

## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following applies to the base prospectus (the **Base Prospectus**) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE US OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE US OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE COVERED BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (THE **EEA**). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF DIRECTIVE 2014/65/EU (AS AMENDED, **MIFID II**); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97, AS AMENDED OR SUPERSEDED (THE **INSURANCE DISTRIBUTION DIRECTIVE**), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO. 1286/2014 (AS AMENDED, THE **PRIIPS REGULATION**) FOR OFFERING OR SELLING THE COVERED BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE COVERED BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THE COVERED BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE UNITED KINGDOM (THE **UK**). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (8) OF ARTICLE 2 OF REGULATION (EU) NO 2017/565 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 (**EUWA**); (II) A CUSTOMER WITHIN THE MEANING OF THE PROVISIONS OF THE FSMA AND ANY RULES OR REGULATIONS MADE UNDER THE FSMA TO IMPLEMENT DIRECTIVE (EU) 2016/97, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT, AS DEFINED IN POINT (8) OF ARTICLE 2(1) OF REGULATION (EU) NO 600/2014 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA. CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA (THE **UK PRIIPS REGULATION**) FOR OFFERING OR SELLING THE COVERED BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE UK HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE COVERED BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE UK MAY BE UNLAWFUL UNDER THE UK PRIIPS REGULATION.

Confirmation of your Representation: In order to be eligible to view this Base Prospectus or make an investment decision with respect to the securities, investors must be either (1) "qualified institutional buyers" (**QIBs**) within the meaning of Rule 144A (**Rule 144A**) under the Securities Act or (2) non-US persons (within the meaning of Regulation S under the Securities Act) outside the US; provided that investors resident in a Member State of the EEA must be a qualified investor as defined in Regulation (EU) 2017/1129 (the **Prospectus Regulation**) and investors resident in the UK must be a qualified investor as defined in Regulation (EU) 2017/1129 as it forms part of the domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020) as amended, varied, superseded or substituted from time to time (**EUWA**) (the **UK Prospectus Regulation**). This Base Prospectus is being sent at your request and by accepting the e-mail and accessing this Base Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) a QIB or (b) not a US person and that the electronic mail address that you gave us and to which this Base Prospectus has been delivered is not located in the US (and if you are resident in a Member State of the EEA or the UK, you are a qualified investor as defined in the Prospectus Regulation or the UK Prospectus Regulation, as applicable) and (2) you consent to the delivery of this Base Prospectus by electronic transmission.

You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the relevant Dealer (as defined in the Prospectus) or any affiliate of such Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealer or such affiliate on behalf of the Issuer (as defined in the Prospectus) in such jurisdiction.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Nationwide Building Society or any other Dealer appointed from time to time (nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Nationwide Building Society.



**NATIONWIDE BUILDING SOCIETY**

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

**Issuer Legal Entity Identifier (LEI): 549300XFX12G42QIKN82**

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**€45 billion**

**Global Covered Bond Programme**

**unconditionally and irrevocably guaranteed as to payments by**

**Nationwide Covered Bonds LLP**

*(a limited liability partnership incorporated in England and Wales)*

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Under this €45 billion covered bond programme (the **Programme**), Nationwide Building Society (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The price and amount of the Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Nationwide Covered Bonds LLP (the **LLP**) has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Portfolio (as defined below) and its other assets. Recourse against the LLP under its guarantee is limited to the Portfolio and such assets.

Covered Bonds may be issued in bearer (**Bearer Covered Bonds**) or registered (**Registered Covered Bonds**) form. See "*Form of the Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €45 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each, a **Dealer** and together, the **Dealers**), which appointment may be to a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealers** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds. The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

See "*Risk Factors*" on page 32 for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.

This Base Prospectus (the **Base Prospectus**) has been approved as a base prospectus by the 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 (as amended by the European Union (Withdrawal Agreement) Act 2020) as amended, varied, superseded or substituted from time to time (**EUWA**) (the **UK Prospectus Regulation**). The FCA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer, the LLP or the quality of the Covered Bonds that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

Application has been made to the FCA for Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the FCA (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the main market of the London Stock Exchange (the **main market of the London Stock Exchange**) which is a **UK regulated market** for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of domestic law by virtue of the EUWA (**UK MiFIR**). References in this Base Prospectus to Covered Bonds being **listed** (and all related references) shall mean that such Covered Bonds have been admitted to trading on the main market of the London Stock Exchange and have been admitted to the Official List. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other terms are applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading on the regulated market of the London Stock Exchange, will be delivered to the FCA and the regulated market of the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Covered Bonds which are to be admitted to trading on a regulated market in the United Kingdom (the **UK**) and/or offered to the public in the UK other than in circumstances where an exemption is available under Article 1(4) and/or 3(2) of the UK Prospectus Regulation or Section 86 of the Financial Services and Markets Act 2000 (**FSMA**).

The requirement to publish a prospectus under FSMA only applies to Notes which are admitted to trading on a UK regulated market as defined in UK MiFIR and/or offered to the public in the EEA or the UK). Other than in circumstances where an exemption is available under section 86 of the FSMA. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

As at the date of this Base Prospectus: (i) long-term senior obligations of the Issuer are rated "A" by S&P Global Ratings UK Ltd (**S&P**), "A1" by Moody's Investors Service Ltd. (**Moody's**) and "A" by Fitch Ratings Limited (**Fitch**); and (ii) short-term senior obligations of the Issuer are rated "A-1" by S&P, "P-1" by Moody's and "F1" by Fitch. Each of Fitch, Moody's and S&P are established in the UK and are registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the **UK CRA Regulation**). None of Moody's, S&P or Fitch is established in European Union and they have not applied for registration under Regulation (EC) No. 1060/2009 as amended (the **CRA Regulation**). The ratings issued by Moody's, S&P and Fitch have been endorsed by Moody's Deutschland GmbH, S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited respectively in accordance with the CRA Regulation. Each of Moody's Deutschland GmbH, S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited is established in the European Union and registered under the CRA Regulation. As such each of Moody's Deutschland GmbH, S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.

The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event a drawdown prospectus or a new Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

The Issuer may issue unlisted Covered Bonds or N Covered Bonds from time to time, for which no prospectus is required to be published under the UK Prospectus Regulation and which will not be issued pursuant to (and do not form part of) this Base Prospectus, and will not be issued pursuant to any final terms document under this Base Prospectus. The FCA has neither approved nor reviewed information contained in this Base Prospectus in connection with any unlisted Covered Bonds or N Covered Bonds.

The Issuer has been admitted to the FCA's register of issuers and the Programme and all Covered Bonds previously issued under the Programme have been admitted to the register of Regulated Covered Bonds under the Regulated Covered Bonds Regulations 2008 (as amended) (SI 2008/346), as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) (the **RCB Regulations**).

The Covered Bonds and the Covered Bond Guarantee (as defined below) have not been and will not be registered under the US Securities Act of 1933, as amended (the **Securities Act**), or under the applicable securities laws or the regulations of any state of the United States, and may not be offered, sold or delivered in the United States or to, or for the benefit of, US persons (as defined in Regulation S (**Regulation S**) under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Covered Bonds are being offered (a) outside the United States to non-US persons in reliance on Regulation S and (b) in the case of Registered Covered Bonds only, within the United States only to "qualified institutional buyers" (**QIBs**) (as defined in Rule 144A under the Securities Act (**Rule 144A**)) in compliance with Rule 144A or in other transactions exempt from registration under the Securities Act. Registered Covered Bonds are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

Interest payable under the Covered Bonds may be calculated by reference to the Euro Inter-Bank Offered Rate (**EURIBOR**), the Sterling Overnight Index Average (**SONIA**), the Secured Overnight Financing Rate (**SOFR**) or the Euro Short-Term Rate (**€STR**) provided by the European Money Markets Institute, the Bank of England, the Federal Reserve Bank of New York and the European Central Bank, respectively. As at the date of this Base Prospectus, the administrator of EURIBOR appear on the register of administrators and benchmarks established and maintained by the Financial Conduct Authority in accordance with Article 36 of Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**). The administrators of SONIA, SOFR and €STR are not currently required to obtain authorisation/registration and SONIA, SOFR and €STR do not fall within the scope of the UK Benchmarks Regulation by virtue of Article 2 of that regulation.

The Covered Bonds issued under the Programme are expected on issue to be assigned an "AAA" rating by **S&P**, an "AAA" rating by Fitch and an "Aaa" rating by Moody's. Such ratings will be endorsed by S&P Global Ratings Europe Limited, Moody's Deutschland GmbH and Fitch Ratings Ireland Limited, respectively. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. In general, European regulated investors are restricted under the CRA Regulation from using a rating for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant non-EEA rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED NOR DISAPPROVED OF THESE SECURITIES OR DETERMINED THAT THIS BASE PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

**AN INVESTMENT IN THE COVERED BONDS IS NOT SUBJECT TO RESTRICTION UNDER THE US VOLCKER RULE AS AN INVESTMENT IN AN OWNERSHIP INTEREST IN A COVERED FUND.**

Arranger for the Programme

**BARCLAYS**

Dealers for the Programme

|                                |  |                                |                            |
|--------------------------------|--|--------------------------------|----------------------------|
| <b>BARCLAYS</b>                | <b>BNP PARIBAS</b>   | <b>CITIGROUP</b>               | <b>CREDIT SUISSE</b>       |
| <b>DEUTSCHE BANK</b>           | <b>HSBC</b>  | <b>J.P. MORGAN</b>             | <b>NATWEST<br/>MARKETS</b> |
| <b>RBC CAPITAL<br/>MARKETS</b> | <b>SOCIÉTÉ GÉNÉRALE<br/>CORPORATE &amp; INVESTMENT BANKING</b> | <b>UBS INVESTMENT<br/>BANK</b> | <b>TD SECURITIES</b>       |

The date of this Base Prospectus is 12 February 2021.

The Issuer and the LLP each accept responsibility for the information contained in this Base Prospectus, including the Final Terms relating to each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge of each of the Issuer and the LLP, the information contained in this Base Prospectus is in accordance with the facts and this Base Prospectus makes no omission likely to affect its import. Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as each of the Issuer and the LLP is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has been admitted to the FCA's register of issuers and the Programme and all Covered Bonds previously issued under the Programme have been admitted to the register of Regulated Covered Bonds under the RCB Regulations.

Copies of each set of Final Terms (in the case of Covered Bonds to be admitted to the Official List) will be available from FT Business Research Centre, operated by FT Interactive Data at Fitzroy House, 13-17 Epworth Street, London EC2A 4DL and (in the case of Covered Bonds to be admitted to the Official List and also all unlisted Covered Bonds) on the Issuer's website at <https://www.nationwide.co.uk/about/investor-relations/funding-programmes/covered-bond> and from the specified office set out below of each of the Paying Agents (as defined below). The information set out on the website and the contents thereof do not form part of this Base Prospectus.

This Base Prospectus is to be read in conjunction with any supplements hereto, all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*" below) and any Final Terms. This Base Prospectus shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

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

The information contained in this Base Prospectus was obtained from the Issuer. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers, the Bond Trustee or the Security Trustee as to the information contained or incorporated by reference in this Base Prospectus, any other information provided by the Issuer and the LLP in connection with the Programme or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof. Neither the Arranger, the Dealers, the Bond Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer and the LLP in connection with the Programme. The Arranger, the Dealers, the Bond Trustee and the Security Trustee accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of the Covered Bonds, the Transaction Documents or this Base Prospectus.

No person is or has been authorised by the Issuer, the LLP, the Arranger, any of the Dealers, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in this Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the LLP, the Arranger, any of the Dealers, the Bond Trustee or the Security Trustee.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the LLP, the Seller, the Arranger, any of the Dealers, the Bond Trustee or the Security Trustee that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the LLP. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the LLP, the Seller, the

Arranger, any of the Dealers, the Bond Trustee or the Security Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or the LLP and/or the Seller is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the LLP or the Seller during the life of the Programme or to advise any investor or potential investor in the Covered Bonds of any information coming to their attention. Investors should review, among other things, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Covered Bonds.

**IMPORTANT – PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive (EU) 2016/97, as amended or superseded (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the **Prospectus Regulation**). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**IMPORTANT – PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the **UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**IMPORTANT NOTICE – SFA NOTIFICATION LEGEND** – Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), unless otherwise specified before an offer of Covered Bonds, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Covered Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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

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

**UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET** – The Final Terms in respect of any Covered Bonds will include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the LLP, the Arranger, the Dealers, the Bond Trustee and the Security Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the LLP, the Arranger, the Dealers, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered, sold or delivered, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the United Kingdom, Japan and the Republic of Italy, see "*Subscription and Sale and Transfer and Selling Restrictions*".

All references in this document to Sterling and £ refer to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland, references to euro and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, references to US Dollars and \$ refer to United States dollars and references to Yen, JPY and ¥ refer to Japanese Yen.

In connection with the issue of any Tranche of Covered Bonds, one or more relevant Dealers acting as stabilising manager (each a **Stabilising Manager**) may over-allot Covered Bonds (provided that, in the case of any Tranche of Covered Bonds to be admitted to trading on the London Stock Exchange or any other regulated market in the United Kingdom (within the meaning given in UK MiFIR)) or any regulated market in the European Economic Area (within the meaning given in MiFID II), the aggregate principal amount of Covered Bonds allotted does not exceed 105% of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant



Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

The Covered Bonds may not be a suitable investment for all investors and in making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved. The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission (the **SEC**) or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

None of the Arranger, the Dealers, the Issuer, the LLP, the Security Trustee or the Bond Trustee makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

The Covered Bonds will not represent an obligation or be the responsibility of any of the Dealers, the Bond Trustee, the Security Trustee or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer and the LLP. The Issuer and the LLP will be liable solely in their corporate capacity for their obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

Capitalised terms used in this document, unless otherwise indicated, have the meanings set out in this document. A glossary of defined terms appears at the back of this document – see "*Glossary*" below.

## **INTERPRETATION**

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

### **Legal investment considerations may restrict certain investments**

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

### **The Covered Bonds may not be a suitable investment for all investors**

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for

principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as standalone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds, which are complex financial instruments, unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of such Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

## US INFORMATION

**We have not registered, and will not register, the Covered Bonds and Covered Bond Guarantees under the Securities Act and purchasers of the Covered Bonds and the Covered Bond Guarantees may not offer, sell or deliver them in the United States or to, or for the account or benefit of, US persons as defined in Regulation S except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.**

**Registered Covered Bonds may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act. Prospective purchasers are hereby notified that the offer and sale of any Covered Bonds may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.**

**The Bearer Covered Bonds are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by US Treasury regulations (see "*Subscription and Sale and Transfer and Selling Restrictions*" below). Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.**

By requesting copies of any of the documents referred to herein, each potential purchaser agrees to keep confidential the various documents and all written information clearly labelled "Confidential" which from time to time have been or will be disclosed to it concerning the LLP or the Issuer or any of their affiliates, and agrees not to disclose any portion of the same to any person.

Notwithstanding anything in this Base Prospectus to the contrary, each prospective investor (and each employee, representative and other agent of the investor) may disclose to any and all persons, without limitations of any kind, the US federal income tax treatment and US tax structure of the transactions contemplated by this Base Prospectus and all materials of any kind (including tax opinions or other tax analyses) relating to such US tax treatment and US tax structure. However, any such information relating to the US tax treatment or US tax structure is required to be kept confidential to the extent necessary to comply with any applicable federal or state securities laws.

You may not transfer Covered Bonds sold in the United States, except in accordance with the restrictions described under the section entitled "*Subscription and Sale and Transfer and Selling Restrictions Transfer Restrictions*" of this Base Prospectus. The Issuer will deem each purchaser of the Covered Bonds in the United States to have made the representations and agreements contained in this Base Prospectus.

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

### **FORWARD-LOOKING STATEMENTS**

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

The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. The Issuer cautions you not to place undue reliance on these forward-looking statements, which in any event speak only as of the date of this Base Prospectus. The Issuer undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The risk factors beginning on page 32 of this Base Prospectus and many other factors could cause actual events and results to differ materially from historical results or those anticipated. See the sections entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*The Issuer*".

### **PRESENTATION OF FINANCIAL INFORMATION**

The financial information incorporated by reference in this Base Prospectus for the years ended 4 April 2018, 2019 and 2020, in respect of the Issuer, and for the years ended 4 April 2019 and 2020, in respect of the LLP, has been extracted from its audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**), as adopted by the European Commission for use in the European Union (collectively, the **IFRS Financial Statements**). The financial information incorporated by reference in the Base Prospectus for the six month period ended 30 September 2020 has been extracted from the unaudited condensed consolidated financial statements of the Issuer prepared in accordance with IAS 34 as adopted by the EU.

The IFRS Financial Statements have been audited by PricewaterhouseCoopers LLP in respect of years ended 2018 and 2019 and by Ernst & Young LLP in respect of year end 2020, independent auditors, as stated in their report appearing herein.

Certain amounts have been restated in respect of the year ended 4 April 2018 to reflect the adoption on 5 April 2018 of a new accounting standard, IFRS 9 "Financial Instruments", as further described in notes 1 and 37 to the audited consolidated financial statements as at of and for the year ended 4 April 2019, which largely impacts the Issuer's balance sheet and members' interests and equity. As a result, comparability between such information for the year ended 4 April 2017, which has not been restated to reflect the new accounting standard, and such information for the years ended 4 April 2018 and 2019, which do reflect the new accounting standard, is therefore affected.

Certain amounts have been restated in respect of the six months ended 30 September 2020. A summary of such restatements is provided in note 2 to the interim financial statements as at and for the six months ended 30 September 2020. This restatement has no impact on the Issuer's net assets or members interest and equity, or cash and cash equivalents at 30 September 2020.

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

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

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

### Alternative performance measures

This Base Prospectus includes certain financial information which has not been prepared in accordance with IFRS and which also constitutes Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. Certain APMs are discussed below under "—Underlying profit before tax" and are also identified under "—Selected ratios and other financial data" in "Selected Consolidated Financial and Operating Information" and in "Results of Operations for the Year Ended 4 April 2020 Compared with the Year Ended 4 April 2019". None of this financial information is subject to any audit or review by independent auditors.

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

### Underlying profit before tax

Certain sections of this Base Prospectus, including "Selected Consolidated Financial and Operating Information" and in "Results of Operations for the Year Ended 4 April 2020 Compared with the Year Ended 4 April 2019" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", discuss underlying profit before tax, which is not a measure of financial performance under IFRS and which is an APM. In determining underlying profit before tax, the Issuer adjusts reported profit before tax for certain items which it regards as subject to one-off volatility or as otherwise not being reflective of its ongoing business activities. These items are the costs of the Financial Services Compensation Scheme (the FSCS), bank levy charges and transformation costs (each of which is added back to reported underlying profit before tax) and losses or gains from derivatives and hedge accounting (which are respectively added to or deducted from reported underlying profit before tax). Accordingly, the purpose of disclosing underlying profit before tax is to present the Issuer's view of its underlying performance with like for like comparisons of performance across each financial year. However, underlying profit before tax is not a measure of financial performance under IFRS and should not be considered in isolation or as a substitute for operating profit, cash flow from operating activities or other financial measures of the Issuer's results of operations or liquidity computed in accordance with IFRS. Other companies, including those in the Issuer's industry, may also calculate underlying financial performance measures differently from the Issuer. As all companies do not calculate these financial measures in the same manner, the Issuer's presentation of such financial measures may not be comparable to other similarly titled measures of other companies.

The following table sets out a reconciliation of reported profit before tax to underlying profit before tax for the six months ended 30 September 2020 and the three years ended 4 April 2020, 2019, and 2018.

| Underlying and statutory results <sup>(1)</sup>              | For the six<br>months ended<br>30 September | For the year ended 4 April |              |              |
|--|---|----------------------------|--------------|--------------|
|  | 2020  | 2020                       | 2019         | 2018         |
|  |   | (£ million)                |              |              |
| Net interest income <sup>(2)</sup> .....                     | 1,448                                       | 2,810                      | 2,915        | 3,004        |
| Net other income <sup>(2)</sup> .....                        | 55  | 236                        | 255          | 128          |
| <b>Total underlying income</b> .....                         | <b>1,503</b>                                | <b>3,046</b>               | <b>3,170</b> | <b>3,132</b> |
| Underlying administrative expenses.....                      | (1,033)                                     | (2,312)                    | (2,254)      | (2,024)      |
| Impairment losses.....                                       | (139)                                       | (209)                      | (113)        | (105)        |
| Underlying provisions for liabilities.....                   | (26)  | (56)                       | (15)         | (26)         |
| <b>Underlying profit before tax</b> .....                    | <b>305</b>                                  | <b>469</b>                 | <b>788</b>   | <b>977</b>   |
| Financial Services Compensation Scheme (FSCS) <sup>(3)</sup> | -   | 4                          | 9            | 1            |

| Underlying and statutory results <sup>(1)</sup>                              | For the six<br>months ended<br>30 September | For the year ended 4 April |            |            |
|--|---|----------------------------|------------|------------|
|  | 2020  | 2020                       | 2019       | 2018       |
|  |   | (£ million)                |            |            |
| Gains/(losses) from derivatives and hedge accounting <sup>(3)(4)</sup> ..... | 56  | (7)                        | 36         | (1)        |
| <b>Statutory profit before tax</b> .....                                     | <b>361</b>                                  | <b>466</b>                 | <b>833</b> | <b>977</b> |
| Taxation .....   | (80)  | (101)                      | (197)      | (232)      |
| <b>Profit after tax</b> .....  | <b>281</b>                                  | <b>365</b>                 | <b>636</b> | <b>745</b> |

Notes:

- (1) Under IFRS 9, the recognition and measurement of expected credit losses differs from under IAS 39. As prior period amounts have not been restated, impairment losses on loans and advances in the comparable period remain in accordance with IAS 39 and are therefore not directly comparable with impairment losses recorded for the current period.
- (2) The opportunity has been taken to reclassify certain items previously included within net interest income to reflect better the nature of the transactions. As a result, gains and losses recognised on the disposal of investment securities classified as FVOCI (2018: available for sale) are now presented within net other income.
- (3) Within statutory profit:
  - FSCS costs arising from institutional failures are included within provisions for liabilities and charges.
  - Gains from derivatives and hedge accounting are presented separately within total income.
- (4) Although the Issuer only uses derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not achievable.

#### Net interest margin

Net interest margin is not a measure of financial performance under IFRS. In determining net interest margin, the Issuer divides its net interest income for each financial year (as shown in its consolidated annual financial statements) by its weighted average total assets. Weighted average total assets are calculated by taking the average of closing monthly total assets over the financial year. The Issuer believes that net interest margin is an important supplemental measure of its operating performance and believes that it may be used by securities analysts, investors and other interested parties in the evaluation of its performance in comparison with other building societies and financial institutions. However, net interest margin is not a measure of financial performance under IFRS and should not be considered in isolation or as a substitute for operating profit, cash flow from operating activities or other financial measures of the Issuer's results of operations or liquidity computed in accordance with IFRS. Other financial institutions may calculate net interest margin differently from the Issuer and its presentation of net interest margin may not be comparable to other similarly titled measures of other financial institutions.

The following table sets out the calculation of the Issuer's net interest margin for the six months ended 30 September 2020 and the three years ended 4 April 2020, 2019, and 2018.

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

#### Other APMs

The other APMs included in this document are certain ratios set out in "Selected Consolidated Financial and Operating Information" under the heading "Selected ratios and other financial data". Each ratio that constitutes an APM is identified as such in that section. These ratios have been included in this Base Prospectus because the Issuer considers them to be

important supplemental measures of its operating performance and financial position and believes that they may be used by securities analysts, investors and other interested parties in the evaluation of its performance in comparison with other building societies and financial institutions.

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

#### *Capital and leverage ratios*

This Base Prospectus includes references to capital and leverage ratios applied under the UK prudential regulation regime (the **UK Prudential Framework**) for banks and building societies, which derives in large part from the EU prudential framework set out under the Capital Requirements Directive (2013/36/EU) as amended (**CRD**) and the EU Capital Requirements Regulation (575/2013) as amended (**CRR**, and together with the CRD, **CRD IV**), which implement the Basel III reforms developed in response to the global financial crisis in the European Union. The Issuer's prudential regulator is the Prudential Regulation Authority (the **PRA**). These ratios measure the Issuer's capital adequacy and financial strength, respectively.

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

The capital ratios comprise:

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

Each of these capital ratios has been reported in this document on an end point basis under the UK Prudential Framework.

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

- the CRR leverage ratio (which measures exposures as the sum of (i) on-balance sheet exposures, adjusted for derivatives and securities financing exposures, and (ii) off-balance sheet items); and
- the UK leverage ratio (which is calculated in this document as at 4 April 2018, as at 4 April 2019, as at 4 April 2020 and as at 30 September 2020 on the basis of measurement announced by the PRA in October 2017, which is the same as that used in the CRR leverage ratio save that the exposure measure excludes eligible central bank reserves).

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

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

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a building society organised under the laws of England and Wales, and the LLP is a limited liability partnership organised under the laws of England and Wales. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and the LLP and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside England and Wales (as applicable) upon the Issuer, the LLP or such persons, or to enforce judgments against them obtained in courts outside England and Wales (as applicable) predicated upon civil liabilities of the Issuer or such directors and officers under laws other than English (as applicable), including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Allen & Overy LLP, its counsel, that there is doubt as to the enforceability in England and Wales in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

## WHERE YOU CAN FIND MORE INFORMATION

The IFRS Financial Statements are incorporated by reference in this Base Prospectus. The Issuer will not distribute these financial statements to holders of the Covered Bonds, but will make them available to these holders upon request. You should direct requests for copies of these financial statements to the Treasury, Nationwide Building Society, Nationwide House, Pipers Way, Swindon, SN38 1NW.

As of the date of this Base Prospectus, the Issuer does not file reports or other information with the US Securities and Exchange Commission. To preserve the exemption for resales and other transfers of Covered Bonds that are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, we have agreed to furnish the information required pursuant to Rule 144A(d)(4) of the Securities Act if a holder of Covered Bonds or any beneficial interest therein, or a prospective purchaser specified by a holder of Covered Bonds or beneficial owner, requests such information. The Issuer will continue to provide such information for so long as it is neither subject to the reporting requirements of Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from such reporting requirements pursuant to Rule 12g3-2(b) of the Exchange Act.

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## PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

|  |   |
|--|---|
| <b>Issuer:</b>   | Nationwide Building Society   |
| <b>Guarantor:</b>  | Nationwide Covered Bonds LLP  |
| <b>Regulated Covered Bonds:</b>  | The Issuer and the Programme and all Covered Bonds previously issued under the Programme have been registered under the RCB Regulations |
| <b>Nature of eligible property:</b>  | Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments                                   |
| <b>Location of eligible residential property underlying Loans:</b>                                 | England, Wales, Scotland or Northern Ireland  |
| <b>Maximum True Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:</b> | 75%   |
| <b>Maximum Asset Percentage:</b>   | 93%   |
| <b>Asset Coverage Test:</b>  | As set out on page 345  |
| <b>Statutory minimum overcollateralisation</b>   | The eligible property in the asset pool must be more than 108% of the Principal Amount Outstanding of the Covered Bonds                 |
| <b>Amortisation Test:</b>  | As set out on page 349  |
| <b>Extended Maturities:</b>  | Available   |
| <b>Hard Bullet Maturities:</b>   | Available   |
| <b>Asset Monitor:</b>  | Deloitte LLP  |
| <b>Asset Pool Monitor:</b>   | Deloitte LLP  |
| <b>Asset Segregation from Issuer:</b>  | Yes   |
| <b>Namenschuldverschreibungen option:</b>  | Yes   |
| <b>Single/Multi-Asset Pool designation:</b>  | Single Asset Pool, consisting of residential mortgage loans and liquid assets   |
| <b>Substitution Assets:</b>  | Asset-backed securities are not eligible property and cannot form part of the Asset Pool  |

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents have previously been published or are published simultaneously with this Base Prospectus and have been admitted to and filed with the Financial Conduct Authority (the FCA, known before 1 April 2013 as the Financial Services Authority (the FSA)) and shall be incorporated in, and form part of, this Base Prospectus:

- (a) the unaudited condensed consolidated financial statements of the Issuer as of and for the six months ended 30 September 2020 and the independent review report thereon (contained on pages 73 to 103 (inclusive) of the Issuer's interim report for the six months ended 30 September 2020);
- (b) the auditors' report and audited consolidated financial statements of the Issuer as of and for the financial years ended 4 April 2018, 4 April 2019 and 4 April 2020;
- (c) the auditors' report and audited financial statements of the LLP as of and for the financial years ended 4 April 2018, 4 April 2019 and 4 April 2020; and
- (d) the terms and conditions of the Covered Bonds contained in the previous base prospectuses relating to the Programme dated 30 November 2005, 25 June 2007, 2 June 2008, 19 June 2008, 3 July 2009, 1 July 2010, 15 July 2011, 28 June 2012, 26 July 2013, 31 July 2014, 31 July 2015, 29 July 2016, 28 July 2017, 27 July 2018, 15 July 2019 and 3 February 2020,

save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 23 of the UK Prospectus Regulation modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any such statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Documents which are referred to or incorporated by reference into the documents listed above do not form part of this Base Prospectus. Where only certain parts of documents are being incorporated by reference, any non-incorporated parts of documents referred to herein are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

The Issuer and the LLP will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed either to the Issuer, Nationwide House, Pipers Way, Swindon, SN38 1NW and marked for the attention of Treasury or (as applicable) the LLP, at its office as set out at the end of this Base Prospectus.

The Issuer and the LLP have each undertaken to the Dealers in the Programme Agreement to comply with Section 87G of the FSMA 2000. In the event that a supplementary prospectus is produced pursuant to such undertaking, a copy of such supplementary prospectus will accompany this Base Prospectus.

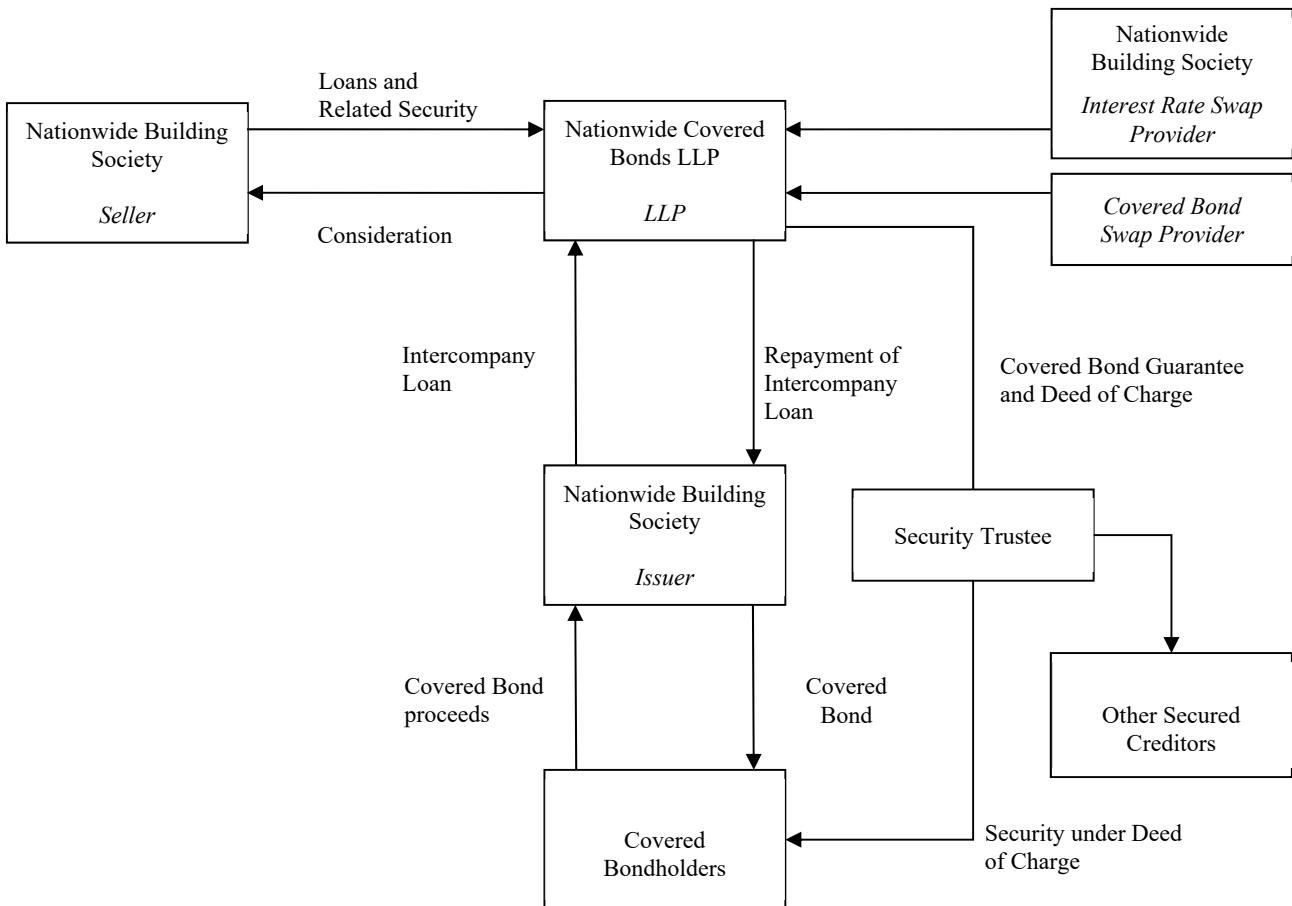
Copies of the documents incorporated by reference in this Base Prospectus will be available for viewing without charge (i) at the offices of the Issuer at Nationwide House, Pipers Way, Swindon, SN38 1NW and (ii) on the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and on the website of the Issuer at <https://www.nationwide.co.uk/about/investor-relations/funding-programmes/covered-bond>. Please note that websites and URLs referred to herein do not form part of this Base Prospectus. To the extent that any document incorporated by reference in this Base Prospectus incorporates further information by reference, such further information does not form part of this Base Prospectus.

In the event of any material mistake or material inaccuracy which is capable of affecting the assessment of any Covered Bonds, a supplement to this Base Prospectus or a new Base Prospectus will be prepared for use in connection with any subsequent issue of Covered Bonds.

## STRUCTURE OVERVIEW

*The information in this section is an overview of the structure relating to the Programme and does not purport to be complete. This overview must be read as an introduction to this Base Prospectus and any decision to invest in any Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference. No civil liability will attach to either Responsible Person in such Member State or the UK solely on the basis of this overview, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to information contained in this Base Prospectus is brought before a court in a Member State of the EEA or the UK, the claimant may, under the national legislation of the Member State where the claim is brought or the UK, be required to bear the costs of translating this Base Prospectus before the legal proceedings are initiated.*

*The information is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus. Words and expressions defined elsewhere in this Base Prospectus shall have the same meanings in this summary. A glossary of certain defined terms used in this document is contained at the end of this Base Prospectus*



## Structure Overview

- *Programme:* Under the terms of the Programme, the Issuer may issue Covered Bonds to holders of the Covered Bonds on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.
- *Intercompany Loan Agreement:* Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the Principal Amount Outstanding on the Issue Date of each Series or, as applicable, Tranche of Covered Bonds. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee.
- *Covered Bond Guarantee:* Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the service of a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. The Bond Trustee will be required to serve a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice. An LLP Acceleration Notice may be served by the Bond Trustee on the Issuer and the LLP following the occurrence of an LLP Event of Default.

If an LLP Acceleration Notice is served, the Covered Bonds will become immediately due and payable as against the Issuer and the LLP's obligations under the Covered Bond Guarantee will be accelerated. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable.

- *The proceeds of Term Advances:* The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement):
  - (i) to purchase Loans, and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
  - (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit,to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter such proceeds may be applied by the LLP:
  - (a) to purchase Loans, and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
  - (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
  - (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or
  - (d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
  - (e) to make a deposit of all or part of the proceeds in any GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) or, if applicable, the

Collateralised GIC Account. To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) will be obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.

- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Transfer Date will be a combination of (a) a cash payment paid by the LLP to the Seller and/or (b) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP) and (c) Deferred Consideration.
- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the Portfolio, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.
- *Cash flows:* Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:
  - apply Available Revenue Receipts to pay interest due on the Term Advances (the proceeds of which the Issuer may apply to pay interest due on the Covered Bonds) and to pay Deferred Consideration to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses and amounts due to the Interest Rate Swap Provider and the Covered Bond Swap Providers and required to be credited to any GIC Account or, if applicable, the Collateralised GIC Account with a corresponding credit to the Pre-Maturity Liquidity Ledger). For further details of the Pre-Acceleration Revenue Priority of Payments, see "*Cash flows*" below; and
  - apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of or provision for certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, but not limited to, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Test and acquiring New Loans and their Related Security offered by the Seller to the LLP). For further details of the Pre-Acceleration Principal Priority of Payments, see "*Cash flows*" below.

Following service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will continue to apply Available Revenue Receipts and Available Principal Receipts as described above, except that, whilst any Covered Bonds remain outstanding:

- in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, into the Reserve Fund, towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements); and
- in respect of Available Principal Receipts, no payments will be made other than into the GIC Accounts after exchange (if required) in accordance with the relevant Covered Bond Swap (see "*Cash flows*" below).

Following service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP), the LLP will use all moneys (other than Third Party Amounts and Swap Collateral)

to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Members of the LLP, including the Seller, will only be entitled to receive any remaining income of the LLP after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the Covered Bonds will become immediately due and repayable (if not already due and payable following the occurrence of an Issuer Event of Default) and the Bond Trustee will then have a claim against the LLP under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds other than additional amounts payable by the Issuer under Condition 7 (Taxation) and the security created by the LLP over the Charged Property will become enforceable. Any moneys received or recovered (excluding Swap Collateral) by the Security Trustee following enforcement of the Security created by the LLP in accordance with the Deed of Charge, realisation of such Security and/or the commencement of winding-up proceedings against the LLP will be distributed according to the Post-Enforcement Priority of Payments as to which, see "*Cash flows*" below.

*Asset Coverage:* The Programme provides that the assets of the LLP are subject to an Asset Coverage Test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Asset Coverage Test will be tested by the Cash Manager on each Calculation Date. A breach of the Asset Coverage Test on a Calculation Date which is not remedied on the immediately succeeding Calculation Date will require the Bond Trustee to serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been delivered and has not been revoked:

- (a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted;
- (b) the LLP will be required to sell Selected Loans; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

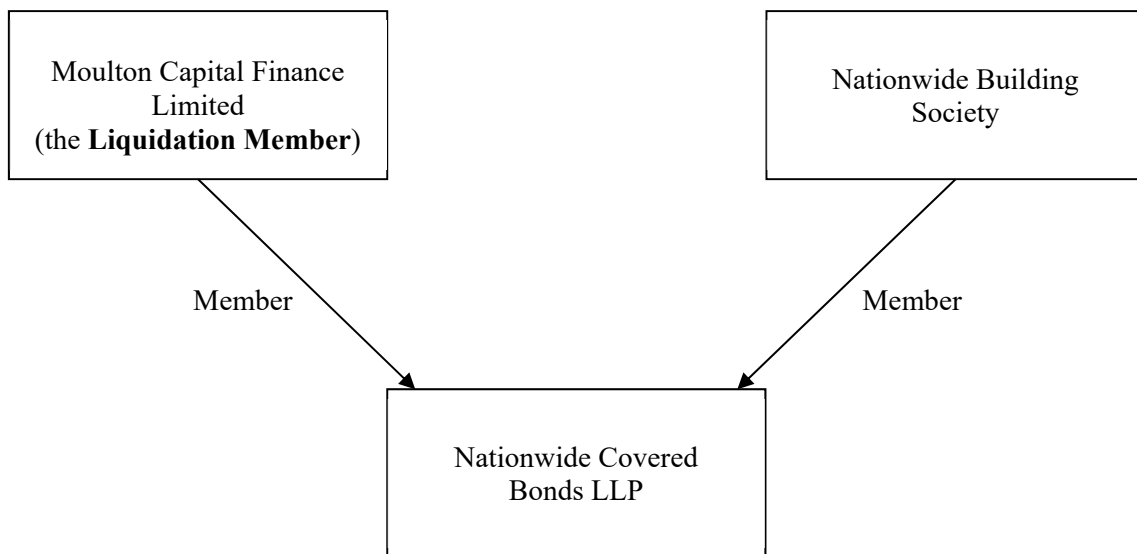
- *Amortisation Test:* In addition, following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following an Issuer Event of Default, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Amortisation Test will be tested by the Cash Manager on each Calculation Date following an Issuer Event of Default and service of a Notice to Pay on the LLP. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to

serve an LLP Acceleration Notice declaring the Covered Bonds immediately due and repayable and entitling the Security Trustee to enforce the Security over the Charged Property.

