may be deemed to have been exercised.”

The following should be read together with and form part of the section entitled “Terms and Conditions of the Notes” in the Base Prospectus, replacing the sub-paragraph (d) of the sub-section entitled “Events of Default – Subordinated Notes and Senior Non-Preferred Notes”.

“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 each case for a reasonable period, and such failure or inability is continuing, 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, in any such case for a reasonable period, and such failure or inability is continuing, 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.”