- *Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms (each such Series being Soft Bullet Covered Bonds). This means that if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following the service of a Notice to Pay on the LLP, the LLP has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds), then payment of the unpaid amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without an LLP Event of Default occurring as a result of such non-payment) and shall be due and payable one year later on the Extended Due for Payment Date (subject to any applicable grace period). However, any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Due for Payment Date. Interest will continue to accrue on any unpaid amount during such extended period and be payable on the Original Due for Payment Date and on the Extended Due for Payment Date in accordance with Condition 4 (Interest).
- *Servicing:* In its capacity as Servicer, Nationwide Building Society has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Servicer has agreed to provide certain services in respect of the Loans and their Related Security sold by Nationwide Building Society (in its capacity as Seller) to the LLP.
- *Further Information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds see, among other relevant sections of this Base Prospectus, "*Overview of the Programme*", "*Terms and Conditions of the Covered Bonds*", "*Summary of the Principal Documents*", "*Credit Structure*", "*Cash flows*" and "*The Portfolio*", below.

### Ownership Structure of Nationwide Covered Bonds LLP

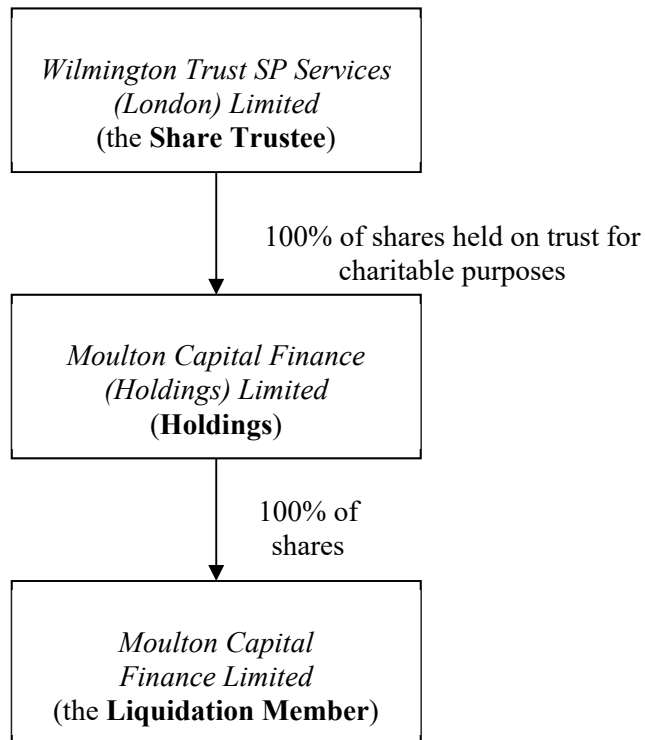
- As at the date of this Base Prospectus, the Members of the LLP are the Seller and the Liquidation Member.
- A New Member may be admitted to the LLP, subject to meeting certain conditions precedent, including, but not limited to, written confirmation from the Relevant Rating Agencies that this would not adversely affect the then current ratings of all outstanding Covered Bonds.
- Other than in respect of those decisions reserved to the Members, the LLP Management Committee (comprising, as at the date of this Base Prospectus, directors and/or employees of the Seller and the representatives of the Liquidation Member) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP.





### Ownership Structure of the Liquidation Member

- As at the date of this Base Prospectus, the entire issued share capital of the Liquidation Member is held by Holdings.
- The entire issued capital of Holdings is held by Wilmington Trust SP Services (London) Limited as share trustee on trust for charitable purposes.



## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Base Prospectus shall have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Base Prospectus.*

**Issuer:** Nationwide Building Society (the **Society**), incorporated in England and Wales under the Building Societies Act 1986 (as amended) of England and Wales (the **Building Societies Act**) (which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any statutory modification or re-enactment).

Legal Entity Identifier (**LEI**): 549300XFX12G42QIKN82

For a more detailed description of the Issuer see "*The Issuer*", below.

**The LLP:** Nationwide Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC313878). The Members of the LLP as at the date of this Base Prospectus are Nationwide Building Society (in its capacity as a Seller) and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee the Covered Bonds. The LLP will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.

The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following the service on the LLP of a Notice to Pay or an LLP Acceleration Notice. The obligations of the LLP under such guarantee and the other Transaction Documents to which it is a party are secured under the Deed of Charge by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.

For a more detailed description of the LLP, see "*The LLP*", below.

**Seller:** Nationwide Building Society, which is in the business of originating and acquiring residential mortgage loans and conducting other building society related activities.

For a more detailed description of Nationwide Building Society, see "*The Issuer*", below.

**Servicer:** Pursuant to the terms of the Servicing Agreement, Nationwide Building Society has been appointed to service, on behalf of the LLP, the Loans and Related Security sold by the Seller.

**Cash Manager:** Nationwide Building Society has also been appointed, *inter alia*, to provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the terms of the Cash Management Agreement.

|   |  |
|---|--|
| <b>Principal Paying Agent and Agent Bank:</b> | Citibank, N.A., London Branch, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, has been appointed pursuant to the Agency Agreement as issuing and Principal Paying Agent and Agent Bank.  |
| <b>Exchange Agent and Transfer Agent:</b>     | Citibank, N.A., London Branch, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, has been appointed pursuant to the Agency Agreement as Exchange Agent and Transfer Agent.  |
| <b>Bond Trustee:</b>                          | Citicorp Trustee Company Limited, whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, has been appointed to act as Bond Trustee on behalf of the holders of the Covered Bonds in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the holders of the Covered Bonds pursuant to the terms of the Trust Deed.   |
| <b>Registrar:</b>                             | Citibank, N.A., London Branch, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, has been appointed pursuant to the Agency Agreement as Registrar.  |
| <b>Security Trustee:</b>                      | Citicorp Trustee Company Limited, whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the holders of the Covered Bonds and other Secured Creditors) under the Deed of Charge.   |
| <b>Asset Monitor:</b>                         | A reputable institution acceptable to the Rating Agencies appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test and services as an asset pool monitor when required.  |
| <b>Asset Pool Monitor</b>                     | The Asset Monitor has also been appointed as the "Asset Pool Monitor" (as defined in the RCB Regulations) for the purposes of the RCB Regulations (see " <i>Description of the UK Regulated Covered Bond Regime</i> " below).  |
| <b>Covered Bond Swap Providers:</b>           | Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay) by entering into the Covered Bond Swaps with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to post collateral, obtain a guarantee of its obligations from an appropriately rated guarantor or put in place some other arrangement in order to maintain the then current ratings of the Covered Bonds. |
| <b>Interest Rate Swap Provider:</b>           | Nationwide Building Society (in its capacity as the Interest Rate Swap Provider) has agreed to act as a swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the  |

Seller to the LLP and a compounded daily SONIA rate for the relevant calculation period (in each case, as payable by the LLP under the Covered Bond Swap Agreements and/or the Intercompany Loan Agreement and the Covered Bond Guarantee, as applicable) by entering into the Interest Rate Swaps with the LLP and the Security Trustee under the Interest Rate Swap Agreement. The Interest Rate Swap Provider will be required to post collateral, obtain a guarantee of its obligations or put in place some other arrangement in the event that its ratings fall below a specified ratings level.

For a more detailed description of the Interest Rate Swap Provider, see "*The Issuer*", below.

|                                      |  |
|--------------------------------------|--|
| <b>GIC Provider:</b>                 | Nationwide Building Society has been appointed as the GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract.   |
| <b>Account Bank:</b>                 | Nationwide Building Society has been appointed as the Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.   |
| <b>Stand-by GIC Provider:</b>        | Citibank, N.A., London Branch, acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, has agreed to act as Stand-by GIC Provider to the LLP pursuant to the terms of the Stand-by Guaranteed Investment Contract.   |
| <b>Stand-by Account Bank:</b>        | Citibank, N.A., London Branch acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has agreed to act as Stand-by Account Bank to the LLP pursuant to the terms of the Stand-by Bank Account Agreement.   |
| <b>Liquidation Member:</b>           | Moulton Capital Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372384). The Liquidation Member is 100% owned by Holdings.  |
| <b>Holdings:</b>                     | Moulton Capital Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372200). All of the shares of Holdings are held on behalf of the Share Trustee on trust for general charitable purposes.   |
| <b>Share Trustee:</b>                | Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF.   |
| <b>Corporate Services Providers:</b> | Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF, has been appointed to provide certain corporate services to the Liquidation Member and Holdings, pursuant to the Corporate Services Agreement.  |
| <b>Description:</b>                  | Global Covered Bond Programme.   |
| <b>Arranger:</b>                     | Barclays Bank PLC.   |
| <b>Dealers:</b>                      | Barclays Bank PLC, Barclays Capital Inc., BNP Paribas, Citigroup Global Markets Inc., Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, HSBC Bank plc, HSBC Securities (USA) Inc., J.P. Morgan Securities plc, NatWest Markets Plc, NatWest Markets Securities Inc., RBC Capital Markets LLC, RBC Europe Limited, Société Générale, TD Securities (USA) LLC, UBS AG |

London Branch and any other Dealers appointed from time to time in accordance with the Programme Agreement.

- Certain Restrictions:** Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*").
- Programme Size:** Up to €45 billion (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
- Distribution:** Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in "*Subscription and Sale and Transfer and Selling Restrictions*" below.
- Specified Currencies:** Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms).
- Denomination of Covered Bonds:** Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, save that, except in the case of Covered Bonds which are intended to be admitted to trading on a regulated market of an EEA stock exchange or the London Stock Exchange or offered to the public in a Member State of the EEA or in the UK in circumstances which would otherwise require the publication of a prospectus under the UK Prospectus Regulation, the minimum denomination of each such Covered Bond will be at least €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, at least the equivalent amount in such currency) or such other higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.
- Redenomination:** The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro. If so, the redenomination provisions will be set out in the applicable Final Terms.
- Maturities:** Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
- Issue Price:** Covered Bonds may be issued at par or at a premium or discount to par.
- Form of Covered Bonds:** The Covered Bonds will be issued in bearer or registered form as described in "*Form of the Covered Bonds*". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and *vice versa*.

**Fixed Rate Covered Bonds:**

Fixed Rate Covered Bonds will bear interest at a fixed rate, which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

**Floating Rate Covered Bonds:**

Floating Rate Covered Bonds will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds as set out in the applicable Final Terms.

**Other provisions in relation to Floating Rate Covered Bonds:**

Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

**N Covered Bonds:**

The Issuer may issue N Covered Bonds (*Namensschuldverschreibung*) from time to time. For the avoidance of doubt, such N Covered Bonds will not be issued pursuant to this Base Prospectus. The N Covered Bonds will be governed by German law and will rank *pari passu* with all other Covered Bonds issued pursuant to the Programme from time to time.

**Zero Coupon Covered Bonds:**

Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment unless otherwise specified in the applicable Final Terms.

**Rating Agency Confirmation:**

The issuance of Covered Bonds shall be subject to confirmation by the Relevant Rating Agencies that the then current ratings for any outstanding Covered Bonds will not be adversely affected by the issuance of such types of Covered Bonds.

**Redemption:**

The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that the relevant Covered Bonds of such Tranche cannot be redeemed prior to their stated maturity (other than for taxation reasons or if it becomes unlawful for any Term Advance to remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon

giving notice to the holders of the Covered Bonds, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

**Hard Bullet Covered Bonds:**

The applicable Final Terms may also provide that certain Series of Covered Bonds may be scheduled to be redeemed in full on the Final Maturity Date therefor without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). In such a case, on each Pre-Maturity Test Date (as defined below) prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached and, if so, it shall immediately notify the Members and the Security Trustee in writing thereof. Following a breach of the Pre-Maturity Test in respect of a Series of Covered Bonds:

- (a) any Revenue Receipts and Principal Receipts standing to the credit of the GIC Account on the date of such breach shall be credited to the Pre-Maturity Liquidity Ledger up to an amount not exceeding the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached; and
- (b) either: (i) any Member (other than the Liquidation Member) may at its option (whether or not directed to do so by the Management Committee) either (a) make a Cash Capital Contribution to the LLP in accordance with the LLP Deed or (b) repurchase Loans; or (ii) the Issuer may make an Intercompany Loan to the LLP funded by the issue of Soft Bullet Covered Bonds, in each case, in an amount at least equal to the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds less any amounts then standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to repay any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds.

See "*Credit Structure – Pre-Maturity Liquidity*" below.

**Extendable obligations under the Covered Bond Guarantee:**

The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the LLP by the Extension Determination Date (for example, because the LLP has insufficient moneys to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time

and has sufficient moneys to pay in part the Final Redemption Amount, such partial payment shall be made by the LLP on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6.1 (Final redemption). Interest will continue to accrue and be payable on the unpaid amount up to the Extended Due for Payment Date in accordance with Condition 4 (Interest) and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Due for Payment Date and Extended Due for Payment Date.

**Taxation:**

All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom, subject as provided in Condition 7 (Taxation). If any such deduction or withholding is made, the Issuer will, save in the limited circumstances provided in Condition 7 (Taxation), pay such additional amounts as will result in the holder of any Covered Bond receiving such amounts as would have been receivable in respect of the Covered Bonds had no such withholding been required. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7 (Taxation).

**Cross-Default:**

If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated.

**Status of the Covered Bonds:**

The Covered Bonds issued from time to time in accordance with the Programme will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, from time to time outstanding.

**Covered Bond Guarantee:**

Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that an Issuer Event of Default occurs, an Issuer Acceleration Notice is served on the Issuer and a Notice to Pay is served on the LLP or, if earlier, an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.

**Ratings:**

Covered Bonds to be issued under the Programme have, unless otherwise specified in the applicable Final Terms, been rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch (in each case, provided that such ratings by S&P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding). The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in



relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation or by a credit rating agency established in the United Kingdom and registered under the UK CRA Regulation will be disclosed in the Final Terms. Please also refer to "*Ratings of the Covered Bonds*" in the "*Risk Factors*" section of this Base Prospectus.

**Listing and admission to trading:**

Application has been made to admit the Covered Bonds (other than N Covered Bonds) issued under the Programme to the Official List and to trading on the regulated market of the London Stock Exchange. For the avoidance of doubt, such N Covered Bonds will not be issued pursuant to this Base Prospectus.

**The Regulated Covered Bonds Regulations:**

The Issuer has been admitted to the FCA's register of issuers and the Programme and all Covered Bonds previously issued under the Programme have been admitted to the register of Regulated Covered Bonds under the RCB Regulations.

**Governing Law:**

The Covered Bonds, and any non-contractual obligations arising out of or in connection with them, will be governed by, and construed in accordance with, English law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the United States, the United Kingdom, Belgium, Japan, the Republic of Italy and Singapore. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions*".

**Risk Factors:**

There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand. A non-exhaustive overview of certain of such risks is set out under "*Risk Factors*" from page 32 of this Base Prospectus.

## RISK FACTORS

*The Issuer and the LLP believe that the following factors may affect their ability to fulfil their respective obligations under the Covered Bonds issued under the Programme and the Covered Bond Guarantee. Any investment in the Covered Bonds is subject to a number of risks. Prior to investing in the Covered Bonds, prospective investors should carefully consider the risk factors associated with any investment in the Covered Bonds, the business of the Issuer and the industry in which it operates together with all other information contained in this Base Prospectus, including, in particular, the risk factors described below, before making any investment decision. Words and expressions defined in the "Terms and Conditions of the Covered Bonds" section or elsewhere in this Base Prospectus have the same meanings in this section. The Issuer has described only those risks relating to its ability to fulfil its obligations under the Covered Bonds that it considers to be material. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, financial condition, results of operations and/or prospects of the Issuer and, if any such risk should occur, the price of the Covered Bonds may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Covered Bonds is suitable for them in light of the information in this Base Prospectus and their particular circumstances.*

### 1. RISKS RELATING TO THE ISSUER

***The Issuer's business and prospects are largely driven by the UK mortgage, savings and personal current account markets, which in turn are driven by the UK economy. Consequently, the Issuer is subject to inherent risks arising from general economic conditions in the UK.***

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

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

Adverse changes and uncertainty in UK economic conditions could lead to a decline in the credit quality of the Issuer's borrowers and counterparties and have an adverse effect on the quality of the Issuer's loan portfolio, which could result in a rise in delinquency and default rates, reduce the recoverability and value of the Issuer's assets and require an increase in the Issuer's level of provisions for bad and doubtful debts. In light of the Covid-19 pandemic, for the purposes of preparing the Issuer's financial statements for the six months ended 30 September 2020, revised economic forecasts have been used to model losses in the residential mortgage, consumer banking and commercial portfolios, which resulted in an additional Covid-19 related provision of £64 million. See further "*Risks relating to the impact of Covid-19*" below.

Likewise, a significant reduction in the demand for the Issuer's products and services could negatively impact the Issuer's business and financial condition. There remains a risk that despite the existence of certain government support schemes,

such as the Coronavirus Job Retention Scheme and the Self-Employment Support Scheme, which provided support to over 25% of the workforce in mid-2020, unemployment may rise substantially. While these schemes have been extended, they are due to be phased out from the second quarter of 2021 and so there is a risk that unemployment will increase substantially once phased out, which could lead to lower consumer spending, loss of income and weak wage growth. These pressures on households may lead to an increase in arrears in the Issuer's residential mortgage and unsecured lending portfolios, and an associated increase in retail impairment. There can be no assurance that the Issuer will not have to increase its provisions for loan losses in the future as a result of increases in non-performing loans and/or for other reasons beyond the Issuer's control. Material increases in the Issuer's provisions for loan losses and write-offs/charge-offs could have an adverse effect on the Issuer's operating results, financial condition and prospects.

The durability of the UK economic recovery, along with its concomitant impacts on the Issuer's profitability, remains a risk. The economic outlook is particularly uncertain following the outbreak of the Covid-19 pandemic and the UK decision to leave the European Union. This uncertainty extends to the interest rate outlook, where there are plausible scenarios with rates being increased, remaining unchanged or being lowered (including, potentially, to a negative interest rate) in the period ahead, depending on economic developments. However, the Issuer's central expectation is that interest rates are likely to stay on hold for several years ahead. There is also uncertainty about the UK's future trading relationships. There is potential for activity and asset prices to decline should the labour market deteriorate markedly or if strains in the financial system re-emerge and impair the flow of credit to the wider economy. Credit quality could be adversely affected by a renewed increase in unemployment, including as a result of Covid-19. In addition, there may be a weakening in tenant performance in the private rental sector which could adversely impact the buy to let (BTL) market. Any related significant reduction in the demand for the Issuer's products and services could have a material adverse effect on its operating results, financial condition or prospects.

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

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

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

Additionally, housing affordability has become more stretched in recent years in some parts of the country. There is a risk that a decline in house sales, including due to house price growth outstripping earnings, could reduce demand for new mortgages in the future. Conversely, significant falls in house prices, as a result of the direct or indirect effects of Covid-19 or otherwise, may reduce the overall amount of equity in the Issuer's mortgage portfolio. See further, *"The Issuer is exposed to future changes in UK house prices"* below.

### ***Risks relating to the impact of Covid-19.***

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

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

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

- *People risk* - The Issuer has implemented measures to ensure that its colleagues remain safe and supported at work, including transitioning the Issuer's workplace to comply with Government Covid-19 guidance and, where appropriate, enabling colleagues to work from home. The Issuer continues to monitor the impact of any restructuring and business transformation activities to ensure that impacted colleagues are appropriately supported, however, with the evolving government regulations and heightened compliance risk associated with working from home, there can be no assurance that the Issuer will be able to continue to mitigate the risks posed by Covid-19 in relation to working from home.
- *Third parties' risks* - The Covid-19 pandemic has resulted in additional constraints and risks for several of the Issuer's third-party providers. Throughout the pandemic the Issuer has worked closely with its suppliers to identify and manage these risks and ensure customer services are maintained and uninterrupted, however, there can be no assurance that the Issuer will be able to continue to mitigate the risk of interruptions to third party services posed by Covid-19.
- *Model risk* - The severity of the economic shock, combined with the introduction of government support measures and new regulatory requirements, highlights the importance of effective model controls and regular review of their use to reflect current circumstances. The Issuer continues to monitor model performance rigorously and to strengthen its model suite to ensure it supports key business and risk management activities, however the degree to which Covid-19 impacts the Issuer's business, results of operations and financial position will depend on future developments, which are uncertain and cannot be predicted.

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

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

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

The UK is likely to experience an unprecedented contraction in economic activity during 2021 as a result of the pandemic and associated government intervention to reduce the spread of the virus. The average independent forecast for the UK economy, as collated by HM Treasury in November 2020, expects GDP to contract by 10.6% in 2021. For further information, see *"The Issuer's business and prospects are largely driven by the UK mortgage, savings and personal current account markets, which in turn are driven by the UK economy. Consequently, the Issuer is subject to inherent risks arising from general economic conditions in the UK"*.

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

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

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

***The Issuer is vulnerable to disruptions and volatility in the global financial markets and is subject to additional risks arising from general economic conditions in the Eurozone and elsewhere.***

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

- consumer confidence;
- levels of unemployment;

- the state of the UK housing market and the CRE sector;
- bond and equity markets;
- counterparty risk;
- the availability and cost of credit;
- transaction volumes in wholesale and retail markets including the availability and duration of funding in wholesale markets;
- the liquidity of the global financial markets; and
- market interest rates, including interest rate rises and the associated impact on affordability,

which in turn could have a material adverse effect on the Issuer's business, operating results, financial conditions or prospects.

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

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

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Issuer, including its ability to access capital and liquidity on financial terms acceptable to it, if at all. If capital markets financing ceases to become available, or becomes significantly more expensive, the Issuer may be forced to raise the rates it pays on deposits to attract more customers and the Issuer may become unable to maintain certain liability maturities. Any such reduction in availability of funding or increase in capital markets funding costs or deposit rates could have a material adverse effect on the Issuer's interest margins, liquidity or profitability.

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

Retail depositors are a significant source of funding for the Issuer and, under current legislation, a minimum of 50.0% of the Issuer's aggregate shares and borrowings (calculated in accordance with the UK Building Societies Act) is required to be in the form of deposits which the Issuer accepts from members of the public and which are classified as "shares" in the Issuer's balance sheet as they confer member status on the depositors. The Issuer's retail deposits classified as shares totalled £161 billion as at 30 September 2020, £160 billion as at 4 April 2020, £154 billion as at 4 April 2019, and £148 billion as at 4 April 2018, equal to 69.5%, 70.8%, 70.8% and 71.0%, respectively, of the Issuer's 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 the Issuer's control, such as:

- general economic conditions and market volatility;
- the confidence of retail depositors in the economy in general and in the Issuer in particular;
- the impact of technology and 'Open Banking' as further discussed in "*—Competition in the UK personal financial services markets may adversely affect the Issuer's operations*" below;
- the financial services industry specifically; and
- the availability and extent of deposit guarantees, such as under the FSCS.

These or other factors could lead to a reduction in the Issuer's ability to access retail deposit funding on appropriate terms in the future.

The maintenance and growth of the Issuer's lending activities depends in large part on the availability of retail deposit funding on appropriate terms. Increases in the cost of such funding in the wake of the financial crisis together with the low base rate environment have had a negative impact on the Issuer's margins and profit. Such pressures could continue or be exacerbated, including in the event that the UK base rate of interest moves to a negative rate, and, in extreme circumstances, a loss of consumer confidence could result in high levels of withdrawals from the Issuer's retail deposit base, upon which the Issuer relies for lending and which could have a material adverse effect on the Issuer's business, financial position or results of operations.

Like all major financial institutions, the Issuer is also dependent on the short- and long-term wholesale funding markets for liquidity. Though the Issuer's dependence on wholesale funding is less than other financial institutions, due to the requirements of current building society legislation, the Issuer's 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 the Issuer's profitability.

Under exceptional circumstances, the Issuer's ability to fund its financial obligations could be negatively impacted if the Issuer is unable to access funding on commercially practicable terms, or at all. While the Issuer expects to have sufficient liquidity to meet its funding requirements, even in a market-wide stress scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Issuer's access to liquidity (including as a result of the withdrawal of government and central bank funding and liquidity support, or a change in the structure, term, cost, availability or accessibility of any such funding or liquidity support) could increase the Issuer's cost of funding, resulting in a material adverse effect on the Issuer's profitability or results of operations, and/or could affect the Issuer's ability to:

- meet its financial obligations as they fall due;
- meet its regulatory minimum liquidity requirements; or
- fulfil its commitments to lend.

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

The UK government (the **Government**) has in recent years provided significant support to UK financial institutions, including the Bank of England's Term Funding Scheme (TFS) which opened on 19 September 2016 and closed on 28

February 2018. In addition, in response to the Covid-19 pandemic, the Government and the Bank of England have introduced various measures designed to encourage and support the banking sector to continue lending to customers. These measures include, amongst other things, the introduction of: (i) a new Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) which opened on 15 April 2020 and will run until 30 April 2021 as support during the COVID-19 crisis (with the express intention, over a 12 month period, to offer four-year funding of at least 10% of participants' stock of real economy lending at interest rates at, or very close to, the base rate, with additional funding available for banks that increase lending, especially to small and medium-sized enterprises); and (ii) other corporate funding facilities, including the UK Covid Corporate Financing Facility (CCFF), the UK Coronavirus Business Interruption Loan Scheme (CBILS) and the UK Coronavirus Large Business Interruption Loan Scheme (CLBILS).

The continuation and extension of Government schemes designed to support lending may increase or perpetuate competition in the retail lending market, resulting in sustained or intensifying downward pricing pressures and consequent reductions in net interest margins. The Issuer also expects to face continued competition in the retail lending market driven by certain ring-fenced banks as they deploy surplus liquidity in lending markets.

The Issuer expects to face continuing competition for funding, particularly retail funding on which the Issuer is 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 the Issuer's funding costs and adversely affecting the Issuer's financial position.

***Changes to interest rates or monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer.***

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 the Issuer's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect the Issuer's results of operations, financial condition and return on capital.

Stimulus measures in the UK and elsewhere have been highly accommodative in recent years, including the Funding for Lending Scheme (FLS) (which closed in January 2018), the TFS (which closed in February 2018) and the Help to Buy scheme, a Government scheme introduced in 2013 designed to enable buyers to put down a 5% deposit on a home with the Government guaranteeing up to 20% of the mortgage (40% in London) funded by a commercial lender (which is expected to be closed from March 2023). More recently, in response to the Covid-19 pandemic, the Government and the Bank of England have introduced additional stimulus measures, including a reduction in the Bank of England base rate of interest to 0.1%. See "*Risks that reduce the availability or increase the cost of the Issuer's sources of funding, such as retail deposits and wholesale money markets, may have an adverse effect on the Issuer's business and profitability*". The relatively long period of stimulus in the UK and elsewhere has increased uncertainty over the impact of its reduction, which could lead to generally weaker than expected growth, or even contracting gross domestic product, reduced business confidence, higher levels of unemployment or underemployment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices in the markets in which the Issuer operates, and consequently to an increase in delinquency rates and default rates among the Issuer's customers. Moreover, higher prevailing interest rates would affect the Issuer's cost of funding with depositors and creditors, which could adversely affect the Issuer's profitability, to the extent the Issuer's margins decline.

The personal financial services sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. As a result of, among other factors, increases and decreases in the Bank of England base rate, interest rates payable on a significant portion of the Issuer's outstanding mortgage loan products fluctuate over time. Rising interest rates would put pressure on borrowers whose loans are linked to the Bank of England base rate because such borrowers may experience financial stress in repaying at increased rates in the future. A significant portion of the Issuer's outstanding mortgage loan products are potentially subject to changes in interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest



rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Since 2009, both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers taking out new loans and those repaying existing variable rate loans, regardless of special or introductory rates. While the Covid-19 pandemic is likely to cause interest rates to remain at historically low levels in the near term (and there is increasing speculation about the possibility for the UK base rate to move to a negative rate), over time general interest rates may return to historically more normal levels. Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

Further, in an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Increased unemployment could lead to borrowers who are made redundant being unable to service the loan payments in a timely fashion which would result in higher levels of arrears, both in the Issuer's secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in the Issuer's impairment charges in respect of these portfolios. Declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

Conversely, there are risks associated with a continuation of the sustained low interest rate environment or further reductions in interest rates in the UK or other major developed economies, including if the Bank of England were to lower its target rate to a negative rate (as other major central banks, including the European Central Bank and the Bank of Japan, have done). A prolonged period of low interest rates could further reduce incentives for the Issuer's customers to save, reducing the Issuer's funding from deposits. Additionally, the low interest rate environment has and may continue to put pressure on net interest income and margins throughout the UK financial industry. The Issuer's business, financial performance, net interest income and margin may continue to be adversely affected by the low interest rate environment.

***The Issuer is exposed to future changes in UK house prices.***

The value of the Issuer's mortgage portfolio is influenced by UK house prices, and a significant portion of the Issuer's revenue is derived from interest and fees paid on the Issuer's mortgage portfolio. As at 30 September 2020, £151.3 billion, or 75%, of the Issuer's loans and advances to customers were UK prime residential mortgages. A decline in house prices in the UK could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce the Issuer's capital and its 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 the Issuer's 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 the Issuer's ability to grow the residential mortgage portfolio. The Covid-19 pandemic and the UK's exit from the EU are both sources of considerable uncertainty about the near-term prospects for UK house prices and significant downwards pressure cannot be discounted.

In addition, the Issuer also has a significant portfolio of specialist mortgages, which amounted to £39.3 billion, or 19%, of the Issuer's total loans and advances to customers as at 30 September 2020. BTL mortgages constitute the vast majority of the Issuer's specialist mortgages portfolio. The BTL market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from BTL properties. In addition, the Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, which may result in lower gross yields, and even negative cash flow, on BTL property investments. This restriction has been introduced gradually, and has been fully in place since 6 April 2020. So far, the measures have had no noticeable impact on BTL market arrears. The Bank of England has also stated that it is considering increasing the regulatory capital requirements of banks holding BTL mortgages on their balance sheets, although no specific proposals have been made.

From 1 April 2016, a higher rate of stamp duty land tax (the **SDLT**) and, from 1 April 2018, Welsh Land Transactions Tax (**WLTT**) has been applied to the purchase of additional properties (such as BTL properties). The current additional rate is 3% above the current SDLT and WLTT rates. The Scottish government has implemented a similar additional dwelling supplement tax with effect from 1 April 2016 in respect of land and buildings transaction tax (**LBTT**) broadly speaking, the equivalent in Scotland to SDLT). The current additional rate in Scotland is 4 per cent. above the current LBTT rates. These factors, and any future changes resulting in a higher SDLT or WLTT rate, could make the purchase of BTL properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages, which may also affect the resale value of relevant or similar properties.

The Government's intervention into the housing market through buyer assistance schemes, stamp duty holidays (such as the holiday announced in June 2020 to increase the threshold to £500,000), enforced or recommended payment holidays or other concessions or allowances on mortgage payments, or indirectly through measures that provide liquidity to the banking sector (as was the case with FLS and TFS), may also contribute to volatility in house prices. This could occur; for example, as a result of the sudden end to buyer assistance schemes, which could lead to a decrease in house prices, or due to their continuation, which would maintain excess funding liquidity in the mortgage market which has supported a low mortgage interest rate environment, and which could lead to inflation in house prices.

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

Given the relatively point-in-time approach used by the Issuer for modelling residential mortgage RWAs by comparison with other large UK banking institutions, a reduction in UK house prices, or other deterioration in economic conditions, may have a material impact on the Issuer's CET1 ratio. The degree to which the Issuer's CET1 ratio is impacted by such events is likely to change following introduction of more through-the-cycle modelling approaches, which the PRA requires to be in place by the end of January 2022. The results of the concurrent stress testing undertaken by the Bank of England, available on the Bank of England's website, illustrate the impact that certain economic scenarios are projected to have on the Issuer's capital position.

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

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

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

The continuing effects of the UK's departure from the EU are difficult to predict and there remains both short term and long term political and economic uncertainty around the departure that may have negative impact on the UK economy, affecting its growth. Accordingly, no assurance can be given that the UK's withdrawal from the EU will not adversely affect the Issuer's business, financial condition and results of operations and/or the market value and/or the liquidity of the Covered Bonds in the secondary market.

***Rating downgrade and/or market sentiment with respect to the Issuer, the financial services sector and the UK may have an adverse effect on the Issuer's performance and/or the marketability and liquidity of the Covered Bonds.***

*The Issuer and the financial sector*

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

The Issuer's senior preferred ratings are currently "A (stable)" from S&P, "A1 (stable)" from Moody's and "A+ (negative)" from Fitch (December 2019: "A (positive)", "Aa3 (negative)" and "A+ (stable)", respectively) and the Issuer's short-term ratings are currently "A-1" from S&P, "P-1" from Moody's and "F-1" from Fitch (February 2019: "A-1", "P-1" and "F1", respectively). The long-term ratings assigned by each of Moody's and S&P are senior preferred ratings, whereas the long-term rating assigned by Fitch is a senior non-preferred rating. For further information see the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations External Credit Ratings*".

Any declines in those aspects of the Issuer's business identified by the rating agencies as significant could adversely affect the rating agencies' perception of the Issuer's credit and cause them to take negative ratings actions. Any downgrade in the Issuer's credit ratings could:

- adversely affect its liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts;
- undermine confidence in its business;
- increase its borrowing costs;
- limit its access to the capital markets; or
- limit the range of counterparties willing to enter into transactions with the Issuer.

The Issuer's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure to successfully implement the Issuer's strategies. A downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on the Issuer's business, results of operations or financial condition.

If the ratings analysis of any agency that rates the Issuer's credit is updated to reflect lower forward-looking assumptions of systemic support in the current environment or higher assumptions of the risks in the financial sector, it could result in a downgrade to the outlook or to the credit ratings of UK financial institutions, including the Issuer, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including the Issuer. Any downgrade in the Issuer's ratings could also create new obligations or requirements for the Issuer under existing contracts with the Issuer's counterparties that may have a material adverse effect on the Issuer's business, financial condition, liquidity or results of operations. For example, as at 30 September 2020 the Issuer would have needed to provide additional collateral amounting to £1.3 billion in the event of a one notch downgrade by external credit rating agencies or £3.7 billion in the event of a two notch downgrade (subject to management actions that could be taken to reduce the impact of the downgrades).

### *Market sentiment and ratings downgrades in respect of the UK*

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

As at the date of this Base Prospectus, the UK's long-term ratings are "AA (negative)" from S&P, "Aa2 (negative)" from Moody's and "AA (Rating Watch Negative)" from Fitch. Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact the Issuer's rating, borrowing costs and ability to fund itself and have a material adverse effect on the Issuer's operating results or financial condition. In addition, a UK sovereign downgrade or the perception that such a downgrade may occur would be likely to depress consumer confidence, restrict the availability, and increase the cost, of funding for individuals and companies, depress economic activity, increase unemployment and/or reduce asset prices. These risks are exacerbated by concerns over general market turmoil, slowing global growth, and trade tensions. Instability within global financial markets might lead to instability in the UK, which could have a materially adverse impact on the Issuer's performance.

### ***Competition in the UK personal financial services markets may adversely affect the Issuer's operations***

The Issuer is currently the fifth largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 9.3% (as calculated by the Issuer based on Bank of England data) and 12.0% (according to Bank of England data), respectively, as at 30 September 2020.

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

Each of the main personal financial services markets in which the Issuer operates is mature and relatively slow growing, which intensifies pressure for firms to take market share from competitors if they are to expand. See "*Competition*" below.

As a consequence, there is a risk that this will create downward pressure on prices, negatively impacting the Issuer's ability to deliver its strategic income targets and its financial performance. Competition may also intensify in response to consumer demand, further technological changes and the impact of consolidation among the Issuer's competitors.

As a member-owned business, the Issuer is able to provide a financial benefit to its members through the offer of competitive savings and mortgage products. The Issuer's member financial benefit is delivered in the form of differentiated pricing and incentives, which the Issuer quantifies as the sum of its interest rate differential, member reduced fees and incentives. In the six months ended 30 September 2020, the Issuer estimated that benefit at £140 million. In the years ended 4 April 2020, 2019, and 2018, the Issuer estimated that benefit at £715 million, £705 million, and £560 million, respectively. If the Issuer is unable to match the efficiency of its competitors in relation to both price and service, the Issuer risks losing competitive advantages and being unable to attain its strategic growth aspirations.

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

Regulatory action might also increase competitive pressures. For example, the Competition and Markets Authority (the CMA) and the FCA have undertaken a market investigation and consultations into competition and conduct in the markets in which the Issuer operates – see "*Supervision and Regulation—UK Regulation*". There can be no assurance that the Issuer's customer base, levels of deposits, revenue or market share will not be adversely affected by the remedial measures and other regulatory actions arising out of such investigation and consultations.

These measures, together with other changes arising from the implementation of the second payment services directive (EU Directive (2015/2366) (PSD2)) in January 2018, are commonly referred to as "open banking". While open banking

presents opportunities for the Issuer, there are also significant risks, including if technology is adopted more quickly than anticipated or new propositions offered by competitors attract business away from the Issuer or alter customer expectations. Further, the implementation of open banking could result in the emergence of new disruptors and competitors, potentially with substantially different business models, that could materially alter the banking environment. Such changes could affect the Issuer's ability to attract and retain customers, which in turn could potentially adversely affect liquidity and increase the Issuer's funding costs over time. While the Issuer is investing in developing open banking solutions to support members' needs and to mitigate this risk, there can be no assurance that its efforts will be successful or that the Issuer will be able to compete effectively with existing competitors and/or new entrants to attract and retain customers. In December 2019, the FCA launched a consultation to explore the opportunities and risks associated with open banking; the call for input closed on 1 October 2020. The FCA stated in the call for input that it would use responses to inform its discussions with the government and share them with Treasury. The FCA announced that it would publish a feedback statement following the consultation in 2020, which it did not do, it is unclear when a feedback statement will be published. In July 2020, HM Treasury launched a call for evidence as part of the payment landscape review, which closed on 20 October 2020. HM Treasury continues to review the feedback and is expected to publish a summary.

Furthermore, increased use of technology may increase the Issuer's exposure to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs. For example, under PSD2, the Issuer is required to provide third-party providers (TPPs) access to customer accounts provided the customer has provided its consent. See "*If the Issuer does not control its operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services, it may be unable to manage its business successfully*".

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

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

***The Issuer's guidelines and policies for risk management may prove inadequate for the risks faced by its business and any failure to properly manage the risks which it faces could cause harm to it and its business prospects.***

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

- liquidity and funding risk, see "*—Risks that reduce the availability or increase the cost of the Issuer's sources of funding, such as retail deposits and wholesale money markets, may have an adverse effect on its business and profitability*" above;
- credit risk, which is the risk that a borrower or a counterparty fails to pay interest or to repay the principal on a loan or other financial instrument;
- market risks, in particular interest rate risk as well as foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the Issuer's interest rate margin realised between

lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency. The performance of financial markets may also cause changes in the value of the Issuer's investment and liquidity portfolios. See also, "*—Changes to interest rates or monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer*" above and "*—Market risks may adversely impact the Issuer's business*" below; and

- operational risk, see "*—If the Issuer does not control its operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services, it may be unable to manage its business successfully*" below.

The Issuer has a range of tools designed to measure and manage the various risks which it faces. Some of these methods, such as value-at-risk analyses, are based on historic market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical data may also not adequately allow prediction of circumstances arising due to Government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the Issuer. Such information may not always be correct, updated or correctly evaluated. In addition, even though the Issuer constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations. Unanticipated economic changes or Government interventions could expose the Issuer to increased liquidity and funding risk, credit risk, market risks or operational risk, which could have a material adverse effect on the Issuer's business prospects or results of operations.

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

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

Increased digital interconnectivity across the Issuer's customers and suppliers, and the need for resilient IT systems, including hardware, software, cloud computing services and cyber security, remains an evolving risk to financial institutions including the Issuer. The Issuer considers that, within the operation and conduct risks profile, IT resilience and cyber security present the main risks, and the Issuer is focused on striving to protect service availability and customer data. The Issuer's implementation of new systems, infrastructures and processes, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations are rising, with a significantly lower tolerance of service disruption. Ensuring a highly reliable and widely available service requires resilient IT, business systems and processes. Furthermore, the sharing of customer data, and the enabling of direct

payments by third party providers from a customer's account as a result of Open Banking, may give rise to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs and risks associated with the Issuer becoming liable for, or otherwise being required to protect customers against, the costs and/or liabilities of other third party providers and/or losses caused by the actions of such other third party providers. Any loss in the integrity and resilience of key systems and processes, data thefts, cyber-attacks, denial of service attacks or breaches of data protection requirements could significantly disrupt the Issuer's operations and cause significant financial loss and reputational damage to the Issuer. This could in turn result in a loss of confidence in the Issuer, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

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

Over recent years there has been a dramatic increase in the demand for digital products and services due to the convenience that they can bring. This has seen an influx of innovative new offerings in the market place and the number of challenger banks and Fintech disruptors has increased. Collectively the changes may pose a challenge to the Issuer's core markets and product pricing, particularly if the Issuer is unable to introduce competitive products and services sufficient to match its traditional and challenger competitors.

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

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

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

The Issuer seeks to maintain a secure and dependable business for its members through, among other things, generating a level of profit sufficient to meet regulatory capital and future business investment requirements and focusing on how the Issuer spends members' money through driving a culture of efficiency.

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

The Issuer has cut its costs by £92 million to £1,033 million (30 September 2019: £1,125 million) as it continues to make the Issuer more efficient in serving its members. The reduction is primarily the result of the Issuer's planned lower spend relating to strategic investment, with business as usual costs also reducing. However, restructuring costs have increased in line with actions taken to reduce the Issuer's future cost base. This has been achieved through a range of initiatives that are focused on the development of digital capabilities, organisational design, third party savings, process improvements, simplification and elimination. However, there can be no assurance that such targeted cost savings will be achieved. Any failure by the Issuer to make sufficient profits to maintain its financial strength and invest for the future and/or to achieve its targeted efficiencies could adversely impact the Issuer's capital ratios and the results of operations.

***Market risks may adversely impact the Issuer's business.***

Market risk is the risk that the net value of, or net income arising from, the Issuer's assets and liabilities is impacted as a result of changes in market prices or rates, including interest rates or foreign exchange rates. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency.

The performance of financial markets may cause changes in the value of the Issuer's investment and liquidity portfolios. Although the Issuer has implemented risk management methods designed to mitigate and control market risks to which it is exposed and its exposures are constantly measured and monitored, there can be no assurance that these risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations. Unanticipated market risks could have a material adverse effect on the Issuer's financial performance or results of operations.

***Concentration risks may adversely impact the Issuer's business.***

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

***Reputational risk could cause harm to the Issuer and its business prospects.***

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

- failing to appropriately address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices, see "*The Issuer is exposed to risks relating to the mis-selling of financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice*" below);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and recordkeeping;



- technology failures that impact upon customer service and accounts or the failure of intermediaries or third parties on whom the Issuer relies;
- limiting hours of or closing branches due to changing customer behaviour;
- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and
- generally poor business performance.

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

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

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

There is currently significant regulatory scrutiny of the sales practices and reward structures that financial institutions have used when selling financial products. No assurance can be given that the Issuer will not incur liability for past, current or future actions, including failure to comply with applicable regulatory requirements, which are determined to have been inappropriate and any such liability incurred could be significant and materially adversely affect its results of operations and financial position. In particular:

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

In addition, the Issuer faces both financial and reputational risk where legal or regulatory proceedings, or complaints before the FOS, or other complaints are brought against the Issuer or members of its industry generally in the UK High Court or elsewhere. For example, in August 2010, the Financial Services Authority (the FSA) published a Policy Statement (the PS10/12) on "The Assessment and Redress of Payment Protection Insurance Complaints" (the Statement). The Statement applies to all types of Payment Protection Insurance (the PPI) policies and followed Consultation Paper (CP10/06). Following publication of the Statement, the British Bankers Association (the BBA) and others requested a judicial review of the FSA's proposed approach to the assessment and redress of complaints in respect of sales of PPI. On 20 April 2011, the High Court ruled in favour of the FSA. The BBA chose not to appeal this ruling and the obligation for firms to comply with PS10/12 resulted in very significant provisions for customer redress made by several UK financial services providers.

The Issuer holds 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 Issuer's customer redress charge was £26 million for the six months ended 30 September 2020 (six months ended 30 September 2019: £52 million charge) primarily due to changes relating to PPI. The remainder

of the charge relates to remediation costs for other redress issues, including issues relating to the administration of customer accounts.

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

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

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

The Issuer routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, insurance companies and other institutional clients, resulting in large daily settlement amounts and significant credit exposure. As a result, the Issuer faces concentration risk with respect to specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on the Issuer's ability to raise new funding, financial condition, results of operations, liquidity or business prospects.

***The Issuer is exposed to risks related to the LIBOR transition.***

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

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

The Issuer has established a Libor Transition Working Group, which reports to the Issuer's Assets and Liabilities Committee (**ALCO**), to manage the full range of transition-related issues, including the conversion of existing contracts and the impact on valuations and systems.

At this time, it is not possible to predict the overall effect (including financial impacts) of any such reforms and changes, any establishment of alternative reference rates or any other reforms to these reference rates that may be enacted, including

the potential or actual discontinuance of LIBOR publication, any transition away from LIBOR or ongoing reliance on LIBOR for some legacy products.

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

### ***Risks related to climate change.***

The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose a significant threat to the Issuer's business without a co-ordinated and timely response.

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

### ***Changes in the Issuer's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations.***

From time to time, the International Accounting Standards Board (the **IASB**) proposes changes to the IFRS. These standards govern the preparation of the Issuer's financial statements. These changes could materially impact how the Issuer records and reports its financial condition and results of operations. In some cases, the Issuer could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, IFRS 9: "Financial Instruments" is the new standard that replaced IAS 39: "Financial Instruments: Recognition and Measurement". It changed the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 was required to be implemented in the Issuer's financial statements for the year ending 4 April 2019. On 5 April 2018 the Issuer implemented IFRS 9: "Financial Instruments". The total impact on members' interests and equity, net of deferred tax, was a reduction of £162 million.

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

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

Similarly, IFRS 16: "Leases" is the new standard that replaced IAS 17: "Leases" and related interpretations. IFRS 16 has changed the classification of leases as either operating leases or finance leases. Instead, lessees capitalise leases through

the recognition of assets representing the contractual rights of use and the present value of contractual payments are recognised as a lease liability. The Issuer has adopted the requirements of IFRS 16 from 5 April 2019. The adoption of IFRS 9 and IFRS 16 have created new and more demanding requirements for financial reporting and disclosures, which require further development of the Issuer's internal controls.

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

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

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

***The Issuer's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Issuer to make estimates about matters that are uncertain.***

Accounting policies and methods are fundamental to how the Issuer records and reports its financial condition and results of operations. The Issuer must exercise judgement in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

The Issuer has identified certain accounting policies in the notes to the audited consolidated financial statements for the year ended 4 April 2020 incorporated by reference in this Prospectus in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. These judgements relate to the assumptions used in the determination of impairment provisions on customer loans and advances (see note 10 to the audited consolidated financial statements as at and for the year ended 4 April 2020), the estimates underlying its determination of provisions for customer redress (see note 27 to the audited consolidated financial statements as at and for the year ended 4 April 2020) and the assumptions underlying its calculations of retirement benefit obligations (see note 30 to the audited consolidated financial statements as at and for the year ended 4 April 2020).

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Issuer has established detailed policies and control procedures that are intended to ensure that these judgements (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 the Issuer's judgements and the estimates pertaining to these matters, the Issuer cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

Furthermore, in light of the Covid-19 pandemic, there is increased risk of material misstatement of ECL under IFRS 9 due to the degree of judgement and inherent uncertainty in the assumptions underlying the Covid-19 related addition to the modelled provision, as further described under "*Risks relating to the impact of Covid-19*" above. See also "*Changes*

*in the Issuer's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations" above.*

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

The Issuer has 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 the Issuer's capital position and may result in increased cash funding obligations to the pension schemes.

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

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

Any change in the contributions which the Issuer is required to pay in respect of its defined benefit pension schemes, including as a result of a future Triennial Valuation of the Fund, could have a negative impact on the Issuer's results of operations. In addition, any IAS19 accounting deficit in the Issuer's defined benefit pension scheme would be reflected in its CET1 capital. Accordingly, an increase in deficit can result in a reduction in the Issuer's capital ratios.

***The Issuer is exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes.***

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

***The Senior Managers and Certification Regime may have a material adverse effect on the Issuer's business.***

The Senior Managers and Certification Regime (the **SM&CR**) came into force for UK banks, building societies, credit unions, PRA-designated investment firms and branches of foreign banks operating in the UK on 7 March 2016, and is intended to govern the individual accountability and conduct of senior persons within such entities. Among other things, the SM&CR introduced: (i) requirements on financial institutions to allocate and map senior management responsibilities and reporting lines across all areas of the organisation's activities; (ii) a new senior persons regime governing the conduct of bank staff approved by the PRA or the FCA to perform senior management functions (including certain non-executive directors); (iii) new rules requiring financial institutions to certify the ongoing suitability of a wide range of staff performing certain functions; (iv) the extension (from March 2017) by the FCA of conduct rules (generally enforceable by PRA and/or FCA disciplinary action, including financial penalties and public censure) previously only applicable to Senior Managers and certified staff to all in-scope staff other than those undertaking purely ancillary functions; and (v) a

criminal offense for reckless misconduct by senior bank staff. Rules regarding regulatory references for persons who are to be appointed as Senior Managers or to perform a certification function within the SM&CR also came into force from 7 March 2017.

The PRA and FCA continue to publish guidance and consult on future changes to the SM&CR. On 19 November 2019, the FCA published its supervisory expectations in relation to SM&CR for firms which are transitioning away from LIBOR and other Benchmarks. Complying with new regulations imposes costs on the Issuer's business, including legal costs to implement new policies and procedures, as well as the time and attention of senior management. In addition, any violation of the SM&CR could result in disciplinary action against the Issuer or its employees, financial penalties as well as reputational damage, any of which could have a material adverse effect on the Issuer's business, financial position or results of operations. As a result of Covid-19, changes may need to be implemented to the Issuer's business, for example to take account of modifications which may be required to the responsibilities of senior managers (for example, on 3 April 2020 the regulators published "Joint FCA and PRA statement Senior Managers and Certification Regime (SM&CR) and coronavirus (Covid-19): our expectations of dual-regulated firms". This statement was updated on 6 April 2020 and sets out the PRA and FCA's expectations in relation to compliance with certain obligations under SM&CR. All of these developments could result in additional costs on the Issuer's business and require additional time and the attention of senior management.

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

*Very recent or future legislative and regulatory changes could impose operational restrictions on the Issuer, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects.*

The Issuer conducts its business subject to ongoing regulation by the PRA and the FCA, which oversee the Issuer's 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 the Issuer 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, and significant resource has been required to assess and implement necessary changes. If the Issuer fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

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

A range of legislative and regulatory changes (including those referred to in "*Supervision and Regulation*" below) have been made or proposed which could impose operational restrictions on the Issuer, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects.

As at the date of this Prospectus it is difficult to predict the effect that these changes and proposals will have on the Issuer's operations, business and prospects. Up to the end of 2020, the UK regulatory regime was closely aligned with the EU regime. Following the UK's departure from the EU and the end of the Brexit transition period at the end of 2020, the extent to which the UK may elect to implement or mirror future changes in the EU regulatory regime, or to diverge from the current EU-influenced regime over time, remains to be seen. To the extent that the UK and EU trading relationship is premised on or influenced by the level of equivalence or convergence, or where initiatives are jointly designed on the basis of co-operation and shared outcomes, the EU regulatory regime may continue to have a significant effect on the regime which the UK Government and regulators elect to implement. Depending on the specific nature of the requirements and how they are enforced, the changes could have a significant impact on the Issuer's operations, structure, costs and/or capital requirements. Accordingly, the Issuer cannot assure investors that the implementation of any of the foregoing matters will not have a material adverse effect on its operations, business, results, financial condition or prospects.

Furthermore, the Issuer 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 the Issuer's operations, business, results, financial condition or prospects. While the scope and nature of any such changes are unpredictable, any interventions or regulations designed to increase the protections for UK retail and other customers of banks and building societies, for example through stricter regulation on repossessions and forbearance by mortgage lenders, could materially adversely affect the Issuer's business or operations.

The Issuer is also subject to a number of proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). While the Issuer is 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, the Issuer could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on the Issuer's operations, financial condition or prospects.

The Issuer is also investing significantly to ensure that it will be able to comply with developing regulatory requirements and emerging consumer trends and preferences for digital services. If the Issuer is unsuccessful in efficiently adopting the requisite new compliance practices, this will adversely impact its ability to operate in the financial services markets and to deliver an appropriate level of operational and financial performance.

*The Issuer is subject to wide-ranging regulatory action in the event that its failure is considered likely and poses a threat to the public interest.*

In the UK, the Banking Act 2009 as amended (the **Banking Act**) provides for a package of minimum early intervention and resolution-related tools and powers which the UK resolution authorities may apply in respect of in-scope UK financial institutions, including the Issuer and its group, and provides for special rules for cross-border groups. These tools and powers broadly align with those applicable to relevant financial institutions in the EEA under Directive (EU) 2014/59 (**BRRD**), although HM Treasury and the Bank of England have already elected to diverge from certain changes to BRRD which were recently implemented in the EU or are required to be implemented in the EU in the near future. Under the Banking Act, substantial powers have been granted to HM Treasury, the Bank of England (including the PRA) and the FCA (together, the **Authorities**) as part of a Special Resolution Regime (the **SRR**). These powers enable the Authorities, among other things, to resolve a bank or building society by means of several resolution tools (the **Stabilisation Options**) in circumstances in which the Authorities consider its failure has become likely and a resolution is considered to be in the public interest. In respect of UK building societies, the relevant tools include:

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

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

The Banking Act also provides that the UK as a last resort, after having assessed and used the resolution tools set out above to the maximum extent practicable while maintaining financial stability, and where certain other mandatory conditions of the Banking Act have been satisfied, may provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such

extraordinary financial support must be provided in accordance with the state aid framework, and there can be no assurance that investors in any Covered Bonds would benefit from such support even if it were provided.

Secondary legislation which defines the scope for application of the Stabilisation Options under the SRR to certain “banking group companies” came into force on 1 August 2014. The definition of “banking group company” encompasses certain of the Issuer’s subsidiaries and affiliates. The amendments to the Banking Act allow the Stabilisation Options under the SRR and the bail-in stabilisation power to be applied to any of the Issuer’s group companies that meet the definition of a “banking group company.”

The Banking Act contains a separate power, often referred to as the “write-down and conversion tool”, enabling the Authorities – independently of, or in conjunction with, the use of resolution powers – to cancel or transfer CET1 instruments away from the original owners, or write down (including to nil) an institution’s AT1 and Tier 2 capital instruments, or to convert them into CET1 instruments, if the Authorities consider that the institution or the group is at the “point of non-viability” and certain other conditions are met. The write-down and conversion tool must be applied before any of the Stabilisation Options provided for in the SRR may be used in practice and may be used whether or not the institution subsequently enters into resolution. Additionally, in respect of building societies, the resolution authority may write-down or convert instruments issued by the building society itself or a successor entity formed through exercise of Stabilisation Options. For more information see: *“The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Covered Bonds could materially adversely affect the value of any Covered Bonds and/or the rights of Covered Bondholders”*.

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

- the PRA is satisfied that a relevant entity is failing or is likely to fail;
- having regard to timing and other relevant circumstances, the Bank of England determines that it is not reasonably likely that (ignoring the Stabilisation Options) action will be taken that will result in the relevant entity no longer failing or being likely to fail;
- the Bank of England considers the exercise of the Stabilisation Options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors); and
- the Bank of England considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity.

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

The European Banking Authority (the **EBA**) has published guidelines on the circumstances in which an institution shall be deemed by supervisors and resolution authorities as “failing or likely to fail” within the meaning of BRRD. While the EBA guidelines are not binding on the Authorities when considering their powers under the Banking Act, the Authorities may continue to have regard to them as part of their deliberations. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

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



***The Issuer is subject to regulatory capital and liquidity requirements which may change.***

The Issuer is subject to extensive and evolving regulatory capital and liquidity requirements, as further described in “*Supervision and Regulation*”.

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

In addition, a failure adequately to manage capital, liquidity and MREL requirements could have a material adverse effect on the Issuer. While the Issuer monitors current and expected future capital, liquidity and MREL requirements, including having regard to both leverage and RWA-based requirements, and seek to manage and plan the Issuer’s prudential position accordingly and on the basis of current assumptions regarding future capital and liquidity requirements, there can be no assurance that the Issuer’s assumptions will be accurate in all respects or that it will not be required to take additional measures to strengthen its capital or liquidity position.

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

Furthermore, if the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory capital, leverage or, liquidity requirements, or its minimum requirement for own funds and eligible liabilities (**MREL**) including in connection with any stress tests performed by the Bank of England or any other relevant authority, this may result in administrative actions or regulatory sanctions. In addition, any actual or perceived weakness relative to the Issuer’s competitors could result in a loss of confidence, which could result in high levels of withdrawals from the Issuer’s retail deposit base, upon which it relies on for lending and which could have a material adverse effect on the Issuer’s business, financial position or results of operations.

***Impact of Covid-19***

The future impact of Covid-19 on the Issuer’s capital ratios is not yet clear, although it is likely to lead to some RWA inflation and therefore a lower CET1 ratio in the short to medium term. While, based on the Issuer’s current estimates and projections, it currently expect to maintain, over the short to medium term horizon, a surplus above combined buffer requirements that it is expected to meet by the PRA and the threshold at which a maximum distributable amount (**MDA**)

would be imposed, there is significant uncertainty as to the duration and degree of impact of Covid-19. If this is significantly worse than the Issuer's base-case estimates, further erosion in the CET1 ratio cannot be discounted.

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

***The Issuer is required to pay levies under the FSCS and is exposed to future increases in such levies, which might impact its profits.***

The Financial Services and Markets Act 2000, as amended (the **FSMA**) established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information, please refer to the section entitled "*Supervision and Regulation—UK Regulation—Financial Services Compensation Scheme*". Based on the Issuer's share of protected deposits, it paid levies to the FSCS to enable the scheme to meet claims against it.

In common with other financial institutions which are subject to the FSCS, the Issuer also has a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure.

There can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer. Any such increases in the Issuer's costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks may also arise from discussions at governmental levels around the future design of financial services compensation schemes, such as increasing the scope and level of protection and moving to pre-funding of compensation schemes.

The EU Directive on deposit guarantee schemes (the **DGSD**) requires EU Member States (including at the time the DGSD was required to be transposed in the UK) to ensure that by 3 July 2024 the available financial means of the deposit guarantee schemes regulated by it reach a minimum target level of 0.8% of the covered deposits of credit institutions. The schemes are to be funded through regular contributions before the event (ex-ante) to the deposit guarantee schemes (the UK has previously operated an ex-post financing where fees are required after a payment to depositors has occurred). In case of insufficient ex-ante funds, the deposit guarantee scheme will collect immediately after the event (ex-post) contributions from the banking sector and, as a last resort, it will have access to alternative funding arrangements such as loans from public or private third parties. The UK requirements implementing DGSD provide, among other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the FSCS including the introduction of temporary high balance deposit protection, up to £1 million, for up to twelve months (protection temporarily extended from six to twelve months in response to the impact of Covid-19) from when the amount was deposited for certain limited types of deposits and changes to the types of depositors that are eligible for compensation. It is possible, as a result of the DGSD as implemented in the UK, that future FSCS levies on the Issuer may differ from those it has incurred historically, and that such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations. The DGSD requirements were implemented in the UK before the UK's exit from the EU and the regime was subsequently amended to reflect the UK's exit from the EU. Refer to the "*Supervision and Regulation – European Union Legislation – Impact of Brexit*" section for a description of the changes implemented to retained EU legislation so that it works effectively after the end of the transition period on 31 December 2020.

***The Issuer's principal business is providing residential mortgages in the UK. As such, the Issuer is susceptible to changes in UK mortgage rules and regulation which could impact its ability to retain current mortgage customers and/or attract new mortgage customers.***

The FCA published its Mortgages Market Study Final Report (MS16/2) in March 2019. While it found that the mortgage market is working well in many respects, the report illustrated a number of areas for improvement relating to customer choice and the ability of customers to switch mortgage providers. On 28 October 2019, the FCA published Policy Statement PS 19/27 entitled “Changes to mortgage responsible lending rules and guidance – feedback on CP19/14 and final rules” setting out detailed proposals to remove regulatory barriers to changing mortgages for “mortgage prisoners”. The term “mortgage prisoners” has been defined by the FCA to mean mortgage customers who would benefit from changing their mortgage product (either with their existing lender or with a new lender) but are unable to do so despite being up to date with their current mortgage payments. The changes to the FCA’s Mortgages and Home Finance: Conduct of Business sourcebook (the “MCOB”) set out in PS19/27, which came into force on 28 October 2019, should make it easier for a customer who is a mortgage prisoner to switch to a new lender. This could lead to an increase in redemptions of mortgages sooner than anticipated, thereby reducing the interest payable on those loans. The rules, based on pre-coronavirus conditions, require firms to write to those who may be eligible letting them know they may be able switch their mortgage. However, the FCA decided that given lenders’ inability to offer new switching options to mortgage prisoners in view of Covid-19 it would be wrong to require letters to be sent to consumers at this time. The FCA therefore extended the window during which it expects firms to contact consumers about switching options by 3 months to 1 December 2020. On 31 January 2020 the FCA published Policy Statement PS 20/1 “Mortgage advice and selling standards: feedback to CP 19/17 and final rules” the final rules on mortgage advice and selling standards are aimed at giving consumer more choice in how they buy a mortgage. The changes include expanding the perimeter on what is mortgage advice and requiring advisers to explain why they have not recommended a cheaper mortgage (where other products meet the customer needs). The changes came in to force on 31 January 2020. To allow firms time to adapt their process to accommodate the changes, some of the rules were subject to transitional provisions until 30 July 2020. It is possible that further changes may be made to the MCOB as a result of current and future reviews, studies and regulatory reforms which could have a material adverse effect on the Issuer’s 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.

## **2. RISKS RELATING TO THE COVERED BONDS**

### ***Finite resources available to the LLP to make payments due under the Covered Bond Guarantee***

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer, all amounts payable under the Covered Bonds will be accelerated by the Bond Trustee as against the Issuer following which a Notice to Pay will be served by the Bond Trustee on the LLP. The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on (a) the realisable value of Selected Loans and their Related Security in the Portfolio, (b) the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof, (c) amounts received from the Swap Providers, (d) the realisable value of Substitution Assets held by it and (e) the receipt by it of credit balances and interest on credit balances on any GIC Account and, if applicable, any Stand-by GIC Account. Recourse against the LLP under the Covered Bond Guarantee is limited to the aforementioned assets and the LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If an LLP Event of Default occurs and the Security created by or pursuant to the Deed of Charge is enforced, the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the holders of the Covered Bonds.

If, following enforcement of the Security constituted by or pursuant to the Deed of Charge, the Secured Creditors have not received the full amount due to them pursuant to the terms of the Transaction Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

Holders of the Covered Bonds should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is greater than the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this – in particular, the sale of further Loans and Related Security by the Seller to the LLP may be required to avoid or remedy a breach of the Asset Coverage Test). The LLP and the Seller (in its capacity as member) must ensure that following the occurrence of an Issuer Event of Default, the Amortisation Test is met on each Calculation Date and a breach of the Amortisation Test will constitute an LLP Event of Default and will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP (see "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*"). The Asset Coverage Test and the Yield Shortfall Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. However no assurance can be given that the Asset Pool will yield sufficient amounts for such purpose.

***LLP only obliged to pay Guaranteed Amounts when the same are Due for Payment***

Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. Subsequent to a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds, the Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice unless and until requested or directed by the holders of at least 25% of the aggregate principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds in accordance with Condition 9.1 (Issuer Events of Default). Following service of a Notice to Pay on the LLP, under the terms of the Covered Bond Guarantee the LLP will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances, the LLP will not be obliged to pay any other amounts which become payable for any other reason.

Payments by the LLP will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. Prior to service on the LLP of an LLP Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7 (Taxation).

Subject to any grace period, if the LLP fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other LLP Event of Default occurs, then the Bond Trustee may accelerate the obligations of the LLP under the Covered Bond Guarantee by service of an LLP Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 7 (Taxation)), although in such circumstances the LLP will not be obliged to gross up in respect of any withholding which may be required in respect of any payment. Following service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement and realisation of the Security shall be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments, as applicable, in the Deed of Charge, and holders of the Covered Bonds will receive amounts from the LLP on an accelerated basis.

***Differences in timings of obligations of the LLP and the Covered Bond Swap Provider under the Covered Bond Swaps and other hedging mismatches in certain circumstances***

With respect to the Covered Bond Swaps, the LLP will pay a monthly amount to each Covered Bond Swap Provider based on a compounded daily SONIA rate for the relevant calculation period (as applicable). Each Covered Bond Swap Provider will not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to 12 months until amounts are due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay or an LLP Acceleration Notice on the LLP) or are Due for Payment under the Covered Bond Guarantee (after the service of a Notice to Pay or an LLP Acceleration Notice on the LLP). If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap and such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall

in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with LLP's payment obligations under the Covered Bond Swaps. Hence, the difference in timing between the obligations of the LLP and the relevant Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

In addition to the above, although the LLP has entered into the Interest Rate Swap Agreement and Covered Bond Swap Agreements to hedge itself against basis risk, interest rate risk and/or currency risk, the LLP may not in all cases be perfectly hedged against the relevant risk due to differences in the frequency of payment dates, reference rate used and/or the date on which such reference rate is reset (in each case under the relevant swap) relative to that which the LLP is hedging against.

### ***Covered Bonds where denominations involve integral multiples: definitive Covered Bonds***

In relation to any issue of Covered Bonds that have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who, as a result of trading such amounts, holds a principal amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

If definitive Covered Bonds are issued, Covered Bondholders should be aware that definitive Covered Bonds that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### ***Excess Proceeds received by the Bond Trustee***

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as practicable, and will be held by the LLP in a GIC Account or a Stand-by GIC Account, if applicable, and the Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other moneys from time to time standing to the credit of any GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the LLP) which could adversely affect investors in the Covered Bonds. However, the obligations of the LLP under the Covered Bond Guarantee are unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

By subscribing for Covered Bond(s), each holder of the Covered Bonds will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

### ***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Covered Bonds and the LLP will make any payments under the Covered Bond Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (a) the Investor's Currency-equivalent yield on the Covered Bonds, (b) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (c) the Investor's Currency-equivalent market value of the Covered Bonds.

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

***Interest Rate Risk relating to Fixed Rate Covered Bonds***

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

***The yield to maturity of the Covered Bonds may be adversely affected by redemptions by the Issuer***

The yield to maturity of each class of Covered Bonds will depend mostly on: (i) the amount and timing of the repayment of principal on the Covered Bonds; and (ii) the price paid by the Covered Bondholders of each class.

***Extendable obligations under the Covered Bond Guarantee***

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if following the service of a Notice to Pay on the LLP (by no later than the date that falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds are not paid in full, then the payment of such Guaranteed Amounts may be automatically deferred. This will occur (subject to no LLP Event of Default having occurred) if the Final Terms for a relevant Series of Covered Bonds (the **relevant Series of Covered Bonds**) provide that such Covered Bonds are subject to an Extended Due for Payment Date.

To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient moneys available to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP shall make such partial payment in accordance with the Guarantee Priority of Payments and as described in Condition 6.1 (Final redemption) on any Interest Payment Date up to and including the relevant Extended Due for Payment Date. Payment of the unpaid amount shall be deferred automatically until the applicable Extended Due for Payment Date (where the relevant Series of Covered Bonds are subject to an Extended Due for Payment Date). The Extended Due for Payment Date will fall one year after the Final Maturity Date, interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 (Interest) and the LLP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date. In these circumstances, except where the LLP has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) shall not constitute an LLP Event of Default. However, failure by the LLP to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date will (subject to any applicable grace period) be an LLP Event of Default.

***Covered Bonds subject to optional redemption by the Issuer***

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

Where there is an optional redemption feature (as indicated in the applicable Final Terms), the Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

## ***Ratings of the Covered Bonds***

The ratings assigned to the Covered Bonds address:

- the likelihood of full and timely payment to holders of the Covered Bonds of all payments of interest on each Interest Payment Date; and
- the likelihood of ultimate payment of principal in relation to Covered Bonds on (a) the Final Maturity Date thereof or (b) if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee in accordance with the applicable Final Terms, on the Extended Due for Payment Date thereof.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of such Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced.

In addition, at any time, any Rating Agency may revise its relevant rating methodology with the result that, among other things, any rating assigned to the Covered Bonds may be lowered. Any adverse changes to such methodologies may materially and adversely affect the Issuer's operations or financial condition, the Issuer's willingness or ability to leave individual transactions outstanding and the Issuer's capital market standing.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A credit rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds. No assurance can be given as to any action that may be taken by the Rating Agencies or any rating agency in relation to its rating of the building society sector, including the Issuer. Any downgrade in the rating of the Issuer by a Rating Agency may have a negative impact on the ratings of the Covered Bonds.

In general, European regulated investors (such as investment firms, insurance and reinsurance undertakings, UCITS funds and certain hedge fund managers) are restricted under the CRA Regulation from using credit ratings issued by a credit rating agency for regulatory purposes in the EEA, unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the EU or in the UK before June 7, 2010 which has submitted an application for registration in accordance with the EU CRA Regulation and such registration has not been refused. Such general restriction will also apply in the case of credit ratings issued by non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant non-EEA rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances).

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

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

agencies and ratings referred to in this Base Prospectus, is set out in "*Overview of the Programme – Ratings*", the Issuer is liable to make payments when due on the Covered Bonds.

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference among themselves and (subject to applicable law) equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations to be preferred by law).

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice.

The occurrence of an Issuer Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the LLP under the Covered Bond Guarantee. The Security Trustee would then become entitled to enforce the Security.

### ***Covered Bonds issued under the Programme***

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series).

The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds described herein, in which event a drawdown prospectus or a new Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge. If an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, the Covered Bonds of all Series outstanding will accelerate at the same time against the Issuer (following service of an Issuer Acceleration Notice) but will be subject to, and have the benefit of, payments made by the LLP under the Covered Bond Guarantee (following service of a Notice to Pay). If an LLP Event of Default occurs, following service of an LLP Acceleration Notice, the Covered Bonds of all Series outstanding will accelerate against the Issuer (if not already accelerated following an Issuer Event of Default) and the obligations of the LLP under the Covered Bond Guarantee will accelerate.

### ***Further issues***

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect existing holders of the Covered Bonds:

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after swapping the same into Sterling if necessary)
  - (i) to acquire Loans and their Related Security from the Seller and/or
  - (ii) to acquire Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter such proceeds may be applied by the LLP:
    - (a) to purchase Loans, and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
    - (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or



- (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or
  - (d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
  - (e) to make a deposit of all or part of the proceeds in any GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit);
- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
  - on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Relevant Rating Agencies addressed to the Issuer, the Bond Trustee and the Security Trustee, that such further issue would not adversely affect the then current ratings of such Existing Covered Bonds.

***Covered Bonds not in physical form***

Unless the Bearer Global Covered Bonds or the Registered Global Covered Bonds are exchanged for Bearer Definitive Covered Bonds or Registered Definitive Covered Bonds, respectively, which exchange will only occur in the limited circumstances set out under "*Form of the Covered Bonds – Bearer Covered Bonds*" and "*Form of the Covered Bonds – Registered Covered Bonds*" below, the beneficial ownership of the Covered Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg and/or the Depository Trust Company (**DTC**). The fact that the Covered Bonds are not represented in physical form could, among other things:

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;
- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and
- hinder the ability of Covered Bondholders to re-sell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

***Further issuances may negatively affect the market value of the original Covered Bonds if they are treated as a separate series for US federal income tax purposes***

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

***Certain decisions of holders of the Covered Bonds taken at Programme level***

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice and a Notice to Pay following an Issuer Event of Default, to direct the Bond Trustee to serve an LLP Acceleration Notice following an LLP Event of Default and any direction to the Bond Trustee or Security Trustee to take any enforcement action must be passed

at a single meeting of the holders of all Covered Bonds of all Series then outstanding. No assurance can be given as to the result of any such meeting, which result could adversely affect the interests of holders of Covered Bonds.

### **3. RISKS RELATING TO THE COVER POOL**

#### ***Limited description of the Portfolio***

Holders of the Covered Bonds will not receive detailed statistics or information in relation to the Loans in the Portfolio because it is expected that the constitution of the Portfolio will frequently change due to, for instance:

- the Seller selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP;
- New Sellers acceding to the Transaction and selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP; and
- the Seller repurchasing Loans and their Related Security in accordance with the Mortgage Sale Agreement.

There is no assurance that the characteristics of the New Loans assigned to the LLP on a Transfer Date will be the same as those of the Loans in the Portfolio as at that Transfer Date. However, each Loan will be required to meet the Eligibility Criteria and the Representations and Warranties set out in the Mortgage Sale Agreement – see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*" (although the Eligibility Criteria and Representations and Warranties may change in certain circumstances – see "*The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the holders of the Covered Bonds' or Secured Creditors' prior consent*"). In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

#### ***Sale of Selected Loans and Related Security following the occurrence of an Issuer Event of Default***

If a Notice to Pay is served on the LLP, then the LLP will be obliged to sell Selected Loans and their Related Security (selected on a random basis) in order to make payments to the LLP's creditors including payments under the Covered Bond Guarantee (see "*Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice*").

There is no guarantee that a buyer will be found to acquire Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee. However, the Selected Loans may not be sold by the LLP for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to: (a) the Final Maturity Date in respect of such Covered Bonds; or (b) (if the same is specified as applicable in the relevant Final Terms) the Extended Due for Payment Date under the Covered Bond Guarantee in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the LLP is obliged to sell the Selected Loans for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

#### ***Sale of Selected Loans and Related Security prior to maturity of Hard Bullet Covered Bonds where the Pre-Maturity Test is breached or following the occurrence of an Issuer Event of Default***

If the Pre-Maturity Test is breached, the LLP may be obliged, if certain other conditions are not met, to sell Selected Loans and their Related Security (selected on a random basis) to seek to generate sufficient cash to enable the LLP to pay the final redemption amount on any Hard Bullet Covered Bond, should the Issuer or LLP fail to pay. If a Notice to Pay is served on the LLP, then the LLP will be obliged to sell Selected Loans and their Related Security (selected on a random basis) in order to make payments to the LLP's creditors including payments under the Covered Bond Guarantee (see

"Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security if the Pre-Maturity Test is breached").

There is no guarantee that a buyer will be found to acquire Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee.

#### ***Limited recourse to the Seller***

The LLP, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and will rely instead on the Representations and Warranties given in the Mortgage Sale Agreement by the Seller in respect of the Loans sold by them to the LLP.

If any Loan sold by the Seller does not materially comply with any of the Representations and Warranties made by the Seller as at the Transfer Date of that Loan, then the Seller will be required to remedy the breach within 28 London Business Days of the Seller becoming aware of the same or of receipt by it of a notice from the LLP requiring the Seller to remedy the breach.

If the Seller fails to remedy the breach of a Representation and Warranty within 28 London Business Days, then the Seller will be required (but only prior to the occurrence of an Issuer Event of Default) to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the LLP and the Seller) the relevant Loan and its Related Security and any other Loans (including Flexible Advances) of the relevant Borrower that are included in the Portfolio, at their True Balance as of the date of repurchase.

There can be no assurance that the Seller, in the future, will have the financial resources to repurchase a Loan or Loans and its or their Related Security. However, if the Seller does not repurchase those Loans and their Related Security which are in breach of the Representations and Warranties then the True Balance of those Loans will be excluded from the calculation of the Asset Coverage Test. There is no further recourse to the Seller or the Issuer in respect of a breach of a Representation or Warranty.

#### ***Maintenance of Portfolio***

*Asset Coverage Test:* Pursuant to the terms of the Mortgage Sale Agreement, the Seller has agreed to use all reasonable efforts to transfer Loans and their Related Security to the LLP in order to ensure that the Portfolio is in compliance with the Asset Coverage Test. The consideration payable to the Seller for the Sale of the Loans and Related Security to the LLP will be a combination of (a) a cash payment paid by the LLP and/or (b) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the True Balance of the Loans sold by the Seller to the LLP as at the relevant Transfer Date and the cash payment (if any) paid by the LLP for such Loans) and (c) Deferred Consideration.

In addition, Covered Bondholders should be aware that the FCA may take certain action under the RCB Regulations in relation to the Seller, including prohibiting the Seller from transferring further Loans to the LLP. Any such action may have an adverse effect on the ability of the Issuer and the LLP to meet its obligations under the Covered Bonds and the Covered Bond Guarantee, as applicable.

Alternatively, Nationwide Building Society (in its capacity as Member of the LLP) may make a Cash Capital Contribution to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date, an Asset Coverage Test Breach Notice will be served on the LLP, which will result in the consequences set out in "Summary of the Principal Documents – LLP Deed – Asset Coverage Test". There is no specific recourse by the LLP to the Seller in respect of the failure to sell Loans and their Related Security to the LLP nor is there any specific recourse to Nationwide Building Society if it does not make Cash Capital Contributions to the LLP.

*Amortisation Test:* Pursuant to the LLP Deed, the LLP and Nationwide Building Society (in its capacity as a Member of the LLP) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding under the Covered Bonds. The Amortisation Test is intended to ensure that the assets of the LLP do not fall below a certain threshold to ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses that rank in priority to or *pari passu* with amounts due on the Covered Bonds.

If the collateral value of the Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or the Amortisation Test, then that may affect the realisable value of the Portfolio or any part thereof (both before and after the occurrence of an LLP Event of Default) and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, failure to satisfy the Amortisation Test on any Calculation Date following an Issuer Event of Default will constitute an LLP Event of Default, thereby entitling the Bond Trustee to accelerate the Covered Bonds against the Issuer and the LLP's obligations under the Covered Bond Guarantee against the LLP subject to and in accordance with the Conditions.

Prior to the occurrence of an Issuer Event of Default, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the latest Calculation Date that falls at least 30 days prior to each anniversary of the Programme Date and more frequently in certain circumstances. Following the occurrence of an Issuer Event of Default, the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortisation Test. See further "*Summary of the Principal Documents – Asset Monitor Agreement*".

The Security Trustee shall not be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

***Realisation of Charged Property following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or winding-up proceedings are commenced against the LLP***

If an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP and/or winding-up proceedings are commenced against the LLP, then the Security Trustee will be entitled to enforce the Security created under and pursuant to the Deed of Charge and the proceeds from the realisation of the Charged Property will be applied by the Security Trustee towards payment of all secured obligations in accordance with the Post-Enforcement Priority of Payments described in "*Cash flows*" below.

There is no guarantee that the proceeds of realisation of the Charged Property will be in an amount sufficient to repay all amounts due to the Secured Creditors (including the holders of the Covered Bonds) under the Covered Bonds and the Transaction Documents.

If an LLP Acceleration Notice is served on the LLP, then the Covered Bonds may be repaid sooner or later than expected or not at all.

***Factors that may affect the realisable value of the Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee***

Following the occurrence of an Issuer Event of Default, the service on the Issuer of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay, the realisable value of Selected Loans and their Related Security comprised in the Portfolio may be reduced (which may affect the ability of the LLP to make payments under the Covered Bond Guarantee) by:

- representations or warranties not being given by the LLP or (unless otherwise agreed with the Seller) the Seller;

- default by the Borrowers of amounts due on their Loans;
- the Loans of New Sellers being included in the Portfolio;
- changes to the lending criteria of the Seller;
- the LLP not having legal title to the Loans in the Portfolio;
- risks in relation to some types of Loans which may adversely affect the value of Portfolio or any part thereof;
- limited recourse to the Seller;
- possible regulatory changes by the OFT, the FCA, the PRA and other regulatory authorities;
- regulations in the United Kingdom that could lead to some of the Loans being unenforceable, cancellable or subject to set off or some of their terms being unenforceable; and
- other issues which impact on the enforceability of Flexible Loans and Flexible Advances as more fully set out under "*Risks in relation to some types of Loans may adversely affect the value of the Portfolio or any part thereof*".

Each of these factors is considered in more detail below. However, it should be noted that the Asset Coverage Test, the Amortisation Test and the Eligibility Criteria are intended to ensure that there will be an adequate amount of Loans in the Portfolio and moneys standing to the credit of any GIC Account or the Collateralised GIC Account, as applicable, to enable the LLP to repay the Covered Bonds following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP and accordingly it is expected (but there is no assurance) that Selected Loans and their Related Security could be realised for sufficient values to enable the LLP to meet its obligations under the Covered Bond Guarantee.

***No representations or warranties to be given by the LLP or the Seller if Selected Loans and Related Security are to be sold***

Following a breach of the Pre-Maturity Test and/or the occurrence of an Issuer Event of Default, service on the Issuer of an Issuer Acceleration Notice and service on the LLP of a Notice to Pay (but in each case prior to the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement (see "*Summary of the Principal Documents – LLP Deed – Method of Sale of Selected Loans*"). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee). There is no assurance that the Seller would give any warranties or representations in respect of the Selected Loans and their Related Security. Any Representations or Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

***Default by Borrowers in paying amounts due on their Loans***

Borrowers may default on their obligations due under the Loans. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other

factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

Over the last few years and as a result of, among other things, fluctuations in the Bank of England base rate, there has been a cycle of rising and falling mortgage interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, and may ultimately result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. The recent declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

The True Balance of any Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of any calculation of the Asset Coverage Test and the Amortisation Test.

#### ***The Loans of New Sellers may be included in the Portfolio***

New Sellers which form part of Nationwide may in the future accede to the Programme and sell Loans and their related security to the LLP. However, this would only be permitted if the conditions precedent relating to New Sellers acceding to the Transaction (more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement – New Sellers*", below) are met. Provided that those conditions are met, the consent of holders of the Covered Bonds to the accession of any New Seller to the Programme will not be obtained.

Any loans originated by a New Seller will have been originated in accordance with the lending criteria of the New Seller, which may differ from the Lending Criteria of Loans originated by the Seller. If the lending criteria differ in a way that affects the creditworthiness of the loans in the Portfolio, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test.

#### ***Changes to the Lending Criteria of the Seller***

Each of the Loans originated by the Seller will have been originated in accordance with its Lending Criteria at the time of origination. It is expected that the Seller's Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicants and credit history. In the event of the sale or transfer of any Loans and Related Security to the LLP, the Seller will warrant only that such Loans and Related Security were originated in accordance with the Seller's Lending Criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time. If the Lending Criteria change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

***The LLP does not have legal title to the Loans in the Portfolio on the relevant Transfer Date***

The sale by the Seller to the LLP of English Loans and Northern Irish Loans and their Related Security has taken or will take effect by way of an equitable assignment. The sale by the Seller to the LLP of Scottish Loans and their Related Security has been or will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans and their Related Security has been or will be transferred to the LLP. As a result, legal title to English Loans, Northern Irish Loans and Scottish Loans and each of their Related Security will remain with the Seller. The LLP, however, will have the right to demand that the Seller give it legal title to the Loans and the Related Security in the limited circumstances described in "*Summary of the Principal Documents – Mortgage Sale Agreement – Transfer of title to the Loans to the LLP*" and until such right arises the LLP will not give notice of the sale of the English Loans and their Related Security to any Borrower or apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the Loans and their Related Security or take any steps to perfect its title to the Scottish Loans and their Related Security or the Northern Irish Loans and their Related Security.

Since the LLP has not obtained legal title to the Loans or their Related Security and has not protected its interest in the Loans and their Related Security by registration of a notice at the Land Registry, the following risks exist:

- first, if the Seller wrongly sells a Loan and its Related Security, which has already been sold to the LLP, to another person and that person acted in good faith and did not have notice of the interests of the LLP in the Loan and its Related Security, then such person might obtain good title to the Loan and its Related Security, free from the interests of the LLP. If this occurred, then the LLP would not have good title to the affected Loan and its Related Security and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the LLP would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the LLP or their respective personnel or agents;
- secondly, the rights of the LLP may be subject to the rights of the Borrowers against the Seller, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the Seller, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller; and
- thirdly, unless the LLP has perfected the assignment or assignation (as appropriate) of the Loans (which it is only entitled to do in certain limited circumstances), the LLP would not be able to enforce any Borrower's obligations under a Loan or Mortgage itself but would have to join the Seller as a party to any legal proceedings.

If any of the risks described in the first two bullet points above were to occur, then the realisable value of the Portfolio or any part thereof and/or the ability of the LLP to make payments under the Covered Bond Guarantee may be affected.

Once notice has been given to the Borrowers of the assignment or assignation (as appropriate) of the Loans and their Related Security to the LLP, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Loan) will not be affected by that notice and will continue to exist. In relation to potential transaction set-off in respect of the Loans, see below.

It should be noted, however, that the Asset Coverage Test seeks to take account of the potential set-off risk associated with Borrowers holding deposits with the Seller (although there is no assurance that all such risks will be accounted for). Further, for so long as the LLP does not have legal title, the Seller will undertake for the benefit of the LLP and the Secured Creditors that it will lend its name to, and take such other steps as may be reasonably required by the LLP and/or the Security Trustee in relation to, any legal proceedings in respect of the Loans and their Related Security.

***Risks in relation to some types of Loans may adversely affect the value of the Portfolio or any part thereof***

As described in the immediately preceding risk factor, the sale by the Seller to the LLP of English Loans and Northern Irish Loans has been or will be given effect by an equitable assignment, with each sale of Scottish Loans being given effect by a Scottish Declaration of Trust. As a result, legal title to the English Loans, Northern Irish Loans and the Scottish Loans and their Related Security sold by the Seller to the LLP will remain with the Seller. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the Seller, including rights of set-off existing prior to notification to the Borrowers of the assignment or assignation (as appropriate) of the Loans. Some of the Loans in the Portfolio may have increased risks of set-off because the Seller is required to make payments under them to the Borrowers. For instance;

- under a Flexible Loan, the Borrowers will be permitted (subject to certain conditions which may, in some circumstances, require notification and/or consent of the Seller) to make, among other things, further drawings on the Loan Account and/or to overpay or underpay interest and principal in a given month and/or to take a Payment Holiday (referred to as **Re-draws**) which will be funded solely by the Seller; and
- under a Flexible Advance, the Borrower will have the benefit of a loan secured on the same property that secures the Borrower's existing Loan. A Flexible Advance made prior to 31 October 2004 which forms part of a Loan that was entered into before 1 September 2002 is secured by a separate mortgage. Other Flexible Advances are secured on the same mortgage as the Loan to which they relate. Flexible Advances permit the Borrower to draw additional amounts in aggregate up to the fixed credit limit under the terms of the Mortgage Conditions at the inception of such Flexible Advance. Such draws under a Flexible Advance are collectively referred to as **Further Draws**. Such Further Draws will be funded by the Seller.

***New products offered by the Seller in the future may have similar characteristics involving payments due by the Seller to the Borrower.***

If the Seller, in circumstances where the Seller is obliged to advance a Re-draw or Further Draw, fails to advance the Re-draw or Further Draw in accordance with the relevant Loan, then the relevant Borrower may set off any damages claim arising from the Seller's breach of contract against the Seller's (and, as equitable assignee of or holder of the beneficial interest in the Loans and the Mortgages, the LLP's) claim for payment of principal and/or interest under the Flexible Loan or Flexible Advance as and when it becomes due. In addition, a Borrower under a Flexible Loan or Flexible Advance may attempt to set off any such damages claim against the Seller's claim for payment of principal and/or interest under any other Loan that the Borrower has with the Seller.

***Such set-off claims will constitute transaction set-off as described in the immediately preceding risk factor.***

The amount of the claim in respect of a Re-draw or Further Draw will, in many cases, be the cost to the Borrower of finding an alternative source of funds. The Borrower may obtain a mortgage loan elsewhere in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Borrower entered into the Mortgage or which otherwise were reasonably foreseeable.

A Borrower may also attempt to set off against his or her mortgage payments an amount greater than the amount of his or her damages claim. In that case, the Servicer will be entitled to take enforcement proceedings against the Borrower although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

Further, there may be circumstances in which:

- a Borrower may seek to argue that amounts comprised in the current balance of his or her Loan as a consequence of previous Re-draws or Further Draws are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974, as amended (the **CCA**);



- a Borrower may seek to argue that Flexible Advances and their Related Security may be unenforceable or unenforceable without a court order because of non-compliance with the CCA, although such an argument is unlikely to succeed in the context of a Flexible Advance that can be demonstrated to be a regulated mortgage contract under the FSMA 2000 and an exempt agreement for the purpose of the CCA;
- certain Re-draws or Further Draws may rank behind security created by a Borrower after the date upon which the Borrower entered into its Mortgage with the Seller; or
- a Borrower may seek to argue that a Loan, being a regulated mortgage contract, has been provided to it by the Seller in a manner in breach of a relevant FCA rule, thus enabling the Borrower to make a claim for damages under the FSMA 2000 in respect of such breach (see "*Supervision and Regulation—UK Regulation*" below).

The exercise of set-off rights by Borrowers, or any such claims as to unenforceability in particular with respect to Re-draws and Further Draws or postponement of ranking, may adversely affect the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee. The Asset Coverage Test seeks to take account of the set-off risk (although there is no assurance that such risks will be accounted for or will be accounted for adequately if New Loan Types are introduced).

***Loans are subject to certain legal and regulatory risks.***

Certain regulatory risks exist in relation to the Loans, including in relation to the legal and regulatory considerations relating to the Loans and their Related Security, changes in law, regulation, the possibility of complaints by Borrowers in relation to terms of the Loans and in relation to the policies and procedures of the Seller. If any of these risks materialise they could have an adverse effect on the Seller, the Issuer or the LLP and could adversely affect the ability of the Issuer to make payments on the Covered Bonds or, if applicable, the LLP's ability to make payment on the Covered Bond Guarantee. Further detail on certain considerations in relation to the regulation of mortgages in the UK is set out in the section headed "*Further Information relating to the Regulation of Mortgages in the UK*" below and certain specific risks are set out below:

*Regulated Mortgage Contracts.* A Borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of the FCA or PRA, and may set off the amount of the claim against the amount owing by the Borrower under the loan or any other loan that the Borrower has taken with that authorised person (or exercise analogous rights in Scotland). Any such set off in respect of the Loans may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee. Further detail is included in the section headed "*Further Information relating to the Regulation of Mortgages in the UK – Certain Regulatory Considerations – Regulated Mortgage Contracts*" below.

*Regulation of buy-to-let Mortgages.* The exercise of supervisory and enforcement powers by the FCA may adversely affect the Issuer's ability to make payment on the Covered Bonds when due, particularly if the FCA orders remedial action in respect of past conduct. In addition for those buy-to-let Mortgages regulated by the CCA, non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable or unenforceable without a court order or an order of the appropriate regulator, or may render the borrower not liable to pay interest or charges in relation to the period of non-compliance. This may adversely affect the Issuer's ability to make payment on the Covered Bonds when due. Further detail is included in the section headed "*Further Information relating to the Regulation of Mortgages in the UK – Certain Regulatory Considerations – Regulation of buy-to-let Mortgages*" below.

*Guidance Issued by the Regulators.* Guidance issued by the regulators has changed over time and it is possible that it may change in the future. No assurance can be given that any changes in legislation, guidance or case law as it relates to the Portfolio will not have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Loans. Any such changes (including changes in regulators' responsibilities) may also adversely affect the Issuer's operating results, financial condition and prospects. Further detail is included in the section headed "*Further Information relating to the Regulation of Mortgages in the UK – Certain Regulatory Considerations – Regulation of residential secured lending (other than Regulated Mortgage Contracts)*" below.

*Unfair Relationships.* If a court determined that there was an unfair relationship between the Lender and the Borrowers in respect of the Loans and ordered that financial redress was made in respect of such Loans, or if redress was due in accordance with the FCA guidance on PPI complaints, such redress may adversely affect the ultimate amount received by the LLP in respect of the relevant Loans, and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee. Further detail is included in the section headed "*Further Information relating to the Regulation of Mortgages in the UK – Certain Regulatory Considerations – Unfair relationships*" below.

*Distance Marketing.* The DM Regulations allow, in certain specified circumstances, a borrower to cancel a credit agreement it has entered into with lenders without provision of certain required information. If a significant proportion of the Loans is treated as being cancellable under these regulations, there could be an adverse effect on the LLP's receipts in respect of the Loans affecting the LLP's ability to make payments on the Covered Bond Guarantee. Further detail is included in the section headed "Further Information relating to the Regulation of Mortgages in the UK – Distance Marketing" below.

*UTCCR and CRA.* The UTCCR and CRA provide that a consumer may, in certain circumstances, challenge a term in an agreement on the basis that it is unfair. The broad and general wording of the UTCCR and CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made to Borrowers covered by the UTCCR and/or the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans entered into between 1 July 1995 and 30 September 2015 is found to be unfair for the purpose of the UTCCR, this may reduce the amounts available to meet the payments due in respect of the Covered Bond Guarantee, including by way of non-recovery of a Loan by the Seller or the LLP, a claim made by the Borrower or the exercise by the Borrower of a right of set-off arising as a result of a term of a loan being found to be unfair (and therefore not binding on the consumer) and may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

If any term of the Loans entered into on or after 1 October 2015 is found to be unfair for the purpose of the CRA, this may reduce the amounts available to meet the payments due in respect of the Covered Bond Guarantee. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Loans. Further detail in relation to both the UTCCR and the CRA is included in the section headed "*Further Information relating to the Regulation of Mortgages in the UK – Certain Regulatory Considerations – Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and the Consumer Rights Act 2015*" below.

Consumer Protection from Unfair Trading Regulations 2008: the CPUTR prohibits certain practices which are deemed unfair within the terms of the CPUTR. Breach of the CPUTR may lead to liability for misrepresentation or breach of contract in relation to the underlying credit agreements, which may result in irrecoverable losses on amounts to which such agreements apply and which may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee. Further detail in relation to the CPUTR is included in the section headed "Further information relating to the Regulation of Mortgages in the UK – Consumer Protection from Unfair Trading Regulations" below.

Financial Ombudsman Service: Under the FSMA, the Financial Ombudsman Service (the Ombudsman) is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction. The Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to a borrower. Given the way the Ombudsman makes its decisions, it is not possible to predict how any future decision of the Ombudsman would affect the LLP's ability to make payments on the Covered Bond Guarantee. Further detail is included in the section headed "Further information relating to the Regulation of Mortgages in the UK – Financial Ombudsman Service" below.

FCA Consultation on mortgages: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages. In October 2020, the FCA published the policy statement PS20/11 entitled 'Mortgages: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages'. This policy statement contains guidance which applies to mortgage lenders and mortgage administrators

in relation to the exceptional circumstances arising out of COVID-19 and its impact on the financial situation of borrowers with interest-only and part-and-part mortgages (the October Guidance). The October Guidance came into force on 31 October 2020 (and was updated on 17 November 2020) and expires on 31 October 2021 and applies in respect of interest-only and part-and-part mortgages with maturity dates between 20 March 2020 and 31 October 2021 where the capital repayment is still outstanding. The October Guidance only applies to Regulated Mortgage Contracts (but does not apply to bridging loans). The October Guidance provides that where a borrower has a relevant mortgage and is up-to-date with their mortgage payments (which includes borrowers which have made use of a payment deferral granted under the FCA Payment Deferral Guidance both before and after the relevant loan's maturity date), firms should allow that borrower the flexibility to choose to delay the repayment of any capital on their mortgage until no later than 31 October 2021 provided the borrower continues to make interest payments (except where the borrower does not make interest payments in accordance with a payment deferral agreed under the FCA Payment Deferral Guidance). If a significant number of relevant borrowers take the opportunity to delay repayment this would affect redemption rates which in turn could affect the LLP's ability to make payments on the Covered Bond Guarantee.

Investors should note the FCA Payment Deferral Guidance and Tailored Support Guidance described in the section entitled "Further Information relating to the Regulation of Mortgages in the UK - Mortgage repossession" and "Further Information relating to the Regulation of Mortgages in the UK - Mortgages and coronavirus: FCA guidance for firms" below and that mortgage lenders/administrators should not commence or continue repossession proceedings against customers before 1 April 2021, irrespective of the stage that repossession proceedings have reached and to any step taken in pursuit of repossession.

#### **4. RISKS RELATING TO REGULATION OF THE COVERED BONDS**

##### ***UK regulated covered bond regime***

The Issuer has been admitted to the register of issuers and the Programme, and all Covered Bonds previously issued under the Programme have been admitted to the register of regulated covered bonds under the RCB Regulations.

The RCB Regulations and the RCB Sourcebook impose certain ongoing obligations and liabilities on both the Issuer and the LLP. In this regard, the LLP is required to (among other things), following the insolvency of the Issuer, make arrangements for the maintenance and administration of the asset pool such that certain asset capability and quality related requirements are met.

The FCA may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers (however, pursuant to the RCB Regulations, a regulated covered bond may not be removed from the register of regulated covered bonds prior to the expiry of the whole period of validity of the relevant covered bond), directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP and directing the Issuer to publish information given to the FCA under the RCB Regulations. Moreover, the bodies that regulate the financial services industry in the UK may take certain actions in respect of issuers using their general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such regulatory actions may reduce the amounts available to pay Covered Bondholders. However, pursuant to Condition 9.1(b), non-compliance by the Issuer with the RCB Regulations will not constitute an Issuer Event of Default. Nonetheless, any such non-compliance may impact the Issuer's registration with the FCA which may negatively impact the Covered Bonds.

With respect to the risks referred to above, see also "*Cash flows*" and "*Description of the UK Regulated Covered Bond Regime*" below for further details.

##### ***The market continues to develop in relation to risk free rates (including overnight rates) as reference rates.***

Where the applicable Final Terms for a Series of Floating Rate Covered Bonds identifies that the Rate of Interest for such Covered Bonds will be determined by reference to SOFR, SONIA or €STR, the Rate of Interest will be determined on the basis of Compounded Daily SOFR, Average SOFR, Compounded Daily SONIA, Average SONIA or Compounded

Daily €STR, as applicable, or, in the case of SOFR and SONIA, by reference to a specified index (all as defined in and/or further described in the Conditions). All such rates are based on 'overnight rates'. Overnight rates differ from interbank offered rates, such as LIBOR or EURIBOR, in a number of material respects, including (without limitation) that such rates are backwards-looking, risk-free overnight rates, whereas interbank offered rates are expressed on the basis of a forward-looking term and includes a risk-element based on inter-bank lending. As such, investors should be aware that overnight rates may behave materially differently as interest reference rates for Covered Bonds issued under the Programme described in this Base Prospectus compared to interbank offered rates. The use of overnight rates as a reference rate for Eurobonds is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such overnight rates.

Accordingly, prospective investors in any Covered Bonds referencing any overnight rates should be aware that the market continues to develop in relation to such overnight rates as reference rates in the capital markets and their adoption as alternatives to interbank offered rates such as LIBOR and EURIBOR. Market participants, industry groups and/or central bank led working groups continue to explore compounded rates and weighted average rates, and observation methodologies for such rates (including so-called 'shift', 'lag', and 'lock-out' methodologies), and such groups may also explore forward-looking 'term' reference rates derived from these overnight rates. The adoption of overnight rates may also see component inputs into swap rates or other composite rates transferring from LIBOR, EURIBOR or another reference rate to an overnight rate.

The market or a significant part thereof may adopt an application of overnight rate in a way that differs significantly from those set out in the Conditions and used in relation to Floating Rate Covered Bonds issued under this Base Prospectus. In addition, the methodology for determining any overnight rate index by reference to which the Rate of Interest in respect of certain Covered Bonds may be calculated could change during the life of any Covered Bonds. Furthermore, the Issuer may in the future issue Covered Bonds referencing SOFR, SONIA or €STR that differ materially in terms of interest determination when compared with any previous SOFR-, SONIA- or €STR-referenced Covered Bonds issued by it. The nascent development of overnight rates as interest reference rates for the Eurobond markets, as well as continued development of such overnight rates for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any such Covered Bonds issued from time to time.

Furthermore, the Rate of Interest on Covered Bonds which reference overnight rates are only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Covered Bonds which reference overnight rates to estimate reliably the amount of interest which will be payable on such Covered Bonds, and some investors may be unable or unwilling to trade such Covered Bonds without changes to their IT systems, both of which factors could adversely impact the liquidity of such Covered Bonds. Further, if the Floating Rate Covered Bonds become due and payable under Condition 9, the Rate of Interest payable shall be determined on the date the Covered Bonds became due and payable and shall not be reset thereafter.

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

Investors should carefully consider these matters when making their investment decision with respect to any such Floating Rate Covered Bonds.

***Changes or uncertainty in respect of interest rate benchmarks may affect the value or payment of interest under the Covered Bonds.***

Interest rates and indices which are deemed to be "benchmarks" (including the euro interbank offered rate (**EURIBOR**)), are the subject of recent and ongoing reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or

have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to such a benchmark.

Regulation (EU) 2016/1011 (the **EU Benchmarks Regulation**) was published in the Official Journal of the EU on 29 June 2016 and has mostly applied, subject to certain transitional provisions, since 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU-supervised entities (such as the Issuer) of benchmarks of administrators that are not authorised or registered (or, if non-EU-based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**) among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed). The administrator of EURIBOR appears on the register of administrators and benchmarks established and maintained by each of ESMA and the FCA. The administrators of SONIA, SOFR or €STR are not currently required to obtain authorisation/registration and SONIA, SOFR or €STR do not fall within the scope of the EU Benchmarks Regulation or the UK Benchmarks Regulation by virtue of Article 2 of that regulation.

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

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

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

For example, in the case of floating rate bonds:

- bonds which would traditionally have referenced GBP-LIBOR are increasingly expected to reference the Sterling Overnight Index Average (**SONIA**) (currently, this tends to be on the basis of a backward-looking daily compounded SONIA rate, although a forward-looking term rate based on SONIA may be developed in the future);
- bonds which would traditionally have referenced USD-LIBOR are expected to move towards referencing the Secured Overnight Financing Rate (**SOFR**) (on the basis, at least initially, of a backward-looking compounded daily rate or weighted average rate); and
- bonds which would traditionally have referenced EURIBOR may move towards referencing the new Euro Short-Term Rate (**€STR**).

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark

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

Separately, the euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, LIBOR and/or EURIBOR will continue to be supported going forwards. This may cause LIBOR and/or EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. The potential transition from any currency LIBOR to a new rate or the elimination of LIBOR, EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark (including EURIBOR, SONIA, SOFR and €STR), could require an adjustment to the Terms and Conditions of the Covered Bonds, or result in other consequences, in respect of any Covered Bonds referencing such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark; and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

In particular, prospective investors should be aware that:

- (a) any of these reforms or pressures described or any other changes to a relevant interest rate benchmark (including EURIBOR, SONIA, SOFR and €STR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be, particularly market participants and relevant working groups are exploring alternative reference rates based on SONIA, SOFR or €STR, therefore there is a risk that the market or a significant part thereof may adopt an application of SONIA, SOFR or €STR that differs significantly from that set out in relation to the Covered Bonds that reference SONIA, SOFR or €STR;
- (b) if EURIBOR, SONIA, SOFR or €STR is discontinued or is otherwise unavailable, then the rate of interest on the Covered Bonds will be determined for a period by the fallback provisions provided for under Condition 4 (Interest) of the Terms and Conditions of the Covered Bonds, although (in the case of EURIBOR) such provisions, being dependent in part upon the provision by reference banks of offered quotations for leading banks in the Euro-zone interbank market, may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may in certain circumstances result in the effective application of a fixed rate based on the rate that applied in the previous period when EURIBOR was available;
- (c) whilst an amendment may be made under Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) or Condition 4.2 (Effect of Benchmark Transition Event on any SOFR Bonds) in the Terms and Conditions of the Covered Bonds to change the EURIBOR, SONIA, SOFR or €STR rate (as applicable) on the relevant Floating Rate Covered Bonds to an alternative base rate under certain circumstances broadly related to EURIBOR, SONIA, SOFR or €STR (as applicable) dysfunction or discontinuation, there can be no assurance that any such amendment will be made or, if made, that it (i) will fully or effectively mitigate interest rate risks or result in an equivalent methodology for determining the interest rates on the relevant Floating Rate Covered Bonds or (ii) will be made prior to any date on which any of the risks described in this risk factor may become relevant; and
- (d) if EURIBOR, SONIA, SOFR, €STR or any other relevant interest rate benchmark is discontinued, there can be no assurance that the applicable fallback provisions under the Swap Agreements would operate

to allow the transactions under the Swap Agreements to effectively mitigate interest rate risk in respect of the Covered Bonds.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Covered Bonds and/or the Swap Agreements due to applicable fallback provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Issuer to meet its payment obligations in respect of the Covered Bonds.

Moreover, any of the above matters or any other significant change to the setting or existence of EURIBOR, SONIA, SOFR, €STR or any other relevant interest rate benchmark could affect the ability of the Issuer or the Guarantor to meet its obligations under the Covered Bonds and/or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds. Changes in the manner of administration of EURIBOR, SONIA, SOFR, €STR or any other relevant interest rate benchmark could result in adjustment to the Conditions or other consequences in relation to the Covered Bonds. No assurance may be provided that relevant changes will not occur with respect to EURIBOR, SONIA, SOFR, €STR or any other relevant interest rate benchmark and/or that such benchmarks will continue to exist. Investors should consider these matters when making their investment decision with respect to the Covered Bonds.

***The Secured Overnight Financing Rate used to calculate SOFR may be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in the Covered Bonds.***

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

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

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

The Federal Reserve began to publish the Secured Overnight Financing Rate in April 2018. The Federal Reserve has also begun publishing historical indicative Secured Overnight Financing Rates going back to 2014. Investors should not rely on any historical changes or trends in the Secured Overnight Financing Rate as an indicator of future changes in the Secured Overnight Financing Rate. Also, since the Secured Overnight Financing Rate is a relatively new market index, Floating Rate Covered Bonds linked to SOFR will likely have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to the Secured Overnight Financing Rate, such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of Floating Rate Covered Bonds linked to SOFR may be lower than those of later-issued

indexed debt securities as a result. Similarly, if the Secured Overnight Financing Rate does not prove to be widely used in securities like the Floating Rate Covered Bonds linked to SOFR, the trading price of such Covered Bonds may be lower than those of bonds linked to indices that are more widely used. Investors in Floating Rate Covered Bonds linked to SOFR may not be able to sell such Covered Bonds at all or may not be able to sell such Covered Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

## **5. RISKS RELATING TO COUNTERPARTIES**

### ***Reliance of the LLP on third parties***

The LLP has entered into agreements with a number of third parties, which have agreed to perform services for the LLP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Portfolio sold to the LLP, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP, and the GIC Accounts and Transaction Account will be held with the Account Bank. In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately administer the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the LLP and/or the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer will be required to be authorised under the FSMA 2000. The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, if the Servicer ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB- or by Fitch of at least BBB- or a counterparty risk assessment by Moody's of at least Baa3(cr) (in each case, provided that such ratings by S&P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding) it will use reasonable efforts to enter into a master servicing agreement with a third party.

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. Holders of the Covered Bonds will have no right to consent to or approve of any actions taken by the Servicer under the Servicing Agreement.

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as a servicer or to monitor the performance by the Servicer of its obligations.

### ***Reliance on Swap Providers***

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or rates of interest that track a base rate) and a compounded daily SONIA rate for the relevant calculation period, the LLP has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. In addition, to provide a hedge against interest rate and currency risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP on the outstanding Term Advances or (following service on the LLP of a Notice to Pay) under the



Covered Bond Guarantee in respect of the Covered Bonds, the LLP has entered into a Covered Bond Swap Agreement with each Covered Bond Swap Provider.

The Interest Rate Swap (Tracker) may not fully hedge the possible variance in the rates of interest payable on tracker rate loans and a compounded daily SONIA rate for the relevant calculation period (as applicable) on the basis that such Interest Rate Swap (Tracker) only provides a hedge in respect of the excess (if any) of the aggregate outstanding balance of the tracker rate loans over 10% (or such lower percentage as the parties to the swap may agree) of the aggregate outstanding balance of all Loans in the Portfolio. Instead the Rating Agencies have considered the associated risks of the LLP not being fully hedged in respect of the tracker rate loans in their ratings assessment and cash flow models in conjunction with the collateral requirements and any risk has been mitigated through an increase in over-collateralisation requirement. In so far as any portion of the tracker rate loan balance is unhedged, there is no guarantee that a variance between the rates of interest payable on the tracker rate loans and a compounded daily SONIA rate for the relevant calculation period (as applicable) will not adversely affect the ability of the LLP to meet its obligations under the outstanding Term Advances or the Covered Bond Guarantee (as applicable).

If the LLP fails to make timely payments of amounts due under any Swap Agreement (except where such failure is caused by the assets available to the LLP on a Due for Payment date being insufficient to make the required payment in full), then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated. Further, a Swap Provider is only obliged to make payments to the LLP as long as and to the extent that the LLP complies with its payment obligations under the relevant Swap Agreement. If a Swap Agreement terminates or the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the payment date under the Swap Agreements, the LLP will be exposed to changes in: (i) the variances in the rates of interest payable on the Loans in the Portfolio and compounded daily SONIA for the relevant calculation period (as applicable); and/or (ii) the relevant currency exchange rates to Sterling (where relevant) and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Intercompany Loan Agreement or Covered Bond Guarantee.

If a Swap Agreement terminates, then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to find a replacement swap counterparty that has sufficiently high ratings as may be required by any of the Rating Agencies and that agrees to enter into a replacement swap agreement.

If the LLP is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank ahead of amounts due on the Covered Bonds (in respect of the Interest Rate Swaps) and *pari passu* with amounts due on the Covered Bonds (in respect of the Covered Bond Swaps), except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. The obligation to pay a termination payment may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

***The Account Bank may continue to hold deposits when it ceases to satisfy certain criteria***

If the Account Bank ceases to satisfy the Account Bank Required Ratings (i) the GIC Account would need to be transferred to another entity that does satisfy the relevant criteria or (ii) the Account Bank may continue to hold Deposit Non-Reserved Amounts and Swap Collateral cash amounts in the Collateralised GIC Account, provided that Nationwide Building Society posts collateral against such deposits. Any amounts that do not constitute Deposit Non-Reserved Amounts or Swap Collateral cash amounts must be deposited in a GIC Account with an entity that satisfies the Account Bank Required Ratings. In addition, if Nationwide Building Society as Account Bank ceases to satisfy such criteria, the LLP must establish a Stand-by GIC Account with another entity that does satisfy such criteria. Although any collateral posted against amounts on deposit in the Collateralised GIC Account is required to be in an amount greater than the amount on deposit, there is no guarantee that the value of such collateral when realised will be sufficient to cover losses on the Collateralised GIC Account. If at any time the Account Bank "Issuer Default Ratings" from Fitch are below "BBB-" (provided that such rating by Fitch shall only apply to the extent it maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding),

then the Account Bank must transfer amounts standing to the credit of the GIC Account to another entity that satisfies the Account Bank Required Ratings and during such time, no moneys shall be credited to the Collateralised GIC Account.

### ***Change of counterparties***

The parties to the Transaction Documents who receive and hold moneys pursuant to the terms of such documents (such as the Account Bank) are required to satisfy certain criteria in order that they can continue to receive and hold moneys.

These criteria include requirements imposed under the FSMA 2000 and requirements in relation to the short-term or long-term, unguaranteed and unsecured ratings ascribed to such party by the Rating Agencies. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive moneys on behalf of the LLP) may be required to be transferred to another entity that does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Transaction Documents.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Covered Bondholders may not be required in relation to such amendments and/or waivers.

## **6. RISKS RELATING TO STRUCTURE AND DOCUMENTATION CHANGES**

***The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the holders of the Covered Bonds' or Secured Creditors' prior consent***

Pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), and certain provisions of the Trust Deed and the Deed of Charge, the Bond Trustee has the ability to agree to and/or direct the Security Trustee to agree to certain modifications, waivers and authorisations under the Covered Bonds and the Transaction Documents (including the waiver of any Issuer Event of Default and/or LLP Event of Default) without consultation with, or the consent or sanction of the Covered Bondholders or the other Secured Creditors, including but not limited to:

- to enable the Issuer and/or LLP to comply with any applicable requirements under EU EMIR and/or UK EMIR;
- in connection with the accession of any Additional Account Bank, any replacement Account Bank, any Additional Stand-by Account Bank or any Additional Stand-by GIC Provider or the opening of any additional GIC Accounts, Covered Bond Swap Collateral Accounts, Interest Rate Swap Collateral Accounts, GIC Collateral Custody Accounts, Stand-by GIC Accounts, Stand-by Transaction Accounts, Stand-by Covered Bond Swap Collateral Accounts and Stand-by Interest Rate Swap Collateral Accounts;
- (i) any modifications to a Swap Agreement requested by the relevant Swap Provider to reflect updated or new rating criteria of a Relevant Rating Agency and (ii) any modifications to the Transaction Documents requested by the Issuer, the LLP or the Cash Manager which are consequential to such modifications;
- (i) any modifications to a Swap Agreement requested by the LLP or the relevant Swap Provider to reflect the fact that certain provisions, rules, regulations, directions, processes, guidelines and procedures relating to any applicable laws or regulations affecting the regulatory treatment of the LLP or the relevant Swap Provider have been clarified, updated, delivered, amended, modified or become operative or applicable and (ii) any modifications to the Transaction Documents requested by the Issuer, LLP or the Cash Manager which are consequential to such modifications;
- modifications to any provision(s) of a Swap Agreement as will result in the rating of the Covered Bonds by a Relevant Rating Agency, following the occurrence of a rating event, being maintained at, or restored to, the level at which it was immediately prior to the occurrence of a rating event;

- any modifications to any Transaction Document requested by the Issuer, the LLP or the Cash Manager to reflect updated or new counterparty criteria of a Relevant Rating Agency;
- any modifications to any Transaction Document requested by the Issuer to change the base rate that then applies in respect of Floating Rate Covered Bonds issued after 27 July 2018, related Swap Agreements and/or related Term Advances;
- any modifications to any Transaction Document requested by the Issuer or the Designated Transaction Representative pursuant to a benchmark transition event in respect of any SOFR Covered Bonds; and
- any modifications to the Transaction Documents requested by the Issuer or the LLP to remove references to a Rating Agency and their criteria to the extent such Rating Agency no longer maintains ratings of any outstanding Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding.

Subject as provided in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) of the Trust Deed and to being indemnified and/or secured and/or prefunded to its satisfaction, the Bond Trustee must, and/or must direct the Security Trustee to, agree to modifications, waivers and authorisations as referred to above if so directed by (a) an Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series or (b) the holders of not less than 25% of the Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series.

In the case of the waiver of an Issuer Event of Default or an LLP Event of Default, the relevant one or more Series will be all Series taken together as a single Series. In all other cases referred to above, the relevant one or more Series will be those Series that, in the opinion of the Bond Trustee, are affected by the modification, waiver or authorisation, taken together as a single Series if, in the opinion of the Bond Trustee, there is no conflict between the interests of the Covered Bondholders of the affected Series, but otherwise taken separately.

Moreover, if the Designated Transaction Representative determines that a Benchmark Transition Event has occurred with respect to SOFR, then the Bond Trustee shall be obliged, without any consent or sanction of the Covered Bondholders, or any of the other Secured Creditors, to concur with the Designated Transaction Representative, and to direct the Security Trustee to concur with the Issuer or any other person in making any modification to the Conditions or any of the Transaction Documents that the Designated Transaction Representative decides may be appropriate to give effect to the provisions set forth in Condition 4.2(b)(ii) under the section titled “*Effect of Benchmark Transition Event on any SOFR Bonds*” in relation only to all determinations of the Rate of Interest payable on any SOFR Bonds and any related Swap Agreements. The Covered Bondholders and the other Secured Creditors shall be deemed to have instructed the Bond Trustee to (which shall instruct the Security Trustee to) concur with such amendments and shall be bound by them regardless of whether or not they are materially prejudicial to the interests of the Covered Bondholders or the other Secured Creditors.

There can be no assurance that the effect of such modifications to the Transaction Documents will not ultimately adversely affect the interests of the Covered Bondholders.

### ***Security Trustee's and Bond Trustee's powers***

In the exercise of its duties, powers, trusts, authorities and discretions, the Security Trustee shall only have regard to the interests of the Covered Bondholders. In the exercise of its duties, powers, trusts, authorities and discretions, the Security Trustee shall not act on behalf of the Seller.

In having regard to the interests of the Covered Bondholders, the Security Trustee shall be entitled to rely solely on a written confirmation from the Bond Trustee as to whether, in the opinion of the Bond Trustee, any matter, action or omission is or is not in the interests of or is not prejudicial or materially prejudicial to the interests of, the Covered Bondholders. The Bond Trustee shall have sole responsibility for resolving conflicts of interest as between the Covered

Bondholders or any Series or class of them, subject to and in accordance with the provisions of the Trust Deed and the Conditions.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Bond Trustee or the Security Trustee is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such holders of the Covered Bonds by Extraordinary Resolution or by a direction in writing of such holders of the Covered Bonds of at least 25% of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding, which could adversely affect the interests of holders of Covered Bonds.

## **7. MACROECONOMIC AND MARKET RISKS**

### ***The Covered Bonds are subject to selling and transfer restrictions that may affect the existence and liquidity of any secondary market in the Covered Bond***

There is not, at present, an active and liquid secondary market for the Covered Bonds, and no assurance is provided that a secondary market for the Covered Bonds will develop. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". To the extent a secondary market develops, it may not continue for the life of the Covered Bonds or it may not provide holders of the Covered Bonds with liquidity of investment with the result that a holder of the Covered Bonds may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the holder of the Covered Bonds to realise a desired yield. Consequently, a Covered Bondholder must be able to bear the economic risk of an investment in a Covered Bond for an indefinite period of time.

### ***A lack of liquidity in the secondary market may adversely affect the market value of the Covered Bonds***

As at the date of this Base Prospectus, the secondary market for mortgage-backed securities is experiencing disruptions resulting from reduced investor demand for such securities. This has had a materially adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities experiencing very limited liquidity. Structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties have been forced to sell mortgage-backed securities into the secondary market. The price of credit protection on mortgage-backed securities through credit derivatives has risen materially.

Limited liquidity in the secondary market may continue to have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, whilst these market conditions continue to persist, an investor in Covered Bonds may not be able to sell or acquire credit protection on its Covered Bonds readily and market values of Covered Bonds are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to Covered Bondholders.

It is not known for how long the market conditions will continue or whether they will worsen.

### ***Scotland Act 2016***

On 23 March 2016, the Scotland Act 2016 received Royal Assent and passed into UK law. Among other things, the Scotland Act 2016 passes control of income tax to the Scottish Parliament by giving it the power to raise or lower the rate of income tax and thresholds for non-dividend and non-savings income of Scottish residents. Whilst the majority of the provisions are not expected to have an adverse impact on the Scottish economy or on mortgage origination in Scotland, increased powers for the Scottish Parliament to control income tax could mean that Borrowers in Scotland are subject to a different rate of income tax from borrowers in the same income bracket in England, Wales and Northern Ireland, which may affect some Borrowers' ability to pay amounts when due on the Loans originated in Scotland, and which, in turn, may adversely affect payments by the Issuer on the Covered Bonds.

## 8. LEGAL AND REGULATORY RISKS

### *Changes of law*

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law (and, in relation to the Scottish Loans and Northern Irish Loans, Scots law and Northern Irish law respectively) in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law, Welsh Law, Scots law or Northern Irish law or administrative practice in the United Kingdom after the date of this Base Prospectus, nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Covered Bonds or the ability of the LLP to make payments under the Covered Bond Guarantee.

No assurance can be given that additional regulations or guidance from the FCA, the PRA, the Ombudsman, the CMA or any other regulatory authority will not arise with regard to the mortgage market in the UK generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments or compliance costs may have a material adverse effect on the Loans, the Seller, the LLP, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio or any part thereof in a timely manner and/or the realisable value of the Portfolio or any part thereof and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

### *Insolvency proceedings and subordination provisions*

There is uncertainty as to the validity and/or enforceability of a provision that (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, several cases have focused on provisions involving the subordination of a swap counterparty's payment rights in respect of certain termination payments upon the occurrence of insolvency proceedings or other default on the part of such counterparty (so called **flip clauses**). Such provisions are similar in effect to the terms that will be included in the Transaction Documents relating to the subordination of certain payments.

The UK Supreme Court has held that a flip clause as described above is valid under English law. Contrary to this, however, a US Bankruptcy Court has held in two separate cases that such a subordination provision is unenforceable under US bankruptcy law and that any action to enforce such provision would violate the automatic stay that applies under such law in the case of a US bankruptcy of the counterparty. However, a subsequent 2016 U.S. Bankruptcy Court decision held that in certain circumstances flip clauses are protected under the U.S. Bankruptcy Code and therefore enforceable in bankruptcy. The 2016 decision was affirmed on 14 March 2018 by the U.S. District Court for the Southern District of New York, which 2018 decision was further affirmed on 11 August 2020 by the U.S. Court of Appeals for the Second Circuit. The implications of this conflicting judgment remain unresolved.

If a creditor of the Issuer or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the U.S.), and it is owed a payment by the Issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Documents. In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under U.S. bankruptcy laws. Such laws may be relevant in certain circumstances with respect to any replacement swap counterparty, depending on certain matters in respect of that entity.

In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Covered Bondholders, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

### ***Expenses of insolvency officeholders***

Under the RCB Regulations, following the realisation of any asset pool security and/or a winding up of the LLP, certain costs and expenses are payable out of the fixed and floating charge assets of the LLP in priority to the claims of Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of the LLP (but it would appear not out of the fixed charge assets) in priority to the claims of Secured Creditors in an administration of the LLP. It appears that these costs and expenses would include costs incurred by an insolvency officeholder (including an administrative receiver, liquidator or administrator) in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides in general that the expenses of any administration or winding-up rank ahead of unsecured debts and the claims of any floating charge-holder, but below the claims of any fixed charge-holder.

It is intended that the LLP should be a bankruptcy-remote entity and a provision has been included in the Deed of Charge such that, in certain post-enforcement scenarios, each Secured Creditor agrees that (among other things) if it receives certain subordinated amounts in respect of any secured liabilities owed to it other than in accordance with the Post-Enforcement Priority of Payments (referred to under "*Cash flows*" below) then such amounts will be held on trust for the Security Trustee and paid over to the Security Trustee immediately upon receipt so that such amounts may be applied in accordance with that priority of payments. Notwithstanding such provision, there is a risk that, in certain circumstances, the relevant provisions of the RCB Regulations will result in a reduction in the amounts available to pay Covered Bondholders. In particular, it is not possible to bind third parties (such as HM Revenue & Customs) in relation to such subordination provisions.

See also the investment consideration described below under "*Liquidation expenses payable on floating charge realisation will reduce amounts available to satisfy claims of secured creditors of the LLP*".

### ***English law security and insolvency considerations***

The LLP will enter into the Deed of Charge pursuant to which it will grant the Security in respect of its obligations under the Covered Bond Guarantee (as to which, see Transaction Documents – Deed of Charge). In certain circumstances, including the occurrence of certain insolvency (or certain pre-insolvency) events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the Security impaired. In particular, it should be noted that significant changes to the UK insolvency regime have been enacted under the Corporate Insolvency and Governance Act 2020 which received Royal Assent on 25 June 2020 and came into effect on 26 June 2020. The changes include, among other things: (i) the introduction of a new moratorium regime that certain eligible companies can obtain which will prevent creditors taking certain action against the company for a specified period; (ii) a ban on operation of or exercise of ipso facto clauses preventing (subject to exemptions) termination, variation or exercise of other rights under a contract due to a counterparty entering into certain insolvency or restructuring procedures; and (iii) a new compromise or arrangement under Part 26A of the Companies Act 2006 (the **Restructuring Plan**) that provides for ways of imposing a restructuring on creditors and/or shareholders without their consent (so-called cross-class cram-down procedure), subject to certain conditions being met and with a court adjudicating on the fairness of the restructuring proposal as a whole in determining whether or not to exercise its discretionary power to sanction the Restructuring Plan. While the Issuer and the LLP are expected to be exempt from the application the new moratorium regime and the ban on ipso facto clauses, there is no guidance on how the new legislation will be interpreted and the Secretary of State may by regulations modify the exceptions. For the purposes of the Restructuring Plan, it should also be noted that there are currently no exemptions, but the Secretary of State may by regulations provide for exclusion of certain companies providing financial services and the UK government has expressly provided for changes to the Restructuring Plan to be effected through secondary legislation, particularly in relation to the cross-class cram-down procedure. It is therefore possible that aspects of the legislation may change. While the transaction structure is designed to minimise the likelihood of the LLP becoming insolvent and/or subject to pre-insolvency restructuring proceedings, no assurance can be given that any modification of the exceptions from the application of the new insolvency reforms referred to above will not be detrimental to the interests of the Covered Bondholders and there can be no assurance that the LLP will not become insolvent and/or the subject of insolvency or pre-insolvency restructuring proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency laws or the laws affecting the creditors' rights generally).

In addition, it should be noted that, to the extent that the assets of the LLP are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of sections 174A, 176ZA and 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy expenses of the insolvency proceeding, the claims of Secured Creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors or creditors who otherwise take priority over floating charge recoveries. While certain of the covenants given by the LLP in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the LLP has any other such creditors at any time. There can be no assurance that the Covered Bondholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

Pursuant to the modifications made by the RCB Regulations to (amongst other things) the Insolvency Act 1986, the provisions set out above in respect of Section 176A will not apply with respect to the LLP and its floating charge assets.

***Fixed charges may take effect under English law as floating charges***

Pursuant to the terms of the Deed of Charge, the LLP has purported to grant fixed charges over, among other things, its interests in the English Loans and their Related Security, the Substitution Assets and its rights and benefits in the LLP Accounts and all Authorised Investments purchased from time to time.

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Property for the security to be said to constitute fixed charges. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets. In particular, the expenses of any administration, and the claims of any preferential creditors, would rank ahead of the claims of the Security Trustee in this regard. Although the Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the United Kingdom tax authorities), took effect from 1 December 2020 certain amounts owed to the United Kingdom tax authorities will become secondary preferential debts and rank ahead of the recoveries to floating charge-holders. These measures are intended to apply to taxes effectively collected by a debtor on behalf of the tax authorities and will include amounts in respect of PAYE, employee national insurance contributions and construction industry scheme deductions. However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees.

In addition, any administrative receiver, administrator or liquidator appointed in respect of the LLP will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the Deed of Charge.

***Liquidation expenses payable on floating charge realisation will reduce amounts available to satisfy claims of secured creditors of the LLP***

Under the Insolvency Act, in general the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency (England and Wales) Rules 2016 (as amended), as applied to LLPs by virtue of the Insolvency (Miscellaneous Amendments) Regulations 2017 (SI2017/1119).

Whilst it is not clear, it appears that the provisions referred to above apply in respect of limited liability partnerships. On this basis and as a result of the changes described above, at all times when the RCB Regulations do not apply to the LLP, upon the enforcement of the floating charge security granted by the LLP, floating charge realisations that would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation expenses. There can be no assurance that the Covered Bondholders will not be adversely affected by such a reduction in floating charge realisations.

### ***Limited Liability Partnerships***

The LLP is a limited liability partnership. Limited liability partnerships, created by statute pursuant to the LLPA 2000, are bodies corporate for general English law purposes and have unlimited capacity. A general description of limited liability partnerships is set out below under "*Description of Limited Liability Partnerships*". This area of the law is relatively undeveloped. Accordingly, there is a risk that as the law develops, new case law or new regulations made under or affecting the LLPA 2000 or relating to limited liability partnerships could adversely affect the ability of the LLP to perform its obligations under the Transaction Documents which could, in turn, adversely affect the interests of holders of the Covered Bonds.

### ***Risks relating to the Banking Act 2009 and the European Union Bank Recovery and Resolution Directive***

The Banking Act 2009 (the Banking Act) includes provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of certain UK incorporated entities, including authorised deposit-taking institutions and investment firms, and powers to take certain resolution actions in respect of third country institutions. In addition, powers may be used in certain circumstances in respect of UK established banking group companies, where such companies are in the same group as a relevant UK or third country institution.

Under the Banking Act, substantial powers have been granted to HM Treasury, the PRA, the FCA and the Bank of England as part of a special resolution regime (the **SRR**). These powers enable the authorities, among other things, to resolve a bank or building society in circumstances in which the authorities consider its failure has become highly likely and a threat is posed to the public interest. In respect of UK building societies, the relevant tools (together, the **Stabilisation Options**) include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) in place of the share transfer powers, a public ownership tool which may involve (among other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding-up or dissolution of the building society and (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the society to a company. In each case, the Banking Act grants additional powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of a relevant entity as described above (including the Issuer), such action may (among other things) affect the ability of the relevant entity to satisfy its obligations under the Transaction Documents (including limiting its capacity to meet its repayment obligations) and/or result in the cancellation, modification or conversion of certain unsecured liabilities of such entity under the Transaction Documents (possibly preceded by demutualisation in the case of a building society such as the Issuer), including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time and/or in other modifications to the Terms and Conditions of the Covered Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool (including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time), the reduction of the relevant liability (including to zero) and/or the discharge of a relevant entity from further performance of its obligations under a contract. In addition, subject to certain conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred (which events may include trigger events included in the Transaction Documents in respect of the Issuer, including trigger events in respect of perfection of legal title to the Loans and the Issuer Events of Default). As a result, the making of an instrument or order in respect of the Issuer, the Seller, the Servicer, the Account Bank, the Covered Bond Swap Provider, the Cash Manager, the Principal Paying Agent, the Agent Bank, the Exchange Agent, the Registrar, the GIC Provider, the Stand-by Account Bank or the Stand-by GIC Provider may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or otherwise adversely affect the rights and interests of the Covered Bondholders.



Secondary legislation that makes provision for the Stabilisation Options under the SRR to be used in respect of any "banking group company" came into force on 1 August 2014. The definition of "banking group company" encompasses certain of the Issuer's subsidiaries and affiliates. The amendments to the Banking Act allow the Stabilisation Options under the SRR and the bail-in stabilisation power to be applied to any of the Issuer's related group companies that meet the definition of a "banking group company".

As noted above, the stabilisation tools may be used in respect of certain banking group companies provided certain conditions are met. If the LLP was regarded to be a banking group company and no exclusion applied, then it would be possible in certain scenarios for the relevant authority to exercise one or more relevant stabilisation tools (including the property transfer powers and/or the bail-in powers) in respect of it, which could result in reduced amounts being available to make payments under the Covered Bond Guarantee and/or in the modification, cancellation or conversion of any unsecured portion of the liability of the LLP under the Covered Bond Guarantee at the relevant time. In this regard, it should be noted that the UK authorities have provided an exclusion for covered bond vehicles, which exclusion is expected to extend to the LLP, although aspects of the relevant provisions are not entirely clear.

Other powers contained in the Banking Act may affect the value of an investment in the Covered Bonds. The exercise of these powers may impact how the Issuer is managed as well as, in certain circumstances, the rights of creditors. There can be no assurance that actions taken under the Banking Act will not adversely affect Covered Bondholders.

The SRR may be triggered prior to the Issuer's insolvency. The purpose of the Stabilisation Options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the Stabilisation Options may be exercised if (i) the relevant authority is satisfied that a relevant entity (such as the Issuer) is failing or is likely to fail, (ii) following consultation with the other authorities, the relevant authority determines that it is not reasonably likely that (ignoring the Stabilising Options) action will be taken that will enable the relevant entity to satisfy those conditions, (iii) the authorities consider the exercise of the Stabilisation Options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors) and (iv) the relevant authority considers that the specific resolution objectives would not be met to the same extent by the winding-up of the relevant entity.

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

Although the Banking Act provides for conditions to the exercise of any resolution powers, it is uncertain how the authorities would assess such conditions in any particular situation. The relevant authorities are also not required to provide any advance notice to Covered Bondholders of their decision to exercise any resolution power. Therefore, Covered Bondholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Covered Bonds.

A partial transfer of the Issuer's business may result in a deterioration of its creditworthiness. If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with it (which may include the Covered Bonds) may result in a deterioration in its creditworthiness and, as a result, increase the risk that it may be unable to meet its obligations in respect of the Covered Bonds and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Covered Bondholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act. However, such compensation will be limited to the return the Covered Bondholder might otherwise have received on the Issuer's insolvency (less the value already received through resolution), and there can be no assurance that Covered Bonds will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Base Prospectus, the authorities have not made an instrument or order under the Banking Act in respect of the Issuer or in respect of any of the Issuer's securities and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such order or instrument if made.

***The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Covered Bonds, which may result in holders of the Covered Bond losing some or all of their investment***

Although the bail-in powers are not intended to apply to secured debt (such as the rights of Covered Bondholders in respect of the Covered Bond Guarantee), the determination that securities issued by the Issuer will be subject to write-down, conversion or bail-in, is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. This determination will also be made by the relevant UK resolution authority and there may be many factors, including factors not directly related to the Issuer, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of a bail-in power may occur which would result in a principal write off or conversion to other securities, including equity. Moreover, as the criteria that the relevant UK resolution authority will be obliged to consider in exercising any bail-in power provide it with considerable discretion, holders of the securities issued by the Issuer may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Issuer and the securities issued by the Issuer. Potential investors in the securities issued by the Issuer should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon.

***The Issuer is subject to regulatory capital and liquidity requirements which are subject to change and which could have an impact on its operations***

Whilst the Society monitors current and expected future capital, liquidity and 'minimum requirement for own funds and eligible liabilities' (MREL) requirements, including having regard to both leverage and RWA-based requirements, and seeks to manage and plan the prudential position accordingly and on the basis of current assumptions regarding future capital and liquidity requirements, there can be no assurance that the assumptions will be accurate in all respects or that it will not be required to take additional measures to strengthen its capital or liquidity position.

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

If the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory capital, leverage, liquidity or MREL requirements, this may result in administrative actions or regulatory sanctions. In addition, any actual or perceived weakness relative to the Society's competitors could result in a loss of confidence, which could result in high levels of withdrawals from its retail deposit base, upon which it relies for lending and which could have a material adverse effect on the Issuer's business, financial position and results of operations.

***Implementation of Basel III risk-weighted asset framework may result in changes to the risk-weighting of the Covered Bonds***

The Basel Committee on Banking Supervision (the BCBS) has approved significant changes to the Basel regulatory capital and liquidity framework (such changes being commonly referred to as **Basel III**). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the liquidity coverage ratio and the net stable funding ratio).

The BCBS published a package of further revisions to Basel III in December 2017, including changes to: a standardised approach for credit risk, internal ratings-based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework, and a revised output floor. The BCBS expects these changes

to be implemented from January 2022, with transitional arrangements up to January 2027, although these timelines remain unclear until such rules are translated into draft European legislation.

As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds, may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the Solvency II framework in Europe.

Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

### ***Impact of UK EMIR and EU EMIR on the Interest Rate Swaps and Covered Bond Swaps***

The derivatives markets are subjective to extensive regulation in a number of jurisdictions, including in the UK pursuant to Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories as it forms part of domestic law by virtue of the EUWA (**UK EMIR**), and in Europe pursuant to Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (**EU EMIR**), each as amended from time to time. UK EMIR and EU EMIR establish certain requirements for OTC derivatives contracts, including (i) a mandatory clearing obligation for certain classes of OTC derivatives contracts (the **Clearing Obligation**), (ii) margin posting, daily valuation and other risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty (the **Risk Mitigation Requirements**), and (iii) certain reporting and recordkeeping requirements.

Under UK EMIR and EU EMIR, counterparties can be classified as (i) financial counterparties (**FCs**) (which includes a sub-category of small **FCs**) and (ii) non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in its "group" (as defined in UK EMIR or EU EMIR, as applicable), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold (**NFC+s**). Whereas **FCs** (excluding small **FCs**) and **NFC+** entities must clear OTC derivatives contracts that are entered into on or after the effective date for the relevant Clearing Obligation, such obligation does not apply in respect of **NFC-** entities.

OTC derivatives contracts entered into by **NFC+** and **FC** entities (and/or third country equivalent entities) with each other that are not cleared by a central counterparty may be subject to the relevant margining requirement and the relevant daily valuation obligation under UK EMIR and EU EMIR. On the basis that the LLP is an **NFC-** for the purposes of UK EMIR and a third country equivalent to an **NFC-** (a **TCE NFC-**) for the purposes of EU EMIR, OTC derivatives contracts that are entered into by the LLP are not subject to the Clearing Obligation or any margining requirements under UK EMIR and EU EMIR.

OTC derivatives contracts that are not cleared by a central counterparty are also subject to certain other Risk Mitigation Requirements, including arrangements for timely confirmation of OTC derivatives contracts, portfolio reconciliation, dispute resolution and arrangements for monitoring the value of outstanding OTC derivatives contracts. These requirements are already in effect. In order to comply with certain of these Risk Mitigation Requirements, the LLP includes appropriate provisions in each Swap Agreement and the related Transaction Documents.

If the LLP's counterparty status changes to an **NFC+** or **FC** for the purposes of UK EMIR and/or a third country equivalent to an **NFC+** or **FC** (a **TCE NFC+** or a **TCE FC** respectively) for the purposes of EU EMIR this may result in the application of the relevant Clearing Obligation or (more likely) the relevant margining requirements and the relevant daily valuation obligation under the Risk Mitigation Requirements (the **Margin Obligation**), as it seems unlikely that any of the Swap Agreements would be a relevant type of OTC derivatives contract that would be subject to the Clearing Obligation under UK EMIR and EU EMIR to date. It should also be noted that the relevant Margin Obligation should not apply in respect of swaps entered into prior to the relevant application date, unless such a swap is materially amended on or after that date. Where the relevant swap counterparty is a UK entity, an exemption from the Clearing Obligation under

UK EMIR and a partial exemption in respect of the Margin Obligation under UK EMIR may be available in respect of the Interest Rate Swaps and Covered Bond Swaps, provided that the applicable conditions are satisfied.

The applicable conditions require that:

- (a) the Interest Rate Swaps and the Covered Bond Swaps are used only to hedge interest rate or currency mismatches under the covered bonds; and
- (b) the arrangements under the covered bonds adequately mitigate counterparty credit risk with respect to the Interest Rate Swaps and the Covered Bond Swaps concluded by the LLP in connection with the covered bonds,

and with respect to the partial exemption from the Margin Obligation only:

- (c) the netting set does not include OTC derivative contracts unrelated to the cover pool of the covered bonds; and
- (d) the covered bond to which the OTC derivative contract is associated meets the requirements of paragraphs (1), (2) and (3) of Article 129 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment funds amending Regulation (EU) 648/2012 as it forms part of domestic law by virtue of the EUWA.

Arrangements under covered bonds shall be considered to adequately mitigate counterparty credit risk, where the OTC derivative contracts concluded by the relevant covered bond entity in connection with the covered bonds comply with all of the following criteria:

- (i) those OTC derivative contracts are registered or recorded in the cover pool of the covered bond in accordance with national legislation on covered bonds;
- (ii) those OTC derivative contracts are not terminated in case of resolution or insolvency of the covered bond issuer or the cover pool;
- (iii) the counterparty to the OTC derivative contract concluded with covered bond issuers or with cover pools for covered bonds ranks at least pari passu with the covered bond holders, except where the counterparty to the OTC derivative contract concluded with covered bond issuers or with cover pools for covered bonds is the defaulting or the affected party, or waives the pari passu rank; and
- (iv) the covered bonds are subject to a regulatory collateralisation requirement of at least 102%.

Pursuant to the partial exemption in respect of the Margin Obligation, initial margin does not need to be posted or collected, but the LLP would be required to collect variation margin in the form of cash from its swap counterparty under in-scope Swap Agreements and return cash collected when due. If it was necessary and possible for the LLP to rely on this partial exemption, this requirement may increase the costs of entering into Swap Agreements for the LLP.

The exemption from the Clearing Obligation and partial exemption from the Margin Obligation are only likely to become relevant should the status of the LLP change from an NFC- to an NFC+ or FC under UK EMIR and, if clearing is applicable, should the Interest Rate Swaps and Covered Bond Swaps be regarded as a type that is subject to the relevant Clearing Obligation. Should the status of the LLP change from a TCE NFC- to a TCE NFC+ or TCE FC under EU EMIR and the relevant swap counterparty is an EU entity, from an EU EMIR perspective, there are no covered bond exemptions available to the LLP.

If the LLP's counterparty status as an NFC- for the purposes of UK EMIR and/or TCE NFC- for the purposes of EU EMIR changes and the LLP is unable to rely on the relevant conditional exemptions, this may adversely affect the ability of the LLP to continue to be party to Swap Agreements (possibly resulting in restructuring or termination of the Swap

Agreements) or to enter into Swap Agreements, thereby negatively affecting the ability of the LLP to hedge certain risks. This may also reduce the amounts available to make payments with respect to the Covered Bonds.

UK EMIR and EU EMIR may, *inter alia*, lead to more administrative burdens and higher and/or additional costs and expenses for the LLP, which may in turn reduce the amounts available to make payments with respect to the Covered Bonds. Further, if any party fails to comply with the applicable rules under UK EMIR and/or EU EMIR, as applicable, it may be liable for a fine. If such a fine is imposed on the LLP, this may also reduce the amounts available to make payments with respect to the Covered Bonds.

Finally, the Bond Trustee and Security Trustee shall be obliged, without any consent or sanction of the holders of the Covered Bonds or any other Secured Creditor (other than any Secured Creditor party to the relevant Transaction Document to be amended), to concur with the Issuer and/or the LLP in making EMIR Amendments to the Conditions of the Covered Bonds and/or the Transaction Documents and such modifications may adversely affect your interests (see risk factor "*The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the holders of the Covered Bonds' or Secured Creditors' prior consent*").

### ***Harmonisation of the EU Covered Bond framework***

It should also be noted that in November 2019, the European Parliament and the Council adopted the legislative package on covered bond reforms made up of a new covered bond directive and a new regulation which entered into force on 7 January 2020 with the deadline for application of 8 July 2022 (both texts have relevance for the EEA and are to be implemented in due course in EEA countries). The new covered bond directive replaces Article 52(4) of the UCITS Directive, establishes a revised common base-line for the issue of covered bonds for EU regulatory purposes (subject to various options that members states may choose to exercise when implementing the new directive through national laws). The new regulation will be directly applicable in the EU, it amends Article 129 of the Capital Requirements Regulation (Regulation (EU) No 575/2013) (**EU CRR**) (and certain related provisions) and further strengthens the criteria for covered bonds that benefit from preferential capital treatment under the EU CRR regime. As EU CRR permits the exercise of certain national discretion, the implementation may be subject to some level of national variation. In the UK, the Financial Conduct Authority confirmed that it intends to implement the EU covered bond reforms in the UK and it is expected that a consultation on the proposed amendments will be published in the course of 2021. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

In addition, preferential regulatory treatment under article 129 of the EU CRR will not be available in respect of the Covered Bonds after 31 December 2020. Furthermore, the Covered Bonds will not be grandfathered under the EU covered bond reforms, once these become applicable, given that the new covered bond directive provides for permanent grandfathering for Article 52(4) UCITS Directive-compliant covered bonds issued by an issuer with its registered office in an EU member state before the relevant application date, provided there is continued supervision by the relevant designated competent authority in the EU (similar grandfathering provisions are also provided for in the new regulation).

Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the LLP, any Arranger or any Dealer makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the issue date of such Covered Bonds or at any time in the future.

### ***EU financial transaction tax proposals may give rise to tax liabilities***

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common financial transactions tax (the **FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by

transacting with a person established in a participating Member State or (b) where the financial instrument that is subject to the dealings is issued in a participating Member State.

The FTT may give rise to tax liabilities for the LLP and/or the Issuer with respect to certain financial transactions (including concluding swap transactions and/or purchases or sales of securities (such as any securities comprised in charged assets)) if it is adopted based on the Commission's Proposal. Any such tax liabilities may reduce amounts available to the LLP and/or the Issuer to meet its obligations under the Covered Bond Guarantee or the Covered Bonds (as applicable) and may result in investors receiving less interest or principal than expected. To the extent that such liabilities may arise at a time when winding up proceedings have been commenced in respect of the LLP or the Issuer, such liabilities may be regarded as an expense of the liquidation and, as such, be payable out of the floating charge assets of the LLP or the Issuer (as applicable, and their general estates) in priority to the claims of Covered Bondholders and other secured creditors in respect of such floating charge assets. See also the risk factor "*Fixed charges may take effect under English law as floating charges*". It should also be noted that the FTT could be payable in relation to relevant financial transactions by investors in respect of the Covered Bonds (including secondary market transactions) if the conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission's Proposal. Primary market transactions referred to in Article 5(c) of Regulation EC No 1287/2006 are expected to be exempt. There is however some uncertainty in relation to the intended scope of this exemption for certain money market instruments and structured issues.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

#### ***Devolution of taxing powers to the Scottish Parliament***

The Scotland Act 2016 passed control of certain aspects of income tax to the Scottish Parliament by giving it the power to raise or lower the rate of income tax and thresholds for non-dividend and no-savings income of Scottish residents. The majority of the provisions should not have an adverse impact on the Scottish economy or on mortgage origination in Scotland, but it is possible that increased rates of income tax in Scotland could mean that some Borrowers' ability to pay amounts when due on the Loans originated in Scotland could be affected, and which, in turn may adversely affect payments by the Issuer on the Covered Bonds. As a result of the most recent Scottish Budget, some Scottish taxpayers will be paying more income tax than taxpayers elsewhere in the UK (and some will be paying less) but the differences are not particularly significant.

#### ***Enterprise Act 2002***

The Insolvency Act contains provisions that continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. These provisions apply to the LLP as if it were a company. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the Security) which form part of a capital market arrangement (as defined in the Insolvency Act), which would include the issue of covered bonds, and which involves indebtedness of at least £50 million (or, when the relevant security document (being in respect of the transactions described in this Base Prospectus, the Deed of Charge) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50 million) and the issue of a capital market investment (also defined but generally a rated, listed or traded bond). The Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this Base Prospectus, will not be detrimental to the interests of the Covered Bondholders.

The Insolvency Act also contains an out-of-court route into administration for a qualifying floating charge-holder, the relevant company itself or its directors. These apply to limited liability partnerships (such as the LLP). The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the LLP or appoint an alternative administrator, although a moratorium on enforcement

of the relevant security will take effect immediately after notice is given. If the qualifying floating charge-holder does not respond to the LLP notice of intention to appoint, the LLP appointee will automatically take office after the notice period has elapsed.

The administration provisions of the Insolvency Act give primary emphasis to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. The purpose of realising property to make a distribution to secured creditors is secondary. As noted above, these new administration provisions apply to limited liability partnerships (such as the LLP). No assurance can be given that the primary purpose of the new provisions would not conflict with the interests of the Covered Bondholders were the LLP ever subject to administration.

### ***Pensions Act 2004***

Under the Pensions Act 2004 a person that is "connected with" or an "associate" of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. Nationwide Building Society is an employer under an occupational scheme and also a member of the LLP. On this basis, the LLP is likely to be treated as "connected with" Nationwide Building Society.

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act: (a) which has caused a material detriment to the pension scheme (whether or not intentionally); or (b) the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt that was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt that would otherwise become due.

A financial support direction could be served on the LLP where the employer is either a service company or insufficiently resourced. An employer is insufficiently resourced if the value of its resources is less than 50% of the pension scheme's deficit calculated on an annuity buy-out basis and there is a connected or associated person whose resources at least cover that difference. A financial support direction can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

If a contribution notice or financial support direction were to be served on the LLP, this could adversely affect investors in the Covered Bonds.

### ***Financial Regulatory Reforms in the United States***

The US Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in 2010 (the **Dodd-Frank Act**), significantly impacts the financial services industry. This legislation, among other things (a) requires US federal regulators to adopt significant regulations establishing a comprehensive registration and regulatory framework applicable to dealers and major participants for a broad range of derivatives contracts, and adopt requirements regarding clearing, exchange trading, margin posting and collecting, reporting and recordkeeping for derivatives transactions, (b) requires US federal regulators to adopt regulations requiring securitisers or originators to retain at least 5% of the credit risk of securitised exposures unless the underlying exposures meet certain underwriting standards to be determined by regulations, (c) increased oversight of credit rating agencies and (d) requires the SEC to promulgate rules generally prohibiting firms from underwriting or sponsoring a securitisation that would result in a material conflict of interest with respect to investors in that securitisation.

In the US, since the passage of the Dodd-Frank Act, the Department of the Treasury, the SEC, the Financial Stability Oversight Council, the Commodity Futures Trading Commission (the **CFTC**), the Federal Reserve Board, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau and the Federal Deposit Insurance Corporation have been engaged in extensive rule-making mandated by the Dodd-Frank Act. Whilst many of the regulations required under the Dodd-Frank Act have been adopted, certain of these regulations are not yet effective and certain other significant rule-making has not yet been finalised. As a result, the complete scope of the Dodd-Frank Act remains uncertain. Statements made by the new administration add to the uncertainty about the complete scope of the Dodd-Frank Act. These regulations have or may have indirect implications on the Issuer's business and operations. In

particular, in addition to the regulations referred to above affecting the financial services industry generally, Title VII of the Dodd-Frank Act (**Title VII**) imposes a new regulatory framework on swap transactions, including interest rate and currency swaps of the type entered into by the LLP in connection with the issuance of the Covered Bonds. As such, the LLP may face certain regulatory requirements under the Dodd-Frank Act, subject to any applicable exemptions or relief. The CFTC has primary regulatory jurisdiction over such swap transactions, although some regulations have been jointly issued with the SEC and other regulations relating to swaps may be issued by other US regulatory agencies. Many of the regulations implementing Title VII have become effective or are in final form; however, the interpretation and potential impact of these regulations is not yet entirely clear, and certain other key regulations are yet to be finalised. Once fully implemented, these new regulations could adversely affect the value, availability and performance of certain derivatives instruments and may result in additional costs and restrictions with respect to the use of those instruments.

As Title VII's requirements go into effect, it is clear that swap counterparties, dealers and other major market participants, as well as commercial users of swaps and other derivatives regulated pursuant to Title VII, will experience new and/or additional regulatory requirements, compliance burdens and associated costs.

Such requirements may disrupt the LLP's ability to hedge its exposure to various transactions, including any obligations it may owe to investors under the Covered Bonds, and may materially and adversely impact a transaction's value or the value of the Covered Bonds. The LLP cannot be certain as to how these regulatory developments will impact the treatment of the Covered Bonds.

In particular, any amendments to existing or new swap transactions entered into by the LLP may be subject to clearing, exchange trading, capital, margin posting and collecting, reporting and recordkeeping requirements under the Dodd-Frank Act that could result in additional regulatory burdens, costs and expenses (including extraordinary, non-recurring expenses of the LLP). Even those swap transactions not required to be cleared may be subject to initial and variation margining and documentation requirements that may require modifications to existing agreements.

No assurance can be given that the Dodd-Frank Act and related regulations or any other new legislative changes enacted will not have a significant impact on the Issuer or the LLP, including on the amount of Covered Bonds that may be issued in the future or the LLP's ability to maintain or enter into swap transactions.



## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will either be in bearer form, with or without interest coupons and/or talons attached, or registered form, without interest coupons and/or talons attached. Bearer Covered Bonds may be offered, sold and delivered only outside the United States to non-US persons in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Covered Bonds may be offered and sold outside the United States to non-US persons in reliance on the exemption from registration provided by Regulation S and within the United States only to QIBs in reliance on Rule 144A.

### **Bearer Covered Bonds**

Each Tranche of Bearer Covered Bonds will initially be issued in the form of a temporary global covered bond without interest coupons attached (a **Temporary Global Covered Bond**) or, if so specified in the applicable Final Terms (the **Final Terms**), a permanent global covered bond without interest coupons attached (a **Permanent Global Covered Bond** and, together with the Temporary Global Covered Bonds, the **Bearer Global Covered Bonds** and each a **Bearer Global Covered Bond**) which, in either case, will be issued in new global covered bond form (a **New Global Covered Bond**), as stated in the applicable Final Terms and will be delivered on or about the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, SA (**Clearstream, Luxembourg**).

The Bearer Covered Bonds are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Bearer Covered Bonds are intended upon issue to be deposited with a Common Safekeeper and does not necessarily mean the Bearer Covered Bonds will be recognised as collateral for the central banking system for the euro (the **Eurosystem**) monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Covered Bond of the same Series or (b) for Bearer Definitive Covered Bonds of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case to the extent that certification as required by US Treasury regulations has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certification it has received) to the Principal Paying Agent (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Covered Bonds are not United States persons (as defined in the US Internal Revenue Code of 1986, as amended) or persons who have purchased for resale to any United States person, as described above unless such certification has already been given. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, interest coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Principal Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to holders

of the Covered Bonds of each Series of Bearer Global Covered Bonds in accordance with Condition 13 (Notices) if an Exchange Event occurs. If an Exchange Event occurs, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, if an Exchange Event occurs as described in (ii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The exchange of a Permanent Global Covered Bond for Definitive Covered Bonds upon notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Covered Bonds are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary Bearer Global Covered Bond exchangeable for Definitive Covered Bonds.

Bearer Global Covered Bonds and Bearer Definitive Covered Bonds will be issued pursuant to the Agency Agreement.

The following legend will appear on all Permanent Global Covered Bonds and Bearer Definitive Covered Bonds which have an original maturity of more than one year that are issued pursuant to TEFRA D and on all interest coupons and/or talons relating to such Bearer Covered Bonds:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that US holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, interest coupons and/or talons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Covered Bonds, interest coupons and/or talons.

Covered Bonds which are represented by a Bearer Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

### **Registered Covered Bonds**

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-US persons (as defined in Regulation S) outside the United States, will initially be represented by a global covered bond in registered form (a **Regulation S Global Covered Bond**). Prior to expiry of 40 days after the completion of the distribution of each Tranche of Registered Covered Bonds (such period, the **Distribution Compliance Period**), beneficial interests in a Regulation S Covered Bond may not be offered or sold to, or for the account or benefit of, a US person (as defined in Regulation S) save as otherwise provided in Condition 2 (Transfers of Registered Covered Bonds) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Covered Bond will bear a legend regarding such restrictions on transfer.

The Registered Covered Bonds of each Tranche may only be offered and sold in the United States or to US persons in private transactions to QIBs who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof.

The Registered Covered Bonds of each Tranche sold to QIBs pursuant to Rule 144A will be represented by a global note in registered form (a **Rule 144A Global Covered Bond** and, together with a Regulation S Global Covered Bond, the **Registered Global Covered Bonds**).

Registered Global Covered Bonds will either (a) be deposited with a custodian for, and registered in the name of a nominee of DTC, or (b) be deposited with a Common Depositary or Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of the Common Depositary or in the name of a

nominee of the Common Safekeeper, as the case may be, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5.4 (Payments in respect of Registered Covered Bonds)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, the LLP, the Bond Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.4 (Payments in respect of Registered Covered Bonds)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (a) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act; or (b) in the case of Covered Bonds registered in the name of a nominee for a Common Depository or in the name of a nominee of the Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Covered Bonds in definitive form. The Issuer will promptly give notice to holders of the Covered Bonds of each Series of Registered Global Covered Bonds in accordance with Condition 13 (Notices) if an Exchange Event occurs. If an Exchange Event occurs, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, if an Exchange Event occurs as described in (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions*".

#### **N Covered Bonds and Other Covered Bonds**

N Covered Bonds will be issued to each holder of N Covered Bonds. For the avoidance of doubt, such N Covered Bonds will not be issued pursuant to this Base Prospectus.

## General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Covered Bonds of such Tranche.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

No holder of the Covered Bonds or Couponholder shall be entitled to proceed directly against the Issuer or the LLP unless the Bond Trustee or, as the case may be, the Security Trustee, having become so bound to proceed, fails to do so within a reasonable period and the failure shall be continuing.

The Issuer will notify the ICSDs and the Paying Agents upon issue whether the Covered Bonds are intended, or are not intended, to be held in a manner which would allow Eurosystem eligibility and deposited with one of the ICSDs as common safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as common safekeeper). Where the Covered Bonds are not intended to be deposited with one of the ICSDs as common safekeeper upon issuance, should the Eurosystem eligibility criteria be amended in the future such as that the Covered Bonds are capable of meeting such criteria, the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper. Where the Covered Bonds are so deposited with one of the ICSDs as common safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as common safekeeper) upon issuance or otherwise, this does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at issuance or at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

## FORM OF FINAL TERMS

[Date]

### Nationwide Building Society

**Issuer Legal Entity Identifier (LEI): 549300XFX12G42QIKN82**

**Issue of Regulated [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Nationwide Covered Bonds LLP under the €45 billion Global Covered Bond Programme**

### PART A – CONTRACTUAL TERMS

**MIFID II PRODUCT GOVERNANCE/TARGET MARKET** – Solely for the purposes of the manufacturers' product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a distributor) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**UK MIFIR PRODUCT GOVERNANCE/TARGET MARKET** – Solely for the purposes of the manufacturers' product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (**UK MiFIR**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**[NOTIFICATION UNDER SECTION 309B(1) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE, AS MODIFIED OR AMENDED FROM TIME TO TIME (THE SFA) AND THE SECURITIES AND FUTURES (CAPITAL MARKETS PRODUCTS) REGULATIONS 2018 OF SINGAPORE (THE CMP REGULATIONS 2018)** – In connection with Section 309(B) of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all persons (including all relevant persons as defined in Section 309A(1) of the SFA), that the Covered Bonds are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale and Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]<sup>1</sup>

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**) as amended or superseded, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the

<sup>1</sup> For any Covered Bonds to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Covered Bonds pursuant to Section 309(B) of the SFA prior to launch of the offer.

Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020) as amended, varied, superseded or substituted from time to time (EUWA); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [date] [and the supplemental Prospectus dated [date]] which constitutes a base prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the **UK Prospectus Regulation**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with such Base Prospectus in order to obtain all the relevant information. The Base Prospectus [and the supplemental Prospectus] is available for viewing during normal business hours at the registered office of the Issuer and copies may be obtained from the specified office of each of the Paying Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the prospectus dated [original date] [and the supplemental Prospectus dated [date]], which constitutes a base prospectus (the **Prospectus**) for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the **UK Prospectus Regulation**). This document constitutes the final terms of the Covered Bonds described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with the Prospectus in order to obtain all the relevant information. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [current date]. Copies of such Prospectus [and the supplemental Prospectus] are available for viewing during normal business hours at the registered office of the Issuer and copies may be obtained from the specified office of each of the Paying Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.]

The LLP is not now, and immediately following the issuance of the Covered Bonds pursuant to the Trust Deed will not be, a "covered fund" for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the "Volcker Rule". In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended, and under the Volcker Rule and its related regulations may be available, the LLP has relied on the exemption from registration set forth in Section 3(c)(5)(C) of the Investment Company Act of 1940, as amended. See "*Certain Volcker Rule Considerations*" in the Prospectus dated [date].

- |    |     |                |                              |
|----|-----|----------------|------------------------------|
| 1. | (a) | Issuer:        | Nationwide Building Society  |
|    | (b) | Guarantor:     | Nationwide Covered Bonds LLP |
| 2. | (a) | Series Number: | [●]                          |

- (b) Tranche Number: [●]
- (c) Series which Covered Bonds will be consolidated and form a single Series with: [●]/[Not Applicable]
- (d) Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above: [●]/[Issue Date]/[Not Applicable]
3. Specified Currency or Currencies: [●]
4. Nominal Amount of Covered Bonds to be issued: [●]
5. Aggregate Nominal Amount of Covered Bonds:
- (a) Series: [●]
- (b) Tranche: [●]
6. Issue Price: [●]% of the Aggregate Nominal Amount [plus accrued interest from [●]]
7. (a) Specified Denominations: €100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000]
- (b) Calculation Amount: [●]
8. (a) Issue Date: [●]
- (b) Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]
9. (a) Final Maturity Date: [●]/[Interest Payment Date falling in or nearest to [●]]
- (b) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [●]/[Interest Payment Date falling in or nearest to [●]]/[Not Applicable]
10. Interest Basis: [[●]% Fixed Rate]
- [[EURIBOR]/[Compounded Daily SONIA]/Average SONIA]/[Compounded Daily SOFR]/[Average SOFR]/[Compounded Daily €STR][[●] [+/-[●]]% Floating Rate]
- [Zero Coupon]
- (further particulars specified below)
11. Redemption/Payment Basis: [100]% of the nominal value

12. Change of Interest Basis: /[in accordance with paragraphs [15] and [16] below]
13. Call Options: [Issuer Call]/[Not Applicable]
14. [Date [Board] approval for issuance of Covered Bonds [and Guarantee] obtained:  [and , respectively]]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE<sup>2</sup>**

15. Fixed Rate Covered Bond Provisions: [Applicable/Not Applicable]
- (a) Fixed Rate(s) of Interest: % per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s):  in each year up to and including the [Final Maturity Date]/[Extended Due for Payment Date, if applicable] (provided however that after the Extension Determination Date, the Interest Payment Date shall be [monthly])
- (c) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Modified Preceding Business Day Convention]
- (d) Business Day(s):
- Additional Business Centre(s): [London/Brussels]/[Not Applicable]
- (e) Fixed Coupon Amount(s):  per Calculation Amount
- (f) Initial Broken Amount:  per Calculation Amount, payable on the Interest Payment Date falling [in/on] /[Not Applicable]
- (g) Final Broken Amount:
- (h) Day Count Fraction: [30/360 or Actual/Actual ((ICMA)/(ISDA))]
- (i) Determination Date(s): [in each year]/[Not Applicable]
16. Floating Rate Covered Bond Provisions: [Applicable/Not Applicable]
- (a) Interest Period(s):
- (b) Specified Interest Payment Date(s):
- (c) First Interest Payment Date:
- (d) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]

<sup>2</sup> This section relates to interest payable under the Covered Bonds and corresponding amounts of Scheduled Interest payable under the Covered Bond Guarantee.



|  | Convention/Modified<br>Convention]  | Preceding<br>Business<br>Day |
|--|---|------------------------------|
| (e) Business Centre(s):  | [●]/[Not Applicable]  |                              |
| (f) Manner in which the Rate(s) of Interest is/are to be determined:                                       | [Screen Rate Determination/ISDA Determination]  |                              |
| (g) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount (if not the [Agent]): | [●]   |                              |
| (h) Screen Rate Determination:   | [Applicable/Not Applicable]   |                              |
| – Reference Rate:  | [[EURIBOR]/Compounded Daily SONIA]/[Average SONIA]/[Compounded Daily SOFR]/[Average SOFR]/[Compounded Daily €STR]/[●]]  |                              |
|  | [As at the date of this final terms, [the administrator of [EURIBOR/SONIA/SOFR/€STR/[●]] [is/is not] included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the UK Benchmark Regulation] [so far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the UK Benchmarks Regulation.]] |                              |
| – Interest Determination Date(s):  | [●]   |                              |
| – Term Rate:   | [Applicable/Not Applicable/[●]]   |                              |
| – Specified Time:  | [[11.00 a.m./[●]] in the Relevant Financial Centre] / [Not Applicable]  |                              |
| – Relevant Financial Centre:   | [London/New York/[●]] / [Not Applicable]  |                              |
| – Overnight Rate:  | [Applicable/Not Applicable/[●]]   |                              |
| – Index Determination  | [Applicable/Not Applicable/[●]]   |                              |
| – Relevant Number:   | [[5 / [●]] [[London Banking Days]/[US Government Securities Business Days]/[TARGET Business Days]/[Not Applicable]  |                              |
| – Observation Method:  | [Not Applicable/Lag/Lock-out/Shift]   |                              |
| – Observation Look Back Period:  | [●] / [Not Applicable] [unless otherwise agreed with the [Principal Paying Agent] / [[●], being the party responsible for the calculation of the Rate of Interest], (being no less than 5 [London Banking Days] / [US Government Securities Business Days] / [TARGET Business Days])  |                              |
| – Lock-Out Date:   | [[●]/[London Business Days]/[US Government Securities Business Days]/[TARGET Business Days]/[Not Applicable]]   |                              |
| – Relevant Screen Page:  | [●]   |                              |

- (i) ISDA Determination: [Applicable/Not Applicable]
  - Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
  - (j) Margin(s): [+/-] [●]% per annum.
  - (k) Minimum Rate of Interest: [●]% per annum
  - (l) Maximum Rate of Interest: [●]% per annum
  - (m) Day Count Fraction: [Actual/Actual ISDA  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
360/360  
Bond Basis  
30E/360  
30E/360(ISDA)  
Eurobond Basis]
- 17. Zero Coupon Covered Bond Provisions:** [Applicable/Not Applicable]
- (a) [Amortisation/Accrual] Yield: [●]% per annum
  - (b) Reference Price: [●]

**PROVISIONS RELATING TO REDEMPTION BY THE ISSUER**

- 18. Call Option:** [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [●]
  - (b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s): [●] per Calculation Amount
  - (c) If redeemable in part:
    - (i) Minimum Redemption Amount: [●] per Calculation Amount

- (ii) Higher Redemption Amount:  per Calculation Amount
- (d) Notice period:
19. Final Redemption Amount of each Covered Bond:  per Calculation Amount
20. Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default:  per Calculation Amount]

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

21. Form of Covered Bonds:  Bearer Covered Bonds:
- [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice]
- [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event]
- [Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice]]
- [Registered Covered Bonds:
- [Regulation S Global Covered Bond (US\$ nominal amount) registered in the name of a nominee for [DTC/a Common Depository for Euroclear and Clearstream, Luxembourg/a Common Safekeeper for Euroclear and Clearstream, Luxembourg]
- [Rule 144A Global Covered Bond (US\$ nominal amount) registered in the name of a nominee for [DTC/a Common Depository for Euroclear and Clearstream, Luxembourg/a Common Safekeeper for Euroclear and Clearstream, Luxembourg]
22. New Global Covered Bond:  [Yes]/ [No]
23. Financial Centre(s) relating to payment dates:  [Not Applicable]/
24. Talons for future Coupons to be attached to Bearer Definitive Covered Bonds (and dates on payments, Talons may be required if, on exchange into

which such Talons mature): definitive form, more than 27 coupons payments are still to be made/No]

25. Redenomination, renominatisation and [Not Applicable/The provisions [in Condition 5.8 reconventioning provisions: (*Redenomination*) apply]]

## PART B – OTHER INFORMATION

### 1. LISTING

- (a) Admission to trading: Application [is expected to/has] [be/been] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the London Stock Exchange's main market and to be listed on the Official List of the FCA with effect from [●]
- (b) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

- The Covered Bonds to be issued have been rated:
- S & P: [●]  
(endorsed by S&P Global Ratings Europe Limited)
- Moody's: [●]  
(endorsed by Moody's Deutschland GmbH)
- Fitch: [●]  
(endorsed by Fitch Ratings Ireland Limited)

### 3. PROVISIONS RELATING TO THE JUMBO INTEREST RATE SWAPS

- (a) BMR Spread: [●]% per annum
- (b) Fixed Rate Spread: [●]% per annum
- (c) SMR Spread: [●]% per annum
- (d) Tracker Rate Spread: [●]% per annum

### 4. REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

- (i) Reasons for the offer [See ["Use of Proceeds"] in the Base Prospectus/*Give details*]  
(See ["Use of Proceeds"] wording in Base Prospectus – if reasons for offer different from what is disclosed in the Base Prospectus, give details.)
- (ii) Estimated net proceeds: [ ]  
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

### 5. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save as discussed in "*Subscription and Sale and Transfer and Selling Restrictions*", so far as the Issuer and the LLP are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.] The [Managers/Dealers] and their affiliates have engaged and may in the future engage in investment banking and/or

commercial banking transactions with and may perform other services for the Issuer and/or the LLP and its or their affiliates in the ordinary course of business.]

**6. OPERATIONAL INFORMATION:**

- (a) ISIN Code:
- (b) Common Code:
- (c) CFI Code: , as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]
- (d) FISN: , as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]
- (e) [Insert here any other relevant codes such as CUSIP AND CINS codes]: [Not Applicable/give name(s) and number(s)]
- (f) Names and addresses of additional Paying Agent(s) (if any):
- (g) Intended to be held in a manner which would allow Eurosystem eligibility:   

[Yes. Note that the designation "yes" means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper [or registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]

[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB

being satisfied that Eurosystem eligibility criteria have been met.]]

- (h) Relevant Benchmark(s): *[[specify benchmark]* is provided by *[administrator legal name]*. As at the date hereof, *[[administrator legal name]**[appears]/[does not appear]* in the register of administrators and benchmarks established and maintained by the FCA pursuant to Article 36 (Register of administrators and benchmarks) of the UK Benchmarks Regulation/*[As far as the Society is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the UK Benchmarks Regulation]/[Not Applicable]*

**7. DISTRIBUTION**

US Selling Restrictions: *[Reg. S Compliance Category 2][Rule 144A]; [TEFRA D/TEFRA C/TEFRA not applicable]*

**8. YIELD (Fixed Rate Covered Bonds only)**

Indication of yield:

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield

**9. US FEDERAL INCOME TAX CONSIDERATIONS**

*[Not applicable]/[[For Covered Bonds issued in compliance with Rule 144A that are contingent payment debt instruments or which are otherwise issued with original issue discount for US federal income tax purposes: For US federal income tax purposes, the Issuer intends to treat the Covered Bonds as [Original Issue Discount Covered Bonds/contingent payment debt instruments, [for which purpose, the comparable yield relating to the Covered Bonds will be [ ]% compounded [semi-annually/quarterly/monthly], and that the projected payment schedule with respect to a note consists of the following payments: [ ]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [ ] at [ ]]/Foreign Currency Covered Bonds issued with original issue discount.]*

*[For a Qualified Reopening of Covered Bonds issued in compliance with Rule 144A:]**[Qualified Reopening. The issuance of the Covered Bonds should be treated as a "qualified reopening" of the Covered Bonds issued on [ ] within the meaning of the Treasury regulations governing original issue discount on debt instruments (the **OID Regulations**). Therefore, for the purposes of the OID Regulations, the Covered Bonds issued in this offering should be treated as having the same issue date and the same issue price as the Covered Bonds issued on [ ] and should [not] be considered to have been issued*

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with original issue discount for US federal income tax purposes.]



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Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised

Signed on behalf of the LLP:

By: \_\_\_\_\_  
Duly authorised

## TERMS AND CONDITIONS OF THE COVERED BONDS

*With the exception of N Covered Bonds, the following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond. References to "unlisted Covered Bonds" in the Terms and Conditions set out below shall be in relation to unlisted Covered Bonds which will not be issued pursuant to (and do not form part of) this Base Prospectus, and will not be issued pursuant to any final terms document under this Base Prospectus.*

*In relation to N Covered Bonds, the terms and conditions of such Series of Covered Bonds will be as set out in the N Covered Bond (Namenschuldverschreibung) (and the N Covered Bond Conditions attached as Schedule 1 thereto) together with the N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating to such N Covered Bond. Any reference to an "N Covered Bond Condition" other than in this section shall be deemed to be, as applicable, a reference to the relevant provision of the N Covered Bond, the N Covered Bond Conditions as Schedule 1 attached thereto or the provisions of the N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating to such N Covered Bond.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Nationwide Building Society (the **Issuer**) constituted by a trust deed dated 30 November 2005 as amended, restated and/or supplemented on or about 27 November 2006, 25 June 2007, 30 April 2008, 3 July 2009, 6 January 2011, 7 January 2011, 28 June 2012, 17 July 2013, 1 July 2016, 27 July 2018, 20 December 2018, 5 July 2019, 15 July 2019, 8 November 2019, 21 January 2020, 3 February 2020 and 12 February 2021 (such trust deed as further modified and/or supplemented and/or restated from time to time, the **Trust Deed**) made between the Issuer, Nationwide Covered Bonds LLP as guarantor (the **LLP**) and Citicorp Trustee Company Limited as bond trustee (in such capacity, the **Bond Trustee**, which expression shall include any successor as Bond Trustee) and as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee).

Save as provided for in Conditions 9 (Events of Default and Enforcement) and 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

- (a) in relation to any Covered Bonds represented by a global covered bond (a **Global Covered Bond**), units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Covered Bond;
- (c) any Definitive Covered Bonds in bearer form (**Bearer Definitive Covered Bonds**) issued in exchange for a Global Covered Bond in bearer form; and
- (d) any Definitive Covered Bonds in registered form (**Registered Definitive Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form).

The Covered Bonds and the Coupons (as defined below) have the benefit of an agency agreement dated the Initial Programme Date and amended and restated on 25 June 2007, 17 July 2013, 29 July 2016, 15 July 2019, 3 February 2020 and 12 February 2021 (such agency agreement as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee and Citibank, N.A., London Branch, as issuing and principal paying agent and agent bank (in such capacity, the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), Citibank, N.A., London Branch as exchange agent (in such capacity, the **Exchange Agent**, which expression shall include any successor exchange agent), Citibank, N.A., London Branch as registrar (in such capacity,

the **Registrar**, which expression shall include any successor registrar) and Citibank, N.A., London Branch as transfer agent (in such capacity, a **Transfer Agent** and together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents. As used herein, **Agents** shall mean the Paying Agents and the Exchange Agent and the Transfer Agents).

Interest-bearing Bearer Definitive Covered Bonds have interest coupons (**Coupons**) and, in the case of Covered Bonds which when issued in definitive form, have more than 27 interest payments remaining talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Covered Bonds and Global Covered Bonds do not have Coupons or Talons attached on issue.

The Final Terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Covered Bond which supplements these Terms and Conditions (the **Conditions**). References to the **Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond or any drawdown prospectus issued in relation to a particular series of Covered Bonds.

The Bond Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the **holders of the Covered Bonds**, which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), and for holders of each other Series of Covered Bonds in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The LLP has, in the Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds as and when the same shall become due for payment on certain dates in accordance with the Trust Deed (**Due for Payment**), but only after service of a Notice to Pay on the LLP following an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice on the Issuer or service of an LLP Acceleration Notice on the LLP.

The security for the obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a deed of charge dated the Initial Programme Date as amended and restated on 30 November 2007, 30 April 2008, 19 June 2008, 19 June 2008, 17 July 2013, 1 July 2016 and 12 February 2021 (such deed of charge as amended and/or supplemented and/or restated from time to time, the **Deed of Charge**) and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors.

These Conditions include summaries of, and are subject to, the provisions of the Trust Deed, the Deed of Charge and the Agency Agreement.

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection on the website of the Issuer at <https://www.nationwide.co.uk/about/investor-relations/funding-programmes/covered-bond>, or during normal business hours at the registered office for the time being of the Bond Trustee being as at the date of this Base Prospectus at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the specified office of each of the Paying Agents and any holder of the Covered Bonds must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. For the avoidance of doubt, the N Covered Bonds and the N Covered Bond Confirmation will not be available for inspection. The holders of the

Covered Bonds and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Final Terms and/or the master definitions and construction agreement dated on or about the Initial Programme Date and amended and restated on 27 November 2006, 25 June 2007, 30 November 2007, 30 April 2008, 19 June 2008, 3 July 2009, 18 December 2009, 8 December 2011, 28 June 2012, 17 July 2013, 1 July 2016 and 12 February 2021 (such master definitions and construction agreement as further amended and/or supplemented and/or restated from time to time, the **Master Definitions and Construction Agreement**), a copy of each of which may be obtained as described above.

## 1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of Definitive Covered Bonds (being Bearer Definitive Covered Bond(s) and/or, as the context may require, Registered Definitive Covered Bond(s)), serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and vice versa.

This Covered Bond may be denominated in any currency.

Subject to confirmation prior to the issuance of this Covered Bond from each Relevant Rating Agency that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond, this Covered Bond may depending upon the Interest Basis shown in the applicable Final Terms be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond or a combination of any of the foregoing.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a common depositary or common safe-keeper (as the case may be) for, Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, SA (**Clearstream, Luxembourg**) and/or The Depository Trust Company (**DTC**) or its nominee, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by

the Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be.

References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

## **2. TRANSFERS OF REGISTERED COVERED BONDS**

### **2.1 Transfers of interests in Registered Global Covered Bonds**

Transfers of beneficial interests in Rule 144A Global Covered Bonds (as defined below) and Regulation S Global Covered Bonds (as defined below) (together, the **Registered Global Covered Bonds**) will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

### **2.2 Transfers of Registered Covered Bonds in definitive form**

Subject as provided in Conditions 2.5 (Transfers of interests in Regulation S Global Covered Bonds), 2.6 (Transfers of interests in Legended Covered Bonds) and 2.7 (Exchanges and transfers of Registered Covered Bonds generally), upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the

transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

### **2.3 Registration of transfer upon partial redemption**

In the event of a partial redemption of Covered Bonds under Condition 6 (Redemption and Purchase), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

### **2.4 Costs of registration**

Holders of the Covered Bonds will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

### **2.5 Transfers of interests in Regulation S Global Covered Bonds**

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a US person will only be made:

- (a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a **Transfer Certificate**), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
- (b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of US counsel, that such transfer is in compliance with the Securities Act and any applicable securities laws of any State of the United States, and, in each case, in accordance with the Securities Act and any applicable securities laws of any State of the United States or any other jurisdiction.

After expiry of the applicable Distribution Compliance Period (a) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

### **2.6 Transfers of interests in Legended Covered Bonds**

Transfers of Legended Covered Bonds or beneficial interests therein may be made:

- (a) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

- (b) to a transferee who takes delivery of such interest through a Legended Covered Bond where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of US counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Legended Covered Bonds, or upon specific request for removal of the legend therein, the Registrar shall deliver only Legended Covered Bonds or refuse to remove the Legend therein, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of US counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

## **2.7 Exchanges and transfers of Registered Covered Bonds generally**

Holders of Registered Covered Bonds in definitive form may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

## **2.8 Definitions**

In the Conditions, the following expressions shall have the following meanings:

**Distribution Compliance Period** means the period that ends 40 days after the completion of the distribution of the relevant Tranche of Covered Bonds;

**Legended Covered Bonds** means Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bond) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

**New Safekeeping Structure** means the safekeeping structure for registered notes set out in the press release of the ECB dated 22 October 2008 and titled "Evolution of the custody arrangements for international debt services and their eligibility in Euro system credit operations";

**QIB** means a "qualified institutional buyer" within the meaning of Rule 144A;

**Regulation S** means Regulation S under the Securities Act;

**Regulation S Global Covered Bond** means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

**Rule 144A** means Rule 144A under the Securities Act;

**Rule 144A Global Covered Bond** means a Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A; and

**Securities Act** means the United States Securities Act of 1933, as amended.

### 3. STATUS OF THE COVERED BONDS AND THE COVERED BOND GUARANTEE

#### 3.1 Status of the Covered Bonds

The Covered Bonds and any relative Coupons constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and (subject to any applicable statutory provisions) *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

#### 3.2 Status of the Covered Bond Guarantee

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the LLP (the **Covered Bond Guarantee**) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and service by the Bond Trustee on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee are direct (following an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay or an LLP Event of Default and service of an LLP Acceleration Notice), unconditional and unsubordinated obligations of the LLP, which are secured as provided in the Deed of Charge.

Any payment made by the LLP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 9 (Events of Default and Enforcement)) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the holders of the Covered Bonds.

As security for the LLP's obligations under the Covered Bond Guarantee and the other Transaction Documents (as defined in the Master Definitions and Construction Agreement) to which it is a party, the LLP has granted fixed and floating security over all of its assets under the Deed of Charge in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors).

### 4. INTEREST

#### 4.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) its date of issue (the **Interest Commencement Date**) at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable, subject as provided in these Conditions, in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date. If a Notice to Pay is served on the LLP, the LLP shall pay Guaranteed Amounts in equivalent amounts to those described above under the Covered Bond Guarantee in respect of the Covered Bonds on the Original Due for Payment Dates or, if applicable, the Extended Due for Payment Date.

If the Covered Bonds are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the fixed coupon amount specified in the Final Terms (the **Fixed Coupon Amount**). Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the broken amount specified in the relevant Final Terms (the **Broken Amount**) so specified.

Except in the case of Covered Bonds where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:



- (a) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond; or
- (b) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount;

and in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1 (Interest on Fixed Rate Covered Bonds):

- (a) if Actual/Actual (ICMA) is specified in the applicable Final Terms:
  - (i) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

**Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

**Original Due for Payment Date** means, in respect of the payment of Guaranteed Amounts, prior to the occurrence of an LLP Event of Default and following the delivery of a Notice to Pay on the LLP, the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Final Terms specify that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date.

**Principal Amount Outstanding** means in respect of a Covered Bond on any day the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bonds in respect thereof on or prior to that day.

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

## 4.2 Interest on Floating Rate Covered Bonds

### (a) *Interest Payment Dates*

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, the expression **Interest Period** shall mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(B), the **Floating Rate Convention**, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of Condition 4.2(b) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls within the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day;

- (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (v) the **Modified Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day unless it would thereby fall into the previous calendar month, in which event such Interest Payment Date shall be postponed to the next day which is a Business Day.

In these Conditions, **Business Day** means a day which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (B) in the case of any sum payable, either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any Covered Bonds denominated or payable in euro, a euro payments trading system known as TARGET2, or any successor thereto, is open for the settlement of payments in euro. **TARGET2** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 or any successor thereto.

(b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(i) *ISDA Determination for Floating Rate Covered Bonds*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this Condition 4.2(b)(i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is the period specified in the applicable Final Terms;
- (C) the relevant Reset Date is specific in the applicable Final Terms; and
- (D) if the applicable Floating Rate Option is based on the Euro-zone interbank offered rate for a currency, the first day of that Interest Period,

provided that, if no Rate of Interest can be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be (1) if the Principal Paying Agent is instructed to do so by

the Issuer (though applying the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest, if any, applicable to the relevant Interest Period), failing which (2) the Rate of Interest determined as at the last preceding Interest Determination Date on which the Rate of Interest was so determined (though substituting, where a different Margin, Maximum Rate of Interest and/or Minimum Rate of Interest is/are to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to the relevant Interest Period, in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Period) or, if there is no such preceding Interest Determination Date, the initial Rate of Interest applicable to such Notes on the Interest Commencement Date (though substituting, where a different Margin, Maximum Rate of Interest and/or Minimum Rate of Interest is/are to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to the relevant Interest Period, in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Period).

For the purposes of this Condition 4.2(b)(i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity and Reset Date** have the meanings given to those terms in the ISDA Definitions.

- (ii) *Screen Rate Determination – Overnight Rate for Floating Rate Covered Bonds*

### **SONIA**

#### **Compounded Daily SONIA (Non-Index Determination)**

Where **Screen Rate Determination** and **Overnight Rate** are specified as "Applicable", the Reference Rate is specified as being "Compounded Daily SONIA, ", and **Index Determination** is specified as "Not Applicable" in the applicable Final Terms, the following provisions shall apply and the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the applicable Final Terms) the Margin (if any), as calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms).

**Compounded Daily SONIA** means, in relation to an Interest Period, the rate of return of a daily compound interest investment (with the daily Sterling Overnight Index Average as the Reference Rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date (i) as further specified in the applicable Final Terms or (ii) in accordance with the following formula, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \prod_{i=1}^{d_o} \left( 1 + \frac{SONIA_{i-PLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

*d* means the number of calendar days in (where in the applicable Final Terms "Lag" or "Lock-out" is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms "Shift" is specified as the Observation Method) the relevant SONIA Observation Period;

*d<sub>o</sub>* means (where in the applicable Final Terms "Lag" or "Lock-out" is specified as the Observation Method) for any Interest Period, the number of London Banking Days in the

relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) for any SONIA Observation Period, the number of London Banking Days in the relevant SONIA Observation Period;

$i$  means a series of whole numbers from 1 to  $d_0$ , each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) in the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the SONIA Observation Period;

**London Banking Day** or **LBD** means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

$n_i$ , for any day  $i$ , means the number of calendar days from and including such day  $i$  up to but excluding the following London Banking Day;

$p$  means (save as specified in the applicable Final Terms) the number of London Banking Days included in the **Observation Look-Back Period** specified in the applicable Final Terms;

**SONIA reference rate**, in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average (**SONIA**) rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors (on the London Banking Day immediately following such London Banking Day);

**SONIA <sub>$i-p$ LBD</sub>** means:

- (a) where in the applicable Final Terms “Lag” is specified as the Observation Method, (save as specified in the applicable Final Terms) in respect of any London Banking Day  $i$  falling in the relevant Interest Period, the SONIA reference rate for the London Banking Day falling  $p$  London Banking Days prior to such day;
- (b) where in the applicable Final Terms “Lock-out” is specified as the Observation Method, (save as specified in the applicable Final Terms) during each relevant Interest Period, the SONIA reference rate for each London Banking Day  $i$  falling in the relevant Interest Period, except that in respect of each London Banking Day  $i$  falling on or after the “Lock-out date” specified in the applicable Final Terms (or, where no “Lock-out date” is specified, five London Banking Days prior to each relevant Interest Payment Date) until the end of each relevant Interest Period, the SONIA reference rate determined in accordance with paragraph (a) above in respect of such “Lock-out date”; or
- (c) where in the applicable Final Terms “Shift” is specified as the Observation Method, (save as specified in the applicable Final Terms)  $SONIA_i$ , where  $SONIA_i$  is, in respect of any London Banking Day  $i$  falling in the relevant SONIA Observation Period, the SONIA reference rate for such day ; and

**SONIA Observation Period** means the period from and including the date falling  $p$  London Banking Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling  $p$  London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling  $p$  London Banking Days prior to such earlier date, if any, on which the Covered Bonds become due and payable).

### **Compounded Daily SONIA (Index Determination)**

Where **Screen Rate Determination**, **Overnight Rate** and **Index Determination** are specified as "Applicable" and the **Reference Rate** is specified as being "Compounded Daily SONIA" in the applicable Final Terms, the following provisions shall apply and the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the applicable Final Terms) the Margin (if any), as calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms).

**Compounded Daily SONIA** means, in relation to an Interest Period, the rate of return of a daily compound interest investment (with the daily Sterling Overnight Index Average as the Reference Rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date: (i) as further specified in the applicable Final Terms; or (ii) by reference to the screen rate or index for compounded daily SONIA rates administered by the administrator of the SONIA reference rate that is published or displayed by such administrator or other information service from time to time on the relevant Interest Determination Date, as further specified in the applicable Final Terms (the "**SONIA Compounded Index**"); or (iii) and in accordance with the following formula, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\text{Compounded Daily SONIA Rate} = \left( \frac{\text{SONIA Compounded Index}_{\text{End}}}{\text{SONIA Compounded Index}_{\text{Start}}} - 1 \right) \times \frac{365}{d}$$

where:

*d* means the number of calendar days from (and including) the day in relation to which SONIA Compounded Index<sub>Start</sub> is determined to (but excluding) the day in relation to which SONIA Compounded Index<sub>End</sub> is determined;

**London Banking Day** means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

**Relevant Number** means the number specified as such in the applicable Final Terms (or, if no such number is specified, five);

**SONIA Compounded Index<sub>Start</sub>** means, with respect to an Interest Period, the SONIA Compounded Index determined in relation to the day falling the Relevant Number of London Banking Days prior to the first day of such Interest Period; and

**SONIA Compounded Index<sub>End</sub>** means, with respect to an Interest Period, the SONIA Compounded Index determined in relation to the day falling the Relevant Number of London Banking Days prior to (A) the Interest Payment Date for such Interest Period, or (B) such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period).

If the relevant SONIA Compounded Index is not published or displayed by the administrator of the SONIA reference rate or other information service by 5.00 p.m. (London time) (or, if later, by the time falling one hour after the customary or scheduled time for publication thereof in accordance with the then-prevailing operational procedures of the administrator of the SONIA reference rate or of such other information service, as the case may be) on the relevant Interest Determination Date, the Compounded Daily SONIA Rate for the applicable Interest Period for which the SONIA Compounded Index is not available shall be "Compounded Daily SONIA" determined as set out under the section entitled *Compounded Daily SONIA (Non-Index Determination)* above and as if **Index Determination** were

specified in the applicable Final Terms as being “Not Applicable”, and for these purposes: (i) the “Observation Method” shall be deemed to be “Shift” and (ii) the “Observation Look-Back Period” shall be deemed to be equal to the Relevant Number of London Banking Days, as if those alternative elections had been made in the applicable Final Terms.

### Average SONIA

Where **Screen Rate Determination** and **Overnight Rate** are specified as "Applicable", the **Reference Rate** is specified as being "Average SONIA", and **Index Determination** is specified as "Not Applicable" in the applicable Final Terms, the following provisions shall apply and the Rate of Interest for each Interest Period will, subject as provided below, be Average SONIA plus or minus (as indicated in the applicable Final Terms) the Margin (if any), as calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms).

**Average SONIA**, in relation to any Interest Period, means the arithmetic mean of  $SONIA_i$  in effect during such Interest Period and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \frac{\sum_{i=1}^{d_0} SONIA_i \times n}{d} \right] \times \frac{365}{d}$$

where:

$d$ ,  $d_0$ ,  $i$ , **London Banking Day**,  $p$  and **SONIA reference rate** have the meanings set out under the section entitled *Compounded Daily SONIA (Non-Index Determination)* above;

$n$ , for any London Banking Day, means the number of calendar days from and including, such London Banking Day up to but excluding the following London Banking Day; and

$SONIA_i$  means, for any London Banking Day  $i$ :

- (a) where in the applicable Final Terms “Lag” is specified as the Observation Method, (save as specified in the applicable Final Terms) the SONIA reference rate in respect of the London Banking Day falling  $p$  London Banking Days prior to such day;
- (b) where in the applicable Final Terms “Lock-out” is specified as the Observation Method, (save as specified in the applicable Final Terms) during each relevant Interest Period, the SONIA reference rate for each London Banking Day  $i$  falling in the relevant Interest Period, except that in respect of each London Banking Day  $i$  falling on or after the “Lock-out date” specified in the applicable Final Terms (or, where no “Lock-out date” is specified, five London Banking Days prior to each relevant Interest Payment Date) until the end of each relevant Interest Period, the SONIA reference rate determined in accordance with paragraph (a) above in respect of such “Lock-out date”; or
- (c) where in the applicable Final Terms “Shift” is specified as the Observation Method, (save as specified in the applicable Final Terms) the SONIA reference rate on the London Banking Day  $i$ .

If, in respect of any London Banking Day in the relevant SONIA Observation Period, or the relevant Interest Period (as the case may be), the SONIA reference rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA reference rate shall be: (i) the Bank of England's Bank Rate (the **Bank Rate**) prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA rate to the Bank Rate over the previous five days on which a SONIA rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate.

Notwithstanding the paragraph above, in the event the Bank of England publishes guidance as to (i) how the SONIA rate is to be determined or (ii) any rate that is to replace the SONIA rate, the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in order to determine SONIA<sub>i</sub> for the purpose of the Covered Bonds for so long as the SONIA rate is not available or has not been published by the authorised distributors.

In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be determined (i) as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Floating Rate Covered Bonds on the Interest Commencement Date had the Floating Rate Covered Bonds been issued one calendar month prior to the Issue Date.

If the Floating Rate Covered Bonds become due and payable in accordance with Condition 9 (Events of Default and Enforcement), the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Final Terms, be deemed to be the date on which the Floating Rate Covered Bonds became due and payable and the Rate of Interest on the Floating Rate Covered Bonds shall, for so long as any Floating Rate Covered Bonds remain outstanding, be that determined on such date.

## **SOFR**

### *Definitions*

**Business Day** has the meaning set forth in Condition 4.2(a) and, if (i) the relevant Final Terms specify that the Reference Rate is "Compounded Daily SOFR" and (ii) a SOFR Index Cessation Date has not occurred, a US Government Securities Business Day.

**OBFR** means, on an Interest Payment Date, the Overnight Bank Funding Rate that appears on the Federal Reserve's website at 5:00 p.m. (New York time) for trades made on the related Interest Determination Date.

**OBFR Index Cessation Date** means, following the occurrence of an OBFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the Overnight Bank Funding Rate), ceases to publish the Overnight Bank Funding Rate, or the date as of which the Overnight Bank Funding Rate may no longer be used, in each case as certified in writing by the Issuer to the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms).



**OBFR Index Cessation Event** means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the Overnight Bank Funding Rate) announcing that it has ceased or will cease to publish or provide the Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Overnight Bank Funding Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the Overnight Bank Funding Rate) has ceased or will cease to provide the Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Overnight Bank Funding Rate; or
- (iii) a public statement by a regulator or other official sector entity prohibiting the use of the Overnight Bank Funding Rate that applies to, but need not be limited to, fixed income securities and derivatives, to the extent that such public statement has been acknowledged in writing by ISDA as an "OBFR index cessation event" under the 2006 ISDA Definitions as published by ISDA.

**SOFR** means, with respect to any US Government Securities Business Day, the rate determined in accordance with the following provisions:

- (i) the Secured Overnight Financing Rate that appears on the Federal Reserve's website at 3:00 p.m. (New York time) on the immediately following US Government Securities Business Day;
- (ii) if the rate specified in paragraph (i) above does not so appear, and a SOFR Index Cessation Event has not occurred, then the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms) shall use the Secured Overnight Financing Rate published on the Federal Reserve's website for the first preceding US Government Securities Business Day on which the Secured Overnight Financing Rate was published on the Federal Reserve's website;
- (iii) if a SOFR Index Cessation Date has occurred, the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms) shall calculate SOFR as if references to SOFR were references to the rate that was recommended as (and notified by the Issuer to the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms) being the replacement for the Secured Overnight Financing Rate by the Federal Reserve Board and/or the Federal Reserve Bank of New York or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the Secured Overnight Financing Rate (which rate may be produced by a Federal Reserve Bank or other designated administrator, and which rate may include any adjustments or spreads). If no such rate has been recommended within one US Government Securities Business Day of the SOFR Index Cessation Date, then the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms) shall use OBFR published on the Federal Reserve's website for any Interest Payment Date after the SOFR Index Cessation Date; and
- (iv) if the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms) is required to use OBFR in paragraph (c) above and an OBFR Index Cessation Date has occurred, then for any Interest Payment Date after such OBFR Index Cessation Date, the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms) shall use the

short-term interest rate target set by the Federal Open Market Committee and published on the Federal Reserve's website, or if the Federal Open Market Committee does not target a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee and published on the Federal Reserve's website (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range).

**SOFR Index Cessation Date** means, following the occurrence of a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the Secured Overnight Financing Rate), ceases to publish the Secured Overnight Financing Rate, or the date as of which the Secured Overnight Financing Rate may no longer be used, in each case as certified in writing by the Issuer to the Principal Paying Agent (or such other party responsible for the calculation of the rate of interest, as specified in the applicable Final Terms).

**SOFR Index Cessation Event** means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate) announcing that it has ceased or will cease to publish or provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Secured Overnight Financing Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate) has ceased or will cease to provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Secured Overnight Financing Rate; or
- (iii) a public statement by a regulator or other official sector entity prohibiting the use of the Secured Overnight Financing Rate that applies to, but need not be limited to, fixed income securities and derivatives, to the extent that such public statement has been acknowledged in writing by ISDA as a "SOFR index cessation event" under the 2006 ISDA Definitions as published by ISDA.

**SOFR Reset Date** means each US Government Securities Business Day in the relevant Interest Period, other than any US Government Securities Business Day during the period from (and including) the day following the relevant Interest Determination Date to (but excluding) the corresponding Interest Payment Date.

**US Government Securities Business Day** or **USBD** means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in US government securities.

*Compounded Daily SOFR (Non-Index Determination)*

Where **Screen Rate Determination** and **Overnight Rate** are specified as "Applicable", the Reference Rate is specified as being "Compounded Daily SOFR", and **Index Determination** is specified as "Not Applicable" in the applicable Final Terms, the following provisions shall apply and the Rate of Interest for each Interest Period, subject as provided below, will be Compounded Daily SOFR plus the Margin.

**Compounded Daily SOFR** means the rate of return of a daily compound interest investment (with the Secured Overnight Financing Rate as the reference rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date as follows,

and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \prod_{i=1}^{d_0} \left( 1 + \frac{SOFR_{i-pUSBD} \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

where:

**d** means the number of calendar days in (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the relevant SOFR Observation Period;

**d<sub>0</sub>** means (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) for any Interest Period, the number of US Government Securities Business Days in the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) for any SOFR Observation Period, the number of US Government Securities Business Days in the relevant SOFR Observation Period;

**i** means a series of whole numbers from 1 to d<sub>0</sub>, each representing the relevant US Government Securities Business Days in chronological order from, and including, the first US Government Securities Business Day in (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the relevant SOFR Observation Period;

**n<sub>i</sub>**, for any US Government Securities Business Day *i* in (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the relevant SOFR Observation Period, means the number of calendar days from and including such US Government Securities Business Day up to but excluding the following US Government Securities Business Day;

**p** means (save as specified in the applicable Final Terms) the number of US Government Securities Business Days included in the **Observation Look-Back Period** specified in the applicable Final Terms or, if no such number is specified:

- (a) five US Government Securities Business Days where in the applicable Final Terms “Lag” or “Shift” is specified as the Observation Method; or
- (b) zero US Government Securities Business Days where in the applicable Final Terms “Lock-out” is specified as the Observation Method;

**SOFR<sub>i-pUSBD</sub>** means:

- (a) where in the applicable Final Terms "Lag" is specified as the Observation Method, (save as specified in the applicable Final Terms) in respect of any US Government Securities Business Day falling in the relevant Interest Period, the SOFR for the US Government Securities Business Day falling *p* US Government Securities Business Days prior to such day;
- (b) where in the applicable Final Terms "Lock-out" is specified as the Observation Method, (save as specified in the applicable Final Terms):

- (i) in respect of any US Government Securities Business Day that is a SOFR Reset Date, the SOFR for the US Government Securities Business Day immediately preceding such SOFR Reset Date (or such other date as specified in the applicable Final Terms); and
- (ii) in respect of any US Government Securities Business Day that is not a SOFR Reset Date, the SOFR for the US Government Securities Business Day immediately preceding the last SOFR Reset Date in the relevant Interest Period (or such other date as specified in the applicable Final Terms); or
- (c) where in the applicable Final Terms “Shift” is specified as the Observation Method, (save as specified in the applicable Final Terms)  $SOFR_i$ , where  $SOFR_i$  is, in respect of any US Government Securities Business Day  $i$  falling in the relevant SOFR Observation Period, the SOFR for such day; and

**SOFR Observation Period** means in respect of each Interest Period, the period from and including the date falling  $p$  US Government Securities Business Days preceding the first date in such Interest Period to but excluding the date  $p$  US Government Securities Business Days preceding the Interest Payment Date for such Interest Period.

*Compounded Daily SOFR (Index Determination)*

Where **Screen Rate Determination**, **Overnight Rate** and **Index Determination** are specified as "Applicable" and the **Reference Rate** is specified as being “Compounded Daily SOFR” in the applicable Final Terms, the following provisions shall apply and the Rate of Interest for each Interest Period, subject as provided below, will be Compounded Daily SOFR plus the Margin.

**Compounded Daily SOFR** means the rate of return of a daily compound interest investment (with the Secured Overnight Financing Rate as the reference rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left( \frac{SOFR Index_{End}}{SOFR Index_{Start}} - 1 \right)^x \frac{360}{d_c}$$

where:

**$d$**  means the number of calendar days from (and including) the day in relation to which  $SOFR Index_{Start}$  is determined to (but excluding) the day in relation to which  $SOFR Index_{End}$  is determined;

**Relevant Number** means the number specified as such in the applicable Final Terms (or, if no such number is specified, five);

**SOFR Index**, with respect to any U.S. Government Securities Business Day, means the SOFR index value as published by the SOFR Administrator as such index appears on the Federal Reserve's website at or around 3.00 p.m. (New York time) on such U.S. Government Securities Business Day (the **SOFR Determination Time**);

**SOFR Index<sub>Start</sub>**, with respect to an Interest Period, means the SOFR Index value for the day which is the Relevant Number of U.S. Government Securities Business Days preceding the first day of such Interest Period; and

**SOFR Index<sub>End</sub>**, with respect to an Interest Period, means the SOFR Index value for the day which is the Relevant Number of U.S. Government Securities Business Days preceding (A) the Interest Payment Date for such Interest Period, or (B) such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period).

If, as at any relevant SOFR Determination Time, the relevant SOFR Index is not published or displayed on the Federal Reserve's website by the SOFR Administrator, the Compounded Daily SOFR for the applicable Interest Period for which the relevant SOFR Index is not available shall be "Compounded Daily SOFR" determined as set out under the section entitled *Compounded Daily SOFR (Non-Index Determination)* above and as if **Index Determination** were specified in the applicable Final Terms as being "Not Applicable, and for these purposes: (i) the "Observation Method" shall be deemed to be "Shift" and (ii) the "Observation Look-Back Period" shall be deemed to be equal to the Relevant Number of US Government Securities Business Days, as if such alternative elections had been made in the applicable Final Terms.

*Average SOFR*

Where **Screen Rate Determination** and **Overnight Rate** are specified as "Applicable", the Reference Rate is specified as being "Average SOFR", and **Index Determination** is specified as "Not Applicable" in the applicable Final Terms, the following provisions shall apply and the Rate of Interest for each Interest Period will, subject as provided below, be Average SOFR plus or minus (as indicated in the applicable Final Terms) the Margin (if any), as calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms).

**Average SOFR**, in relation to any Interest Period, means the arithmetic mean of SOFR<sub>i</sub> in effect during such Interest Period and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \frac{\sum_{i=1}^{d_0} SOFR_{i-pUSBD} \times n_i}{d} \right] \times \frac{360}{d}$$

where **d**, **d<sub>0</sub>**, **i**, **n<sub>i</sub>**, **p** and **SOFR<sub>i-pUSBD</sub>** have the meanings set out under the section entitled *Compounded Daily SOFR (Non-Index Determination)* above.

**€STR**

**Compounded Daily €STR (Non-Index Determination)**

Where **Screen Rate Determination** and **Overnight Rate** are specified as "Applicable", the Reference Rate is specified as being "Compounded Daily €STR", and **Index Determination** is specified as "Not Applicable" in the applicable Final Terms, the following provisions shall apply and the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily €STR plus or minus (as indicated in the applicable Final Terms) the Margin (if any), as calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms).

**Compounded Daily €STR** means, in relation to an Interest Period, the rate of return of a daily compound interest investment (with the daily Euro Short-Term Rate as the Reference Rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date (i) as further specified in the applicable Final Terms; or (ii) in accordance with the following formula, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \prod_{i=1}^{d_o} \left( 1 + \frac{\text{€STR}_i \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

where:

**€STR reference rate**, in respect of any TARGET Business Day (**TBDx**), means a reference rate equal to the daily Euro Short-Term Rate (**€STR**) rate for such TBDx as provided by the European Central Bank as the administrator of €STR (or any successor administrator of such rate) on the website of the European Central Bank (or, if no longer published on its website, as otherwise published by it or provided by it to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors) on the TARGET Business Day immediately following TBDx (in each case, at the time specified by, or determined in accordance with, the applicable methodology, policies or guidelines, of the European Central Bank or the successor administrator of such rate);

**€STR<sub>i</sub>** means:

- (a) where in the applicable Final Terms “Lag” is specified as the Observation Method, (save as specified in the applicable Final Terms) in respect of any TARGET Business Day *i* falling in the relevant Interest Period, the €STR reference rate for the TARGET Business Day falling *p* TARGET Business Days prior to such day;
- (b) where in the applicable Final Terms “Lock-out” is specified as the Observation Method, (save as specified in the applicable Final Terms) during each relevant Interest Period, the €STR reference rate determined for each TARGET Business Day *i* falling in the relevant Interest Period, except that in respect of each TARGET Business Day *i* falling on or after the “Lock-out date” specified in the applicable Final Terms (or, where no “Lock-out date” is specified, five TARGET Business Days prior to each relevant Interest Payment Date) until the end of each relevant Interest Period, the €STR reference rate determined in accordance with paragraph (a) above in respect of such “Lock-out date”; or
- (c) where in the applicable Final Terms “Shift” is specified as the Observation Method, (save as specified in the applicable Final Terms) in respect of any TARGET Business Day *i* falling in the relevant €STR Observation Period, the €STR reference rate for such day;

**€STR Observation Period** means the period from and including the date falling *p* TARGET Business Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling *p* TARGET Business Days prior to the Interest Payment Date for such Interest Period (or the date falling *p* TARGET Business Days prior to such earlier date, if any, on which the Covered Bonds become due and payable);

*d* means the number of calendar days in (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the relevant €STR Observation Period;

*d<sub>o</sub>* means (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) for any Interest Period, the number of TARGET Business Days in the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) for any €STR Observation Period, the number of TARGET Business Days in the relevant €STR Observation Period;

*i* means a series of whole numbers from 1 to *d<sub>o</sub>*, each representing the relevant TARGET Business Day in chronological order from, and including, the first TARGET Business Day (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) in the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the €STR Observation Period;

*n<sub>i</sub>*, for any day *i*, means the number of calendar days from and including such day *i* up to but excluding the following TARGET Business Day;

*p* means (save as specified in the applicable Final Terms) the number of TARGET Business Days included in the **Observation Look-Back Period** specified in the applicable Final Terms; and

**TARGET Business Day** means any day on which the TARGET2 system is open.

If, in respect of any TARGET Business Day in the relevant €STR Observation Period, or the relevant Interest Period (as the case may be), the €STR reference rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such €STR reference rate shall be the €STR reference rate for the first preceding TARGET Business Day in respect of which an €STR reference rate was published by the European Central Bank on its website, as determined by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms).

Notwithstanding the paragraph above, in the event the European Central Bank publishes guidance as to (i) how the €STR rate is to be determined or (ii) any rate that is to replace the €STR rate, the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in order to determine €STR<sub>i</sub> for the purpose of the Covered Bonds for so long as the €STR rate is not available or has not been published by the authorised distributors.

In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be determined (i) as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Floating Rate Covered Bonds on the Interest Commencement Date had the Floating Rate Covered Bonds been issued one calendar month prior to the Issue Date.

If the Floating Rate Covered Bonds become due and payable in accordance with Condition 9 (Events of Default and Enforcement), the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Final Terms, be deemed to be the date on which the Floating Rate Covered Bonds became due and payable and the Rate of Interest on the Floating Rate Covered Bonds shall, for so long as any Floating Rate Covered Bonds remain outstanding, be that determined on such date.

#### ***Other Reference Rates***

Where Screen Rate Determination is specified as "Applicable" in the applicable Final Terms and **Term Rate** is specified as "Applicable" or the Reference Rate is specified as being a rate other than SONIA, SOFR or €STR in the applicable Final Terms, the following provisions shall apply the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. London time (or such other time as specified in the applicable Final Terms) on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of paragraph (A) above, no offered quotation appears or if, in the case of paragraph (B) above, fewer than three offered quotations appear, in each case as at 11.00 a.m. London time (or such other time as specified in the applicable Final Terms), the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. London time (or such other time as specified in the applicable Final Terms) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the eighth decimal place, with 0.000000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date only one or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. London time (or such other time as specified in the applicable Final Terms) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in (in the case of EURIBOR) the Euro-zone inter-bank market (or such other place as specified in the applicable Final Terms) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that



which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. London time (or such other time as specified in the applicable Final Terms) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in (in the case of EURIBOR) the Euro-zone inter-bank market (or such other time as specified in the applicable Final Terms plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

***Effect of Benchmark Transition Event on any SOFR Covered Bonds***

Notwithstanding the provisions of Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), if the Designated Transaction Representative determines on or prior to the relevant Interest Determination Date that a Benchmark Transition Event has occurred with respect to SOFR, then the Bond Trustee shall be obliged, without any consent or sanction of the Covered Bondholders, or any of the other Secured Creditors, to concur with the Designated Transaction Representative, and to direct the Security Trustee to concur with the Issuer or any other person and shall direct the Security Trustee to concur with the Issuer and any other person, in making any modification (other than with respect to a Series Reserved Matter, provided that neither replacing the then-current Benchmark with the Benchmark Replacement nor any Benchmark Replacement Conforming Changes (each as defined below) shall constitute a Series Reserved Matter) to these Conditions or any of the Transaction Documents that the Designated Transaction Representative decides may be appropriate to give effect to the provisions set forth under this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*" in relation only to all determinations of the rate of interest payable on any SOFR Covered Bonds and any related swap agreements:

- I. If the Designated Transaction Representative determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any determination of the Benchmark on any date applicable to any SOFR Covered Bonds, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to any SOFR Covered Bonds in respect of such determination on such date and all determinations on all subsequent dates.
- II. In connection with the implementation of a Benchmark Replacement with respect to any SOFR Covered Bonds, the Designated Transaction Representative will have the right to make Benchmark Replacement Conforming Changes with respect to any SOFR Covered Bonds from time to time.
- III. Any determination, decision or election that may be made by the Designated Transaction Representative pursuant to this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*", including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, in each case, solely with respect to any SOFR Covered Bonds, will be conclusive and binding absent manifest error, may be made in the Designated Transaction Representative's, and, notwithstanding anything to the contrary in the documentation relating to any SOFR Covered Bonds, shall become effective without consent, sanction or absence of objection from any other party (including Covered Bondholders).
- IV. Other than where specifically provided under this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*" or any transaction document:

- a. when implementing any modification pursuant to this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*", the Bond Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation on any certificate or evidence provided to it by the Issuer or the relevant transaction party, as the case may be, pursuant to this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*" and shall not be liable to the Covered Bondholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
- b. the Bond Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee would have the effect of (i) exposing the Bond Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Bond Trustee in the Transaction Documents and/or these Conditions.

V. Notwithstanding the definitions of business day, OBFR, OBFR Index Cessation Date, OBFR Index Cessation Event, SOFR, SOFR Index Cessation Date, SOFR Index Cessation Event, and US Government Securities Business Day set out above, the following definitions shall apply with respect to this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*":

**Benchmark** means, initially, SOFR; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to SOFR or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement.

**Benchmark Replacement** means the first alternative set forth in the order below that can be determined by the Designated Transaction Representative as of the Benchmark Replacement Date:

- (1) the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the Benchmark Replacement Adjustment;
- (2) the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment;
- (3) the sum of: (a) the alternate rate of interest that has been selected by the Designated Transaction Representative as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for any SOFR Covered Bonds, as applicable, at such time and (b) the Benchmark Replacement Adjustment.

**Benchmark Replacement Adjustment** means the first alternative set forth in the order below that can be determined by the Designated Transaction Representative as of the Benchmark Replacement Date:

- (1) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been

selected, endorsed or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

- (2) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;
- (3) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Designated Transaction Representative giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for any SOFR Covered Bonds at such time.

**Benchmark Replacement Conforming Changes** means, with respect to any Benchmark Replacement, any technical, administrative or operational changes with respect to any SOFR Covered Bonds (including changes to the definition of "interest period", timing and frequency of determining rates and making payments of interest, changes to the definition of "Corresponding Tenor" solely when such tenor is longer than the interest period and other administrative matters) and any related Swap Agreements that the Designated Transaction Representative decides may be appropriate to reflect the adoption of such Benchmark Replacement with respect to any SOFR Covered Bonds in a manner substantially consistent with market practice (or, if the Designated Transaction Representative decides that adoption of any portion of such market practice is not administratively feasible or if the Designated Transaction Representative determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Designated Transaction Representative determines is reasonably necessary).

**Benchmark Replacement Date** means:

- (1) in the case of paragraph (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the relevant Benchmark permanently or indefinitely ceases to provide such Benchmark, or
- (2) in the case of paragraph (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information;

provided, however, that on or after the 60th day preceding the date on which such Benchmark Replacement Date would otherwise occur (if applicable), the Designated Transaction Representative may give written notice to holders of any SOFR Covered Bonds in which the Designated Transaction Representative designates an earlier date (but not earlier than the 30th day following such notice) and represents that such earlier date will facilitate an orderly transition of any SOFR Covered Bonds to the Benchmark Replacement, in which case such earlier date shall be the Benchmark Replacement Date.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

**Benchmark Transition Event** means the occurrence of one or more of the following events with respect to the then-current Benchmark:

- (1) a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that the administrator has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;
- (2) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark; or
- (3) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

**Compounded SOFR** means, for purposes of determining a replacement Benchmark pursuant to this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*", the compounded average of SOFRs for the applicable corresponding tenor, with the rate, or methodology for this rate, and conventions for this rate (which, for example, may be compounded in arrears with a look-back and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each interest period or compounded in advance) being established by the Designated Transaction Representative in accordance with:

- (1) the rate, or methodology for this rate, and conventions for this rate selected or recommended by the relevant governmental body for determining Compounded SOFR; provided that:
- (2) if, and to the extent that, the Designated Transaction Representative determines that Compounded SOFR cannot be determined in accordance with paragraph (1) above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the Designated Transaction Representative giving due consideration to any industry-accepted market practice for similar US dollar denominated securitisation transactions at such time.

**Corresponding Tenor** with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark.

**Designated Transaction Representative** means, with respect to any SOFR Covered Bonds and a particular obligation to be performed in connection with the transition to a Benchmark Replacement, the Issuer.

**Federal Reserve Bank of New York's website** means the website of the Federal Reserve Bank of New York at <http://www.newyorkfed.org>, or any successor source (for the avoidance of doubt, this website (and/or any successor source) and the contents thereof do not form part of this base prospectus).

**Interpolated Benchmark** with respect to the Benchmark, means the rate determined for the corresponding tenor by interpolating on a linear basis between: (1) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the corresponding tenor and (2) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the corresponding tenor.

**ISDA Definitions** means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time.

**ISDA Fallback Adjustment** means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

**ISDA Fallback Rate** means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

**Reference Time**, with respect to any determination of the Benchmark means (1) if the Benchmark is SOFR, 3:00 p.m. (London time) on the immediately following US Government Securities Business Day and (2) if the Benchmark is not SOFR, the time determined by the Designated Transaction Representative in accordance with the Benchmark Replacement Conforming Changes.

**Relevant Governmental Body** means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

**SOFR** with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the Benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's website.

**Term SOFR** means the forward-looking term rate for the applicable corresponding tenor based on SOFR that has been selected or recommended by the relevant governmental body.

**Unadjusted Benchmark Replacement** means the Benchmark Replacement excluding the applicable Benchmark Replacement Adjustment.

- VI. To the extent that there is any inconsistency between the conditions set out in this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*" and any other condition, the statements in this section shall prevail with respect to any SOFR Covered Bonds.
- VII. Nothing in this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*" affects the rights of the holders of Covered Bonds other than any SOFR Covered Bonds.
- VIII. For the avoidance of doubt, the Designated Transaction Representative may propose that a Benchmark Replacement replace the then-current Benchmark and any Benchmark Replacement Conforming Changes on more than one occasion provided that the conditions set out in this section titled "*Effect of Benchmark Transition Event on any SOFR Covered Bonds*" are satisfied.

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Covered Bonds will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if "Actual/365" or "Actual/Actual (ISDA)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date (or, as the case may be, Extended

Due for Payment Date) is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(e) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent (in the case of Floating Rate Covered Bonds) will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with Condition 13 (Notices) as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 4.2(a) (Interest Payment Dates)) thereafter by the Principal Paying Agent. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to holders of the Covered Bonds in accordance with Condition 13 (Notices).

(f) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (Interest on Floating Rate Covered Bonds), whether by the Principal Paying Agent or the Bond Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the LLP, the Principal Paying Agent, the other Paying Agents, the Bond Trustee and all holders of the Covered Bonds and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the LLP, the holders of the Covered Bonds or the Couponholders shall attach to the Principal Paying Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### 4.3 **Accrual of interest**

Interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event, interest will continue to accrue as provided in the Trust Deed.

## 5. **PAYMENTS**

### 5.1 **Method of payment**

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

In the case of Bearer Covered Bonds, payments in US Dollars will be made by transfer to a US Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5 (Payments), means the United States of America, including the State and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (Taxation)) any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law. Any such amounts withheld or deducted will be treated as paid for all purposes under the Covered Bonds, and no additional amounts will be paid on the Covered Bonds with respect to any such withholding or deduction.

## 5.2 Presentation of Bearer Definitive Covered Bonds and Coupons

Payments of principal and interest (if any) will (subject as provided below) be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Definitive Covered Bonds or Coupons, as the case may be, at any specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Covered Bonds in definitive bearer form (other than any Long Maturity Covered Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 12 years after the Relevant Date (as defined in Condition 7 (Taxation)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (Prescription)) or, if later, six years from the date on which such Coupon would otherwise have become due.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer (in the absence of a Notice to Pay) or LLP under the Covered Bond Guarantee prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond. If the date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Definitive Covered Bond.



### 5.3 Payments in respect of Bearer Global Covered Bonds

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer Definitive Covered Bonds at the specified office of any Paying Agent outside the United States and its possessions. On the occasion, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

### 5.4 Payments in respect of Registered Covered Bonds

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) at the close of business on the third Business Day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a **Designated Account** or (b) the principal amount of the Covered Bonds held by a holder is less than US\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a **Designated Bank** and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a Business Day) before the relevant due date (the **Record Date**) at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three Business Days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than US dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its

nominee for conversion into and payment in US dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the LLP, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## 5.5 General provisions applicable to payments

The holder of a Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer or, as the case may be, the LLP will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or the LLP to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in US Dollars will only be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US Dollars at such specified offices outside the United States of the full amount of interest on the Bearer Global Covered Bonds in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US Dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

## 5.6 Payment Day

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 8 (Prescription)) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) the relevant place of presentation;
  - (ii) London; and
  - (iii) any Additional Financial Centre specified in the applicable Final Terms; and

- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which TARGET2 is open; and
- (c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than US dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in US dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

## **5.7 Interpretation of principal and interest**

Any reference in these Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (Taxation) or under any undertakings or covenants given in addition thereto, or in substitution therefore, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.5 (Early Redemption Amounts));
- (f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (g) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (Taxation) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

## **5.8 Redenomination**

- (a) *Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agents (in the case of Registered Covered Bonds) the Registrar, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13 (Notices), elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least €100,000 and which are admitted to trading on a regulated market in the European Economic Area or the UK, it

shall be a term of any such article that the holder of any Covered Bonds held through Euroclear and/or Clearstream, Luxembourg and/or DTC must have credited to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least €100,000.

The election will have effect as follows:

- (i) the Covered Bonds shall be deemed to be redenominated in euro in the denomination of €0.01 with a nominal amount for each Covered Bond equal to the nominal amount of that Covered Bond in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, in consultation with the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the competent listing authority, stock exchange, and/or market (if any) on or by which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with Condition 5.8(a)(iv), the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01;
- (iii) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of €100,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than €100,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 5 (Payments);
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Coupons so issued will also become void on that date although those Covered Bonds and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds and Coupons will be issued in exchange for Covered Bonds and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;
- (v) after the Redenomination Date, all payments in respect of the Covered Bonds and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;

- (vii) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition (and the Transaction Documents) as the Issuer may decide, after consultation with the Agents and the Bond Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

(b) *Definitions*

In these Conditions, the following expressions have the following meanings:

**Established Rate** means the rate for the conversion of the relevant Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.

**Rate of Interest** means the rate of interest payable from time to time in respect of Floating Rate Covered Bonds, which will be determined in the manner specified in the applicable Final Terms.

**Redenomination Date** means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the Issuer in the notice given to the Covered Bondholders pursuant to Condition 5.8 (Redenomination) and which falls on or after the date on which the country of the relevant Specified Currency first participates in the third stage of European economic and monetary union.

**Treaty** means the Treaty establishing the European Community, as amended.

## 6. REDEMPTION AND PURCHASE

### 6.1 Final redemption

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.

Without prejudice to Condition 9 (Events of Default and Enforcement), if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (or after expiry of the grace period set out in Condition 9.1(a)) and following the service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date the LLP has insufficient moneys available to apply under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date that falls two Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may be paid by the LLP on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The LLP shall notify the relevant holders of the Covered Bonds (in accordance with Condition 13 (Notices)), the Relevant Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the

Registrar (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the dates specified in (a) and (b) of the preceding paragraph of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the LLP shall not constitute an LLP Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the LLP under the Covered Bond Guarantee in connection with this Condition 6.1 (Final redemption).

For the purposes of these Conditions:

**Extended Due for Payment Date** means, in relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

**Extension Determination Date** means, in respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds.

**Guarantee Priority of Payments** means the priority of payments relating to moneys standing to the credit of the Transaction Account (to the extent maintained, or otherwise any GIC Account) to be paid on each LLP Payment Date in accordance with the Trust Deed.

**Rating Agency** means any one of Moody's Investors Service Limited, Fitch Ratings Ltd. and/or Standard & Poor's Rating Services (together, the **Rating Agencies**) or their successors.

## 6.2 **Redemption for taxation reasons**

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if this Covered Bond is a Floating Rate Covered Bond), on giving not less than 30 days' nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13 (Notices), the holders of the Covered Bonds (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that:

- (a) on the occasion of the next date for payment of interest, the Issuer is or will be required to pay additional amounts as provided in Condition 7 (Taxation); or
- (b) the Issuer will 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 Covered Bonds) calculated by reference to any amount payable in respect of the Covered Bonds or Coupons,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

Covered Bonds redeemed pursuant to this Condition 6.2 (Redemption for taxation reasons) will be redeemed at their Early Redemption Amount referred to in Condition 6.5 (Early Redemption Amounts) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **6.3 Redemption at the option of the Issuer (Issuer Call)**

If an Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than 30 days' nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrar and, in accordance with Condition 13 (Notices), the holders of the Covered Bonds (which notice shall be irrevocable and shall specify the date fixed for redemption) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. In the event of a redemption of some only of the Covered Bonds, such redemption must be for a nominal amount not less than the Minimum Redemption Amount or a Higher Redemption Amount each as specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg either as a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 60 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 13 (Notices) not less than 30 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Dates, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 (Redemption at the option of the Issuer (Issuer Call)) and notice to that effect shall be given by the Issuer to the holders of the Covered Bonds in accordance with Condition 13 (Notices) at least 30 days prior to the Selection Date.

### **6.4 Redemption due to illegality**

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 days' nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13 (Notices), all holders of the Covered Bonds (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP from the Covered Bonds pursuant to the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

Covered Bonds redeemed pursuant to this Condition 6.4 (Redemption due to illegality) will be redeemed at their Early Redemption Amount referred to in Condition 6.5 (Early Redemption Amounts) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

## **6.5 Early Redemption Amounts**

For the purpose of Conditions 6.2 (Redemption for taxation reasons) and 6.8 (Late payment on Zero Coupon Covered Bonds) and Condition 9 (Events of Default and Enforcement), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or
- (b) in the case of a Covered Bond (other than a Zero Coupon Covered Bond) at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable,

or such other amount as is provided in the applicable Final Terms.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (a) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each or (b) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (c) on such other calculation basis as may be specified in the applicable Final Terms.

## **6.6 Purchases**

The Issuer or any of its subsidiaries or the LLP may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price and in any manner. If purchases are made by tender, tenders must be available to all holders of the Covered Bonds alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

## **6.7 Cancellation**

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.6 (Purchases) and cancelled (together with, in the case of Bearer Definitive



Covered Bonds, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

#### **6.8 Late payment on Zero Coupon Covered Bonds**

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 6.1 (Final redemption), 6.2 (Redemption for taxation reasons) or 6.3 (Redemption at the option of the Issuer (Issuer Call)) or upon its becoming due and repayable as provided in Condition 9 (Events of Default and Enforcement) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 6.5(c) as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date that is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (b) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the Registrar and notice to that effect has been given to the holders of the Covered Bonds either in accordance with Condition 13 (Notices) or individually.

#### **6.9 Certification on redemption under Condition 6.2 and 6.4**

Prior to the publication of any notice of redemption pursuant to Conditions 6.2 (Redemption for taxation reasons) and 6.4 (Redemption due to illegality), the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds and Couponholders.

### **7. TAXATION**

All payments of principal and interest (if any) in respect of the Covered Bonds and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In the event of such a withholding or deduction being made by the Issuer in respect of a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond or Coupon:

- (a) presented for payment in the United Kingdom; or
- (b) presented for payment by or on behalf of a holder who is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so; or
- (c) the holder of which is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bonds or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds or Coupons; or

- (d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such 30th day assuming that day to have been a Payment Day (as defined in Condition 5.6 (Payment Day)); or
- (e) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate; or
- (f) pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein:

**Relevant Date** means the date on which such payment in respect of the Covered Bond or Coupon first becomes due and payable, except that, if the full amount of the moneys payable on such date has not been duly received by the Bond Trustee, the Registrar or the Principal Paying Agent on or prior to such date, it means the date on which such moneys have been so received, notice to that effect having been given to the holders of the Covered Bonds in accordance with Condition 13 (Notices).

Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction on account of taxes or duties of whatever nature imposed or levied by or on account of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

## 8. PRESCRIPTION

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless presented for payment within 12 years (in the case of principal) and six years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (Taxation)) therefore, subject in each case to the provisions of Condition 5 (Payments).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 (Payments) or any Talon which would be void pursuant to Condition 5 (Payments).

## 9. EVENTS OF DEFAULT AND ENFORCEMENT

### 9.1 Issuer Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution (as defined in the Trust Deed) referred to in this Condition 9.1 (Issuer Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate (as defined in the Master Definitions and Construction Agreement)) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall, (but in the case of the happening of any of the events mentioned in Conditions 9.1(b) to (h), only if the Bond Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series) (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer and the Issuer shall notify the FCA, pursuant to the RCB Regulations, that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early

Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (a) the Issuer fails to pay any principal or interest in respect of the Covered Bonds within seven days of the due date; or
- (b) if the Issuer fails to perform or observe any obligations under the Covered Bonds or Coupons of any Series, the Trust Deed or any other Transaction Document to which the Issuer is a party (other than the Programme Agreement and the Subscription Agreement) but excluding (i) any obligation of the Issuer to comply with the Asset Coverage Test or any representation or warranty given by the Issuer in respect of the Asset Coverage Test or (ii) any obligation of the Issuer which relates solely to its obligations under the RCB Regulations and/or the RCB Sourcebook and breach of which would not otherwise constitute a breach of the other terms of the Transaction Documents, and such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or
- (c) the Issuer or any Principal Subsidiary becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or similar officer of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business except in any case in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) or for the purpose of a reconstruction, union, transfer (of engagements or of business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution, or in the case of a Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer; or
- (d) if the Issuer ceases to carry on its business or substantially the whole of its business (except in any case in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), or for the purpose of or in connection with a reconstruction, union, transfer (of engagements or business), reorganisation, merger, or amalgamation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution); or
- (e)
  - (i) any other present or future indebtedness in respect of moneys borrowed or raised in an amount of £40 million or more (or its equivalent in any other currency) of the Issuer or any Principal Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or
  - (ii) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or
  - (iii) the Issuer or any Principal Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefore any amount payable by it under any present or future guarantee in an amount of £40 million or more (or its equivalent in any other currency) (other than any guarantee given in the ordinary course of its business) for any indebtedness in respect of moneys borrowed or raised; or
  - (iv) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £40 million or more (or its equivalent in any other currency) and created or assumed by the

Issuer or any Principal Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or

- (f) a distress or execution or other similar legal process in respect of a claim for £20 million or more is levied or enforced or sued out, upon or against any part of the property, assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or
- (g) an order is made, an effective resolution is passed or the necessary consent of the Issuer's members is given for the winding-up or dissolution of the Issuer or any Principal Subsidiary or the authorisation or registration of the Issuer is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case for the purposes of a reconstruction, union, transfer (of engagements or business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution or in the case of a voluntary solvent winding-up of a wholly-owned Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer or in connection with a substitution pursuant to Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution)); or
- (h) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice.

**Principal Subsidiary** means a Subsidiary of the Issuer whose total assets (attributable to the Issuer) represent 10% or more of the consolidated total assets of the Issuer and its Subsidiaries (all as more particularly described in the Trust Deed). A certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Bond Trustee without further enquiry or evidence and, if so relied upon shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer pursuant to this Condition 9.1 (Issuer Events of Default), the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9.3 (Enforcement).

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in a GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of any GIC Account pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each holder of the Covered Bonds shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

## 9.2 LLP Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.2 (LLP Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the holders of the Covered Bonds shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in Conditions 9.1(b) to (g), only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series, give notice (the **LLP Acceleration Notice**) in writing to the Issuer and to the LLP, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

- (a) default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 6.1 (Final redemption) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or
- (c) an order is made or an effective resolution passed for the liquidation or winding-up of the LLP; or
- (d) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (e) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (f) proceedings are initiated against the LLP under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving of notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process

shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or

- (g) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any 12th day of each month (or, if that is not a Business Day, then the immediately preceding Business Day) (the **Calculation Date**) following an Issuer Event of Default.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3 (Enforcement) and the holders of the Covered Bonds shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 7 (Taxation)) as provided in the Trust Deed in respect of each Covered Bond.

### **9.3 Enforcement**

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds and the Coupons, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds or the Coupons or any other Transaction Document unless (a) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 25% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (b) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the holders of the Covered Bonds of all Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless: (a) it shall have been so directed by an Extraordinary Resolution of all the holders of the Covered Bonds of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or a request in writing by the holders of not less than 25% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid); and (b) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the holders of the Covered Bonds of all Series and shall not have regard to the interests of any other Secured Creditors.

No holder of the Covered Bonds or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Covered Bonds, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

**10. REPLACEMENT OF COVERED BONDS, COUPONS AND TALONS**

Should any Covered Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 13 (Notices) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

**11. PRINCIPAL PAYING AGENT, PAYING AGENTS, REGISTRAR, TRANSFER AGENT AND EXCHANGE AGENT**

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent and their initial specified offices are set out below.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Paying Agent or the Registrar and/or appoint additional or other Paying Agents or the Registrar and/or approve any change in the specified office through which any Paying Agent or the Registrar acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in a jurisdiction within Europe, other than the United Kingdom;
- (c) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority; and
- (d) so long as any of the Registered Global Bonds payable in a Specified Currency other than US dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City, or if no Exchange Agent has a specified office in New York City in such circumstances, the Issuer shall appoint an Exchange Agent having a specified office in New York City, and notice of any such variation, termination, appointment or change will be given by the Issuer to the holders of the Covered Bonds as soon as reasonably practicable in accordance with Condition 13 (Notices).

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.5 (General provisions applicable to payments). Notice of any such variation, termination, appointment or change will be given by the Issuer to the holders of the Covered Bonds as soon as reasonably practicable in accordance with Condition 13 (Notices).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any holders of the Covered Bonds or Couponholders. The Agency Agreement contains

provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## **12. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (Prescription).

## **13. NOTICES**

All notices regarding the Bearer Covered Bonds will be valid if published in the Financial Times or any other daily newspaper in London approved by the Bond Trustee or, if this is not possible, in one other English language daily newspaper approved by the Bond Trustee with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers on different dates, the last date of such first publication.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are listed, quoted or traded on a stock exchange or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, any other relevant authority. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg.

## **14. MEETINGS OF HOLDERS OF THE COVERED BONDS, MODIFICATION, WAIVER AND SUBSTITUTION**

The Trust Deed contains provisions for convening meetings (including by way of conference call, including by use a video conference platform) of the holders of the Covered Bonds to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions, the N Covered Bond Conditions applicable to a particular Series of Covered Bonds or the provisions of the Trust Deed or any of the Transaction Documents. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing holders of the Covered Bonds whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at



any meeting the business of which includes the modification of any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the holders of the Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of the Covered Bonds of such Series, whether or not they are present at the meeting, and on all Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (Events of Default and Enforcement) or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by holders of the Covered Bonds of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the holders of the Covered Bonds of all Series shall be binding on all holders of the Covered Bonds of all Series, whether or not they are present at the meeting, and on all related Couponholders in respect of such Series of Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the nominal amount of the Covered Bonds of any Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

The Bond Trustee, the Security Trustee, the LLP and the Issuer may also agree (or, in the case of the Bond Trustee and the Security Trustee where such modification arises in respect of the matters set out in Condition 14(c), shall agree (subject as provided in the Trust Deed and the Deed of Charge)), without the consent of the holders of the Covered Bonds or Couponholders of any Series and without the consent of the other Secured Creditors (save for certain amendments, where the consent of any Secured Creditor party to the relevant Transaction Document to be amended shall be required) (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

- (a) any modification of the Covered Bonds of one or more Series, the related Coupons or any Transaction Document provided that (i) in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series, and (ii) in the opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series; or
- (b) any modification of the Covered Bonds of any one or more Series, the related Coupons or any Transaction Document that is of a formal, minor or technical nature or is in the opinion of the Bond Trustee and Security Trustee made to correct a manifest error or an error established as such to the satisfaction of the Bond Trustee and the Security Trustee or to comply with mandatory provisions of law; or
- (c) any accession, waiver or modification pursuant to Clause 21.5, 21.6, 21.7, 21.8, 21.9, 21.10, 21.11, 21.12, 21.13, 21.14 or 21.15 of the Trust Deed subject as provided further pursuant to the terms of the Trust Deed and the Deed of Charge.

The Bond Trustee may also agree, without the consent of the holders of the Covered Bonds of any Series and the Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series. The Security Trustee may also agree, without the consent of the holders of the Covered Bonds of any Series, the related Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, provided that, in any such case, it is not, in the opinion of the Security Trustee, materially prejudicial to the interests of any of the holders of the Covered Bonds of any Series.

- (i) In respect of any modification, waiver, authorisation or determination that is proposed on or after the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, prior to the Bond Trustee or the Security Trustee agreeing to any such modification, waiver, authorisation or determination pursuant to this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) or as directed by the Covered Bondholders, the Issuer must send written confirmation to the Bond Trustee and the Security Trustee that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or the RCB Sourcebook or result in the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either such modification, waiver, authorisation or determination would not require notification in accordance with Regulation 20 of the RCB Regulations.
- (ii) If such modification, waiver, authorisation or determination would require notification in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FCA and the FCA has given its consent to such proposed modification, waiver, authorisation or determination.

Any such modification, waiver, authorisation or determination shall be binding on all holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding, the related Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the holders of the Covered Bonds of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and the Security Trustee shall have regard to the general interests of the holders of the Covered Bonds of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual holders of the Covered Bonds or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual holders of the Covered Bonds, the related Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any holder of the Covered Bonds or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual holders of the Covered Bonds and/or Couponholders, except to the extent already provided for in Condition 7 (Taxation) of these Conditions or Condition 7 (Taxation) of any set of N Covered Bond Conditions and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (Taxation) of these Conditions or Condition 7 (Taxation) of any set of N Covered Bond Conditions pursuant to the Trust Deed.

### ***Substitution***

- (a) Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the holders of the Covered Bonds, may agree, without the

consent of the holders of the Covered Bonds or Couponholders, to the substitution of any Successor in Business of the Issuer or of a Subsidiary of the Issuer or any such Successor in Business, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to Section 93 of the Building Societies Act or a building society to which the Issuer has transferred all of its engagements pursuant to Section 94 of the Building Societies Act or the successor in accordance with Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act (as modified by the Mutual Transfers Order or any other order made in the future by HM Treasury under section 3 of the Butterfill Act), in place of the Issuer as principal debtor under the Covered Bonds and the Trust Deed, provided (in case of the substitution of any company which is a Subsidiary of the Issuer or such Successor in Business) that the obligations of such Subsidiary in respect of the Covered Bonds and the Trust Deed in respect thereof shall be guaranteed by the Issuer or such Successor in Business in such form as the Bond Trustee may require.

- (b) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not transfer its business to a successor in accordance with Section 97 of the Building Societies Act unless either (i) the Bond Trustee is satisfied that the successor will be or (as the case may be) will remain an authorised person under the FSMA 2000 (or any statutory modification or re-enactment thereof) and the Issuer has received Rating Agency Confirmation for such transfer or (ii) such transfer is approved by the Bond Trustee or by an Extraordinary Resolution of the holders of the Covered Bonds.
- (c) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not enter into any arrangement for the transfer of its engagements to another building society pursuant to Section 94 of the Building Societies Act unless it transfers all its engagements to such society (and it has received Rating Agency Confirmation for such transfer) or such transfer has been approved by the Bond Trustee or by an Extraordinary Resolution of the holders of the Covered Bonds.
- (d) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Building Societies Act or transfer all of its engagements to another building society pursuant to Section 94 of the Building Societies Act or transfer the whole of its business to a successor in accordance with Section 97 of the Building Societies Act or transfer the whole of its business to a subsidiary of a mutual society pursuant to Section 97 of the Building Societies Act (as modified by the Mutual Transfers Order or any other order made in the future by HM Treasury under section 3 of the Butterfill Act) the successor will, pursuant to such provisions and provided that the Issuer has received Rating Agency Confirmation for such amalgamation or transfer, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed without any prior approval thereof being required from the holders of the Covered Bonds, the Couponholders or the Bond Trustee (but without prejudice to the provisions of paragraphs (a), (b) and (c) above).
- (e) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not agree to the substitution of the Issuer unless any successor to the Issuer or the LLP, including any Successor in Business or the Subsidiary of the Issuer or of such Successor in Business, is included in the register of Issuers pursuant to the RCB Regulations and that all other provisions (including Regulation 20 of the RCB Regulations) of the RCB Regulations and the RCB Sourcebook are satisfied prior to the substitution of the Issuer.
- (f) Any substitution pursuant to this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) shall be binding on the holders of the Covered Bonds and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified to the holders of the Covered Bonds as soon as practicable thereafter in accordance with Condition 13 (Notices).

For the purposes of this Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution):

**Potential Issuer Event of Default** means any condition, event or act that, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default;

**Potential LLP Event of Default** means any condition, event or act that, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default;

**Successor in Business** means:

- (a) any building society (not being a building society that is established by the amalgamation of the Society under and in accordance with the terms of Section 93 of the Building Societies Act) that is validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, registered as a successor society to the Issuer and to another building society or other building societies in order to effect the amalgamation of the Issuer with such other society or societies; or
- (b) any building society (not being a building society which undertakes under and in accordance with the terms of Section 94 of the Building Societies Act to fulfil the engagements of the Issuer) that validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, undertakes to fulfil the obligations of the Issuer as part of a transfer of engagements by the Issuer to such building society; or
- (c) a company or other entity (not being a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act as modified by the Mutual Transfers Order or any other order made in the future by the Treasury under section 3 of the Butterfill Act) to which the Issuer validly and effectually, in accordance with all enactments, orders and regulations in force for the time being and from time to time, as part of a transfer of the whole or substantially the whole of its business, undertaking or assets, transfers the whole or substantially the whole of its business, undertaking or assets for the purpose of such other company or entity assuming and conducting the business of the Issuer in its place and which company or other entity undertakes to fulfil the obligations of the Issuer under these presents; or
- (d) any other entity (not being a successor within the meaning of Section 93 of the Building Societies Act, a society to which the engagements of the Issuer are transferred under Section 94 of the Building Societies Act or a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to Section 97 of the Building Societies Act as modified by the Mutual Transfers Order or any other order made in the future by the Treasury under section 3 of the Butterfill Act) that in acquiring in any other manner all or a substantial part of the undertaking, property and/or assets of the Issuer or in carrying on as a successor to the Society the whole or a substantial part of the business carried on by the Issuer prior thereto undertakes to fulfil the obligations of the Issuer under these presents,

where, in each of the cases in paragraphs (a) to (d) above, Rating Agency Confirmation has been received in respect of the terms of the proposed transaction; and

**Series Reserved Matter**, in relation to Covered Bonds of a Series means: (a) a reduction or cancellation of the amount payable or, where applicable, a modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, a modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds; (b) an alteration of the currency in which payments under the Covered Bonds and Coupons are to be made; (c) an alteration of the majority required to pass an Extraordinary Resolution; (d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of the Covered Bonds of any Series); (e) except in accordance with Condition 6.4

(Redemption due to illegality), the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of the Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and (f) an alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed.

**15. INDEMNIFICATION OF THE BOND TRUSTEE AND/OR SECURITY TRUSTEE AND BOND TRUSTEE AND/OR SECURITY TRUSTEE CONTRACTING WITH THE ISSUER AND/OR THE LLP**

If, in connection with the exercise of its powers, trusts, authorities or discretions the Bond Trustee or the Security Trustee is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such holders of the Covered Bonds by Extraordinary Resolution or by a direction in writing of such holders of the Covered Bonds of at least 25% of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (a) to enter into business transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the holders of the Covered Bonds or Couponholders or the other Secured Creditors and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for: (a) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (b) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (c) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test; or (d) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any holder of the Covered Bonds or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

**16. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the holders of the Covered Bonds or the Couponholders to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

**17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

**18. GOVERNING LAW**

The Trust Deed, the Agency Agreement, the corporate services agreement entered into by the LLP, with, *inter alios*, Wilmington Trust SP Services (London) Limited and the LLP dated the Initial Programme Date (such corporate services agreement as modified and/or supplemented and/or restated from time to time, the **Corporate Services Agreement**), the Covered Bonds the Coupons and the other Transaction Documents (other than each declaration of trust in relation to the sale of Scottish loans and their related security by the Issuer to the LLP (each a **Scottish Declaration of Trust**), certain documents to be granted pursuant to the Deed of Charge and the Corporate Services Agreement) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

## USE OF PROCEEDS

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling, if necessary) either (i) to acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

- to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limit; and/or
- if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- subject to complying with the Asset Coverage Test, to make a Capital Distribution to a Member; and/or
- to deposit all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Amount to an amount not exceeding the prescribed limit).

## CAPITALISATION AND INDEBTEDNESS

The following is a summary of the Issuer's consolidated capitalisation and indebtedness extracted from the Issuer's unaudited consolidated financial statements as at 30 September 2020:

|  | <b>30 September 2020</b> |
|--|--------------------------|
|  | <i>(£ million)</i>       |
| <b>Consolidated Indebtedness<sup>(1)</sup></b>   |                          |
| Deposits from banks.....   | 28,225                   |
| Amounts due to customers and other deposits .....  | 7,671                    |
| Debt securities in issue.....  | 37,422                   |
| <b>Total Senior Debt</b> .....   | <b>73,318</b>            |
| <b>Subordinated Debt<sup>(1)(2)</sup></b>  |                          |
| Comprising two issues maturing 2024, three issues maturing 2026, two issues maturing 2029 and one issue maturing in 2032, a number of which are callable ahead of maturity | 8,348                    |
| <b>Total Subordinated Debt</b> .....   | <b>8,348</b>             |
| <b>Permanent Interest Bearing Shares<sup>(1)(3)(4)</sup></b> .....   | 252                      |
| <b>Total Permanent Interest Bearing Shares</b> .....   | <b>252</b>               |
| <b>Members' Funds</b>  |                          |
| CCDS <sup>(1)</sup> .....  | 1,329                    |
| Other equity instruments <sup>(1)</sup> .....  | 1,336                    |
| General reserve.....   | 10,936                   |
| Revaluation reserve .....  | 36                       |
| Cash flow hedge reserve.....   | 261                      |
| Fair value through other comprehensive income reserve .....  | 44                       |
| Other hedging reserve  | (43)                     |
| UK retail member deposits <sup>(1)(4)</sup> .....  | 160,953                  |
| <b>Total members' funds</b> .....  | <b>174,852</b>           |
| <b>Total capitalisation</b> .....  | <b>256,770</b>           |

Notes:

- (1) If the Issuer 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 the Issuer's AT1 instruments would rank behind those in respect of its PIBS, and the claims in respect of its CCDS would rank behind claims in respect of its AT1 instruments.
- (2) For consistency with other indebtedness, accrued interest of £65 million is included.
- (3) For consistency with other indebtedness, accrued interest of £3 million is included.
- (4) The fixed rate PIBS are repayable, at the option of the Society, in whole on the initial call date or every fifth anniversary thereafter. If not repaid on a call date then the interest rate is reset at a margin to the yield on the then prevailing five year benchmark gilt rate. Initial call dates are in 2021, 2024, 2026 and 2030, respectively. The floating rate PIBS payable at 2.4% above 6 month LIBOR are only repayable in the event of winding up the Society.
- (5) The Issuer's 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. The Issuer's board of directors (the **Board**) has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.

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



## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

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

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

|   | For the six months ended<br>30 September |              |              | For the year ended<br>4 April |              |              |              |
|---|--|--------------|--------------|-------------------------------|--------------|--------------|--------------|
|   | 2020 <sup>(1)</sup>                      | 2020         | 2019         | 2020 <sup>(2)</sup>           | 2020         | 2019         | 2018         |
|   | (\$<br>million)                          | (£ million)  |              | (\$<br>million)               | (£ million)  |              |              |
| <b>Income Statement Data:</b>                           |  |              |              |                               |              |              |              |
| Interest receivable and similar income                  | 2,591                                    | 2,006        | 2,544        | 6,291                         | 5,130        | 5,118        | 4,811        |
| Interest expense and similar charges                    | (721)                                    | (558)        | (1,159)      | (2,845)                       | (2,320)      | (2,203)      | (1,807)      |
| <b>Net interest income</b>                              | <b>1,871</b>                             | <b>1,448</b> | <b>1,385</b> | <b>3,446</b>                  | <b>2,810</b> | <b>2,915</b> | <b>3,004</b> |
| Fee and commission income                               | 233                                      | 180          | 216          | 538                           | 439          | 449          | 449          |
| Fee and commission expense                              | (146)                                    | (113)        | (126)        | (331)                         | (270)        | (248)        | (244)        |
| Other operating income                                  | (16)                                     | (12)         | 66           | 82                            | 67           | 54           | (77)         |
| Gains/(losses) from derivatives and hedge accounting    | 72                                       | 56           | 2            | (9)                           | (7)          | 36           | (1)          |
| <b>Total income</b>                                     | <b>2,014</b>                             | <b>1,559</b> | <b>1,543</b> | <b>3,726</b>                  | <b>3,039</b> | <b>3,206</b> | <b>3,131</b> |
| Administrative expenses                                 | (1,334)                                  | (1,033)      | (1,125)      | (2,835)                       | (2,312)      | (2,254)      | (2,024)      |
| Impairment losses on loans and advances to customers    | (180)                                    | (139)        | (57)         | (256)                         | (209)        | (113)        | (107)        |
| Provisions for liabilities and charges                  | (34)                                     | (26)         | (52)         | (64)                          | (52)         | (6)          | (25)         |
| Impairment recoveries/(losses) on investment securities | -  |              |              | -                             | -            | -            | 2            |

|  | For the six months ended<br>30 September |            |            | For the year ended<br>4 April |            |            |            |
|--|--|------------|------------|-------------------------------|------------|------------|------------|
|  | 466                                      | 361        | 309        | 571                           | 466        | 833        | 977        |
| <b>Profit before tax</b>                             |  |            |            |                               |            |            |            |
| .....  |  |            |            |                               |            |            |            |
| Analysed as:   |  |            |            |                               |            |            |            |
| Underlying profit before tax                         | 394                                      | 305        | 307        | 575                           | 469        | 788        | 977        |
| .....  |  |            |            |                               |            |            |            |
| Financial Sector Compensation Scheme and Bank Levy   | -  |            |            | 5                             | 4          | 9          | 1          |
| .....  |  |            |            |                               |            |            |            |
| Gains/(losses) from derivatives and hedge accounting | 72                                       | 56         | 2          | (9)                           | (7)        | 36         | (1)        |
| .....  |  |            |            |                               |            |            |            |
| <b>Statutory profit before tax</b>                   | <b>466</b>                               | <b>361</b> | <b>309</b> | <b>571</b>                    | <b>466</b> | <b>833</b> | <b>977</b> |
| .....  |  |            |            |                               |            |            |            |
| Taxation   | (103)                                    | (80)       | (75)       | (124)                         | (101)      | (197)      | (232)      |
| .....  |  |            |            |                               |            |            |            |
| <b>Profit after tax<sup>(3)</sup></b>                | <b>363</b>                               | <b>281</b> | <b>234</b> | <b>447</b>                    | <b>365</b> | <b>636</b> | <b>745</b> |
| .....  |  |            |            |                               |            |            |            |

Notes:

- (1) Dollar amounts are unaudited and have been derived from the Issuer's unaudited condensed consolidated financial statements as of and for the six months ended 30 September 2020 using the exchange rate of \$1.2918 to £1.
- (2) Dollar amounts are unaudited and have been derived from the Issuer's audited consolidated financial statements as of and for the year ended 4 April 2020 using the exchange rate of \$1.22625 to £1.
- (3) Certain adjustments were made to reflect an amendment to IAS 12 "Income Taxes", and Taxation and Profit after Tax for the year end 4 April 2019, has been restated. For further information, please see "Presentation of Financial Information" and note 1 to the audited consolidated financial information for the year ended 4 April 2020.

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

Notes:

- (1) Dollar amounts are unaudited and have been derived from the Issuer's unaudited condensed consolidated financial statements as of and for the six months ended 30 September 2020 using the exchange rate of \$1.2918 to £1.
- (2) Dollar amounts are unaudited and have been derived from the Issuer's audited consolidated financial statements as of and for the year ended 4 April 2020 using the exchange rate of \$1.22625 to £1.
- (3) Figures have been adjusted to reflect the impact of applying IFRS 9: "Financial Instruments" from 5 April 2018. Further information is provided in note 1 to the Issuer's audited consolidated financial statements as of and for the year ended 4 April 2020.

- (4) Certain reclassifications and adjustments were made for the financial information for the year ended 4 April 2019. For further information, please see “Presentation of Financial Information” and note 1 of the audited consolidated financial statement as of and for the year ended 4 April 2020.

|   | <b>As at and for the<br/>six months ended<br/>30 September</b> |             | <b>As at and for the year ended 4<br/>April</b> |             |             |
|---|--|-------------|---|-------------|-------------|
|   | <b>2020</b>  | <b>2019</b> | <b>2020</b>                                     | <b>2019</b> | <b>2018</b> |
| <b>Other Financial Data</b>   |  |             | <i>(percentages)</i>                            |             |             |
| Return on average total assets <sup>(1)</sup> .....                           | 0.22   | 0.20        | 0.15  | 0.26        | 0.32        |
| Net interest margin .....   | 1.15   | 1.12        | 1.13  | 1.22        | 1.31        |
| Underlying cost income ratio <sup>(2)</sup> .....                             | 68.7   | 72.9        | 75.9  | 71.1        | 64.6        |
| Ratio of administrative expenses to mean total<br>assets <sup>(3)</sup> ..... | 0.41   | 0.46        | 0.95  | 0.96        | 0.90        |
| <b>Capital ratios</b>   |  |             |   |             |             |
| CET1 .....  | 34.5   | 31.5        | 31.9  | 32.2        | 30.4        |
| <b>Total Tier 1</b> .....   | <b>38.7</b>  | <b>33.3</b> | <b>33.7</b>                                     | <b>35.2</b> | <b>33.5</b> |
| <b>Total regulatory capital</b> .....   | <b>48.4</b>  | <b>42.9</b> | <b>43.6</b>                                     | <b>44.3</b> | <b>42.8</b> |
| CRR leverage ratio .....  | 4.6  | 4.3         | 4.4   | 4.6         | 4.6         |
| UK leverage ratio .....   | 5.0  | 4.6         | 4.7   | 4.9         | 4.9         |

Notes:

- (1) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets. Average balances are based on the balance as at the end of each month during the financial year.
- (2) These ratios, which are APMs, are measures of efficiency and present administrative expenses as a proportion of total income.
- (3) This ratio represents administrative expenses as a percentage of the average of total assets at the start and end of each period.

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

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

### Overview

The Issuer is a building society, regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. The Issuer's core business is providing personal financial services, primarily residential mortgage lending funded largely through retail savings. As a mutual organisation, other than in respect of a relatively small amount of funding provided by investors in its deferred shares (including its PIBS, AT1 instruments and CCDS), the Issuer is not funded by shareholders, which means that the Issuer is managed for the benefit of the Issuer's members, who are the Issuer's current account, retail savings and residential mortgage customers (as well as the holders of the Issuer's deferred shares), rather than for equity shareholders. The Issuer returns value to its members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by the Issuer's main competitors. As a result, the Issuer generally earns lower pre-tax profits than its main competitors, which are primarily banks or other non-mutual organisations. As a mutual organisation, the Issuer pays no dividends (although it pays periodic investment returns on its CCDS at its discretion and interest on its AT1 and tier 2 capital securities), and its net earnings are put into reserves and constitute CET1 capital for its capital adequacy requirements. For information regarding UK capital adequacy requirements, see the subsection entitled "*Financial Condition of Nationwide—Capital Resources*" below.

### Financial Performance

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

The Issuer's capital position remains strong with its CET1 and UK leverage ratios at 34.5% and 5.0%, respectively as at 30 September 2020 (30 September 2019: 31.5% and 4.6%, respectively), in excess of regulatory requirements. The increase in the Issuer's UK leverage ratio during the six months ended 30 September 2020 is primarily the result of changes in net retail lending and treasury investments and the issuance of £750m of AT1 capital instruments.

During the six-month period ended 30 September 2020, mortgage trading performance was robust, despite the significantly lower than normal demand during the March to June period of lockdown, with total net mortgage lending decreasing to £1.6 billion (30 September 2019: £3.0 billion), with the majority of the Issuer's net lending being through its strong buy to let mortgage brand, The Mortgage Works (TMW). The Issuer has seen net deposit growth of £1.3 billion during the period (30 September 2019: £2.5 billion) with strong current account inflows partially offset by savings outflows. However, there was a more significant overall increase in deposit balances across the UK, primarily during the period of lockdown, which has led to a reduction in the Issuer's deposit stock market share to 9.3% (30 September 2019: 9.9%). The Issuer's market share of all current accounts remains stable at 10.1%<sup>3</sup>.

The Issuer has provided its members with a financial benefit of £140 million (30 September 2019: £375 million). The decline is primarily attributable to lower interest on savings and was against the backdrop of a highly competitive mortgage market. The reduction in savings rates, following the fall in bank base rate, protected the Issuer's profitability

<sup>3</sup> Source: CACI (August 2020 and Feb 2020) and internal calculations; 'main current accounts' refers to main standard and packaged accounts.

in the first half of 2020 and safeguarded the sustainability of the Issuer's business. This period of exceptionally low interest rates means it is unlikely that the Issuer will meet its £400 million member financial benefit target for this financial year.

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

### **Impact of Economic Conditions in the UK Generally and Outlook**

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

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

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

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

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

While stress testing results demonstrate that the Issuer is resilient against significant short-term economic shocks, the longer-term financial impact of Covid-19 is not yet clear and remains difficult to quantify. The pandemic is likely to cause interest rates to remain at historically low levels (and there is increasing speculation about the possibility for the UK base rate to move to a negative rate), and will result in longer term economic effects, potentially putting pressure on the Issuer's

financial performance. The Issuer's operating environment is expected to remain highly competitive and further increases in competition would increase the level of business risk for the Issuer.

### Net Interest Income

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

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

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

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

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

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

### Interest Rate Management

Because the majority of the Issuer's 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 interest the Issuer's income and interest expense. Fluctuations in market interest rates, however, give the Issuer the opportunity to manage its interest rate margins and, for most of its assets and liabilities, the Issuer can re-price the interest rate that it offers, subject to market and competitive pressures.

The table below shows the daily average three-month sterling LIBOR rates (11:00 a.m. British Bankers' Association fixing) and average Bank of England base rates for the six months ended 30 September 2020 and 2019 and the years ended 4 April 2020, 2019 and 2018.

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

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

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

The BMR is guaranteed to be no more than 2% above the Bank of England base rate. This rate is significantly lower than the equivalent standard variable rate charged by the Issuer's peers and the SMR onto which the Issuer's mortgages advanced since April 2009 revert. This has the effect of compressing the Issuer's mortgage margins and reducing the flexibility with which these margins can be managed. However, the BMR portfolio is well seasoned, has low arrears rates and low possession rates, which partly compensates for the low margin it yields.

## Results of Operations for the Six Months Ended 30 September 2020 Compared with the Six Months Ended 30 September 2019

### Introduction

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

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

The Issuer's net interest margin (NIM) has stabilised at 1.15% (30 September 2019: 1.12%) largely due to mortgage margins improving, having declined for the past four years. Following the bank base rate reductions in March 2020 the Issuer took the decision to reduce interest rates across its savings range. Whilst this has not had a significant impact on the Issuer's NIM during the period it has contributed towards lower member financial benefit of £140 million (30 September 2019: £375 million).



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

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

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

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

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

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

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:
  - Gains or losses from derivatives and hedge accounting, which are presented separately within total income in the consolidated interim financial statements.
  - Any FSCS costs and refunds arising from institutional failures

**For the six months ended 30 September 2019**

|   | <b>Underlying profit</b> | <b>Gain from<br/>derivatives and<br/>hedge accounting</b> | <b>Statutory profit</b> |
|---|--------------------------|---|-------------------------|
|   | <i>(£ million)</i>       |   |                         |
| Net interest income .....                             | 1,385                    | -   | 1,385                   |
| Net other income.....                                 | 156                      | -   | 156                     |
| Movements on derivatives and hedge<br>accounting..... | -                        | 2   | <b>2</b>                |
| <b>Total income</b>                                   | <b>1,541</b>             | <b>2</b>  | <b>1,543</b>            |
| Administrative expenses.....                          | (1,125)                  | -   | (1,125)                 |
| <b>Pre-provision underlying profit.....</b>           | <b>416</b>               | <b>2</b>  | <b>418</b>              |
| Impairment losses .....                               | (57)                     | -   | (57)                    |
| Provisions for liabilities and charges .....          | (52)                     | -   | (52)                    |
| <b>Profit before tax .....</b>                        | <b>307</b>               | <b>2</b>  | <b>309</b>              |

The following discussion considers the Issuer's results for the six months ended 30 September 2020 compared to its results for the six months ended 30 September 2019:

### **Total income**

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

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

### **Net interest income**

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

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

|  | <b>For the six months ended 30 September</b> |             |
|--|--|-------------|
|  | <b>2020</b>                                  | <b>2019</b> |
|  | <i>(£ million)</i>                           |             |
| <b>Interest and similar income:</b>                      |  |             |
| On residential mortgages .....                           | 2,080  | 2,246       |
| On other loans .....                                     | 278  | 314         |
| On investment securities .....                           | 79   | 104         |
| On other liquid assets .....                             | 16   | 77          |
| Net expense on financial instruments hedging assets..... | (443)  | (182)       |
| Interest on net defined benefit pension asset.....       | 3  | -           |

|   |              |              |
|---|--------------|--------------|
| Other interest and similar expenses                           | (7)          | (15)         |
| <b>Total interest and similar income</b> .....                | <b>2,006</b> | <b>2,544</b> |
| <b>Interest expense and similar charges:</b>                  |              |              |
| On UK retail member deposits .....                            | 301          | 678          |
| On subscribed capital .....                                   | 7            | 7            |
| <b>On deposits and other borrowings:</b>                      |              |              |
| Subordinated liabilities .....                                | 149          | 147          |
| Other.....  | 27           | 121          |
| Debt securities in issue .....                                | 279          | 393          |
| Net income on financial instruments hedging liabilities ..... | (205)        | (187)        |
| Interest on net defined benefit pension liability .....       | -            | -            |
| <b>Total interest expense and similar charges</b> .....       | <b>558</b>   | <b>1,159</b> |
| <b>Net interest income</b> .....                              | <b>1,448</b> | <b>1,385</b> |

### *On investment securities*

Interest and other income from investment securities comprises interest income earned on the corporate and government investment securities that the Issuer purchases for its own account to manage its liquidity portfolios and net realised gains and losses on the Issuer's sales of these instruments.

Interest and other income from investment securities decreased by £25 million to £79 million for the six months ended 30 September 2020, compared with £104 million for the six months ended 30 September 2019.

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

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

### *Interest expense and similar charges*

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

The Issuer continues to attract more current account members, with 256,000 (30 September 2019: 391,000) new accounts opened in the half year ending 30 September 2020, maintaining its stock market share at 10% share of all current accounts, with fewer accounts opened as a result of lockdown.<sup>4</sup> The Issuer's share of main current accounts remains stable at 10.1%% (30 September 2019: 8.1%).<sup>5</sup>

### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that the Issuer pays on subordinated debt instruments and other deposits and borrowings. In the six months ended 30 September 2020, interest on subordinated liabilities increased to £149 million from £147 million in the six months ended 30 September 2019. Average balances increased by £294 million to £8,783 million in the six months ended 30 September 2020 from £8,489 million in the six months ended 30 September 2019.

Other interest expense on deposits and other borrowings includes the interest that the Issuer pays on retail deposits by non-members, deposits from other banks and other money market deposits. In the six months ended 30 September 2020,

<sup>4</sup> CACI (Aug 2020 and Feb 2020)

<sup>5</sup> CACI (Aug 2020 and Feb 2020) and internal calculations. 'Main current accounts' includes main standard and packaged accounts

other interest expense on deposits and other borrowings decreased by 78% to £27 million from £121 million in the six months ended 30 September 2019.

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

Debt securities in issue include interest that the Issuer pays on certificates of deposit, time deposits, commercial paper, covered bonds, medium-term notes and securitisations. In the six months ended 30 September 2020, interest expense on debt securities in issue decreased by 29% to £279 million from £393 million in the six months ended 30 September 2019. The decrease was due to a number of factors, including lower covered bond book due to a liability management exercise in September 2020, in addition to narrower spreads due to reduced market volatility versus April 2020.

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

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

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

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

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

#### ***Other operating income***

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

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

All derivatives the Issuer enters into are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives, the Issuer’s use of which is regulated by the UK Building Societies Act, are only used to limit the extent to which the Issuer 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, the Issuer enters into certain derivative contracts which, although efficient economically, cannot be included in effective hedge accounting relationships. Consequently, although the implicit interest cost of the underlying instrument and associated derivatives are included in “Net interest income” in the income statement, fair value movements on such derivatives are included in “Gains from derivatives and hedge accounting.”

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

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

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

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

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

|   | <b>For the six months ended<br/>30 September</b> |              |
|---|--|--------------|
|   | <b>2020</b>                                      | <b>2019</b>  |
|   | <i>(£ million)</i>                               |              |
| Administrative expenses.....                              | 757  | 871          |
| Depreciation and amortisation.....                        | 276  | 254          |
| <b>Total Administrative expenses</b> .....                | <b>1,033</b>                                     | <b>1,125</b> |
| Impairment losses on loans and advances to customers..... | 139  | 57           |
| Provisions for liabilities and charges.....               | 26   | 52           |
| <b>Total</b> .....  | <b>1,198</b>                                     | <b>1,234</b> |

### *Administrative expenses*

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

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

|  | <b>For the six months ended<br/>30 September</b> |             |
|--|--|-------------|
|  | <b>2020</b>                                      | <b>2019</b> |
|  | <i>(£ million)</i>                               |             |
| Employee costs:                                  |  |             |
| Salaries, bonuses and social security costs..... | 335  | 332         |
| Pension costs .....                              | 86   | 91          |
| Other administrative expenses.....               | 336  | 448         |
| <b>Total</b> .....                               | <b>757</b>                                       | <b>871</b>  |

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

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

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

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

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

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

#### *Depreciation and amortisation*

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

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

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

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

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

|  | <b>For the six months ended<br/>30 September</b> |             |
|--|--|-------------|
|  | <b>2020</b>                                      | <b>2019</b> |
|  | <i>(£ million)</i>                               |             |
| Residential lending .....                            | 53   | 10          |
| Consumer banking.....                                | 84   | 58          |
| <b>Retail lending</b>                                | <b>137</b>                                       | <b>68</b>   |
| Commercial and other lending .....                   | 2  | (11)        |
| <b>Impairment losses on loans and advances</b> ..... | <b>139</b>                                       | <b>57</b>   |

Impairment losses have increased by £82 million to £139 million (30 September 2019: £57 million). As at 4 April 2020 an additional provision for credit losses totalling £101 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. This additional provision comprised £55 million in relation to revised economic assumptions, £39

million to reflect suppressed credit risk associated with payment deferrals, and £7 million in relation to commercial lending. Other than the judgements and estimates detailed in the 2020/21 Interim Accounts, there have been no significant changes to those disclosed in the Annual Report and Accounts 2020.

#### *Provisions for liabilities and charges*

|                                  | <b>For the six months ended<br/>30 September</b> |             |
|----------------------------------|--|-------------|
|                                  | <b>2020</b>                                      | <b>2019</b> |
|                                  | <i>(£ million)</i>                               |             |
| FSCS .....                       | -  | -           |
| Customer redress provision ..... | (26)   | (52)        |
| <b>Total</b> .....               | <b>(26)</b>                                      | <b>(52)</b> |

The income statement charge for provisions for liabilities and charges of £26 million (30 September 2019: £52 million) includes the customer redress net income statement charge of £26 million (30 September 2019: £52 million).

The Issuer holds provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the year primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of the Issuer's PPI provision it has considered the implications of the guidance published by the FCA in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

The FSCS has confirmed that there will be no further interest costs following the sale of Bradford & Bingley plc asset portfolios and subsequent repayment of the loan to HM Treasury. In common with other financial institutions subject to the FSCS, the Group continues to have a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure.

#### *Taxes*

The tax charge for the period of £80 million (30 September 2019: £75 million) represents an effective tax rate of 22.2% (30 September 2019: 24.3%) which is higher than the statutory UK corporation tax rate of 19% (30 September 2019: 19%). The effective tax rate is higher due to the 8% banking surcharge of £14 million (30 September 2019: £10 million) and the tax effect of disallowable customer redress costs and other disallowable expenses of £3 million (30 September 2019: £3 million) and £3 million (30 September 2019: £6 million) respectively. This is partially offset by the tax credit on the distribution to the holders of Additional Tier 1 capital instruments of £9 million (30 September 2019: £4 million).

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

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

Note:

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

### **Balance Sheet Review**

Total assets have increased by 5% to reach £259.7 billion at 30 September 2020 from £248.0 billion at 4 April 2020, predominantly due to higher holdings of cash and liquid assets following an increase in short-term funding and the drawdown of funds from the Bank of England’s TFSME.

#### *Loans and advances to customers*

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

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



## Residential mortgage portfolio

Residential mortgages include prime and specialist loans, with new lending in the specialist portfolio comprised entirely of BTL lending. Gross mortgage lending in the period was £12.7 billion (30 September 2019: £16.3 billion), representing a market share of 12.0% (30 September 2019: 12.3%).

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

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

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

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

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

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

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

|  | <b>As at 30 September</b> |             |
|--|---------------------------|-------------|
|  | <b>2020</b>               | <b>2019</b> |
|  | <i>(percentages)</i>      |             |
| <b>Cases three months or more in arrears as (%) of total book of residential mortgages</b> |                           |             |
| Prime .....  | 0.34                      | 0.32        |
| Specialist .....   | 0.75                      | 0.75        |
| <b>Total Group residential mortgages</b> .....   | <b>0.42</b>               | <b>0.40</b> |
| <b>UK Finance (UKF) industry average <sup>(1)</sup></b> .....                              | <b>0.82</b>               | <b>0.73</b> |

Note:

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

Reflecting the Issuer's low risk profile, performance of the mortgage books has remained strong with the total group residential mortgages more than three months in arrears staying constant. The Issuer's overall arrears percentage of 0.42% compares favourably with the UK Finance (UKF) industry average of 0.82% (30 September 2019: 0.73%) as reported by UKF.

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

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

**Residential mortgages gross balances by payment status**

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

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

|                                    | <b>As at<br/>30 September 2020</b>     |                               |              |            | <b>As at<br/>4 April 2020</b> |                               |              |            |
|------------------------------------|--|-------------------------------|--------------|------------|-------------------------------|-------------------------------|--------------|------------|
|                                    | <b>Prime<br/>lending</b>               | <b>Specialist<br/>lending</b> | <b>Total</b> | <b>(%)</b> | <b>Prime<br/>lending</b>      | <b>Specialist<br/>lending</b> | <b>Total</b> | <b>(%)</b> |
|                                    | <i>(£ billion, except percentages)</i> |                               |              |            |                               |                               |              |            |
| <b>Not impaired:</b>               |  |                               |              |            |                               |                               |              |            |
| Neither past due nor impaired..... | 149.8                                  | 38.4                          | 188.2        | 98.7       | 149.4                         | 36.7                          | 186.1        | 98.5       |

|  |              |             |              |            |              |             |              |            |
|--|--------------|-------------|--------------|------------|--------------|-------------|--------------|------------|
| Past due up to 3 months but not impaired ..... | 1.2          | 0.5         | 1.7          | 1.0        | 1.4          | 0.7         | 2.1          | 1.1        |
| Impaired .....                                 | 0.4          | 0.4         | 0.8          | 0.3        | 0.4          | 0.3         | 0.6          | 0.4        |
| <b>Total</b> .....                             | <b>151.4</b> | <b>39.3</b> | <b>190.7</b> | <b>100</b> | <b>151.2</b> | <b>37.7</b> | <b>188.8</b> | <b>100</b> |

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

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

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

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

#### For residential mortgage loans

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

| <b>Balances subject to forbearance 2020</b>         | <b>Prime</b>       | <b>Specialist</b> | <b>Total</b> |
|---|--------------------|-------------------|--------------|
|   | <i>(£ million)</i> |                   |              |
| Past term interest only concessions .....           | 116                | 109               | 225          |
| Interest only concessions.....                      | 473                | 45                | 518          |
| Capitalisation.....                                 | 238                | 110               | 348          |
| Term extensions (within term) .....                 | 34                 | 19                | 53           |
| Permanent interest only conversions .....           | 2                  | 40                | 42           |
| <b>Total forbearance</b> .....                      | <b>863</b>         | <b>323</b>        | <b>1,186</b> |
| <b>Impairment provision on forborne loans .....</b> | <b>6</b>           | <b>15</b>         | <b>21</b>    |
| <b>Balances subject to forbearance 2019</b>         | <b>Prime</b>       | <b>Specialist</b> | <b>Total</b> |
|   | <i>(£ million)</i> |                   |              |
| Past term interest only concessions .....           | 121                | 127               | 248          |
| Interest only concessions.....                      | 521                | 53                | 574          |
| Capitalisation .....                                | 68                 | 86                | 154          |
| Term extensions (within term) .....                 | 35                 | 13                | 48           |
| Permanent interest only conversions .....           | 2                  | 35                | 37           |
| <b>Total forbearance</b> .....                      | <b>747</b>         | <b>314</b>        | <b>1,061</b> |

|   |          |           |           |
|---|----------|-----------|-----------|
| <b>Impairment provision on forborne loans .....</b> | <b>4</b> | <b>11</b> | <b>15</b> |
|---|----------|-----------|-----------|

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

The balances outlined above apply to the prime residential mortgage portfolio. The table below show outstanding loans as at 30 September 2019 and 4 April 2019 that are subject to forbearance in alignment with European Banking Authority definitions.

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

The following table presents negative equity on residential mortgages:

|                     | <b>As at 30 September</b> |             |
|---------------------|---------------------------|-------------|
|                     | <b>2020</b>               | <b>2019</b> |
|                     | <i>(£ million)</i>        |             |
| Stage 1 and 2 ..... | 20                        | 23          |
| Stage 3 .....       | 4                         | 4           |
| <b>Total.....</b>   | <b>24</b>                 | <b>27</b>   |

#### **For commercial loans**

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

The table below provides details of the commercial loans which are subject to forbearance as at 30 September 2020 and 4 April 2020. Loans where more than one concession event has occurred are reported under the latest event.

|                             | <b>As at</b>             | <b>As at</b>        |
|-----------------------------|--------------------------|---------------------|
|                             | <b>30 September 2020</b> | <b>4 April 2020</b> |
|                             | <i>(£ million)</i>       |                     |
| Refinance.....              | 8                        | 43                  |
| Modifications:              |                          |                     |
| Payment concession .....    | 81                       | 31                  |
| Security amendment.....     | 4                        | 8                   |
| Extension at maturity ..... | 8                        | 19                  |
| Breach of covenant.....     | 112                      | 126                 |
| <b>Total.....</b>           | <b>213</b>               | <b>227</b>          |

|   |           |           |
|---|-----------|-----------|
| <b>Impairment provision on forborne loans .....</b> | <b>21</b> | <b>14</b> |
|---|-----------|-----------|

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

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

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

### For consumer loans

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

|   | <b>Overdraw<br/>n current<br/>accounts</b> | <b>Personal<br/>loans</b> | <b>Credit<br/>cards</b> | <b>Total</b> |
|---|--|---------------------------|-------------------------|--------------|
| <b>2020</b>   |  | <i>(£ million)</i>        |                         |              |
| Payment concession .....                            | 10   | -                         | 1                       | 11           |
| Interest suppressed payment arrangement.....        | 6  | 41                        | 14                      | 61           |
| Balances re-aged/re-written.....                    | -  | 1                         | 3                       | 4            |
| <b>Total forbearance .....</b>                      | <b>16</b>                                  | <b>42</b>                 | <b>18</b>               | <b>76</b>    |
| <b>Impairment provision on forborne loans .....</b> | <b>11</b>                                  | <b>33</b>                 | <b>12</b>               | <b>56</b>    |
| <b>2019<sup>(1)</sup></b>                           |  |                           |                         |              |
| Payment concession .....                            | 15   | -                         | 1                       | 16           |
| Interest suppressed payment arrangement.....        | 7  | 33                        | 15                      | 55           |
| Balances re-aged/re-written.....                    | -  | 1                         | 3                       | 4            |
| <b>Total forbearance .....</b>                      | <b>22</b>                                  | <b>34</b>                 | <b>19</b>               | <b>75</b>    |
| <b>Impairment provision on forborne loans .....</b> | <b>13</b>                                  | <b>28</b>                 | <b>14</b>               | <b>55</b>    |

### Commercial loan portfolio

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

### Commercial and other lending gross balances

|  | <b>As at 30 September</b> |             |
|--|---------------------------|-------------|
|  | <b>2020</b>               | <b>2019</b> |
|  | <i>(£ million)</i>        |             |
| Registered social landlords <sup>(1)</sup> ..... | 5,042                     | 5,674       |
| Commercial real estate (CRE).....                | 925                       | 1,248       |
| Project finance <sup>(2)</sup> .....             | 698                       | 764         |

|  |              |              |
|--|--------------|--------------|
| Other lending.....   | -            | -            |
| <b>Commercial and other lending balances at amortised cost .....</b> | <b>6,665</b> | <b>7,686</b> |
| Fair value adjustment for micro hedged risk <sup>(3)</sup> .....     | 701          | 823          |
| Commercial lending balances .....                                    | 52           | 57           |
| <b>Total.....</b>  | <b>7,418</b> | <b>8,566</b> |

Notes:

- (1) Loans to registered landlords are secured on residential property.
- (2) Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts under the Private Finance Initiative.
- (3) Micro hedged risk relates to loans hedged on an individual basis.

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

|                   | For the six months ended 30 September |                |
|-------------------|---------------------------------------|----------------|
|                   | 2020                                  | 2019           |
|                   | (IFRS 9 basis)                        | (IAS 39 basis) |
|                   | (£ million)                           | (£ million)    |
| <b>Total.....</b> | <b>2</b>                              | <b>(11)</b>    |

Note:

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

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

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

#### Commercial and other lending product and staging analysis

|   | For the six months ended September 30 |             |              |              |              |             |              |              |
|---|---------------------------------------|-------------|--------------|--------------|--------------|-------------|--------------|--------------|
|   | 2020                                  |             |              |              | 2019         |             |              |              |
|   | Stage 1                               | Stage 2     | Stage 3      | Total        | Stage 1      | Stage 2     | Stage 3      | Total        |
| <b>Gross balances</b>                       |                                       |             |              |              |              |             |              |              |
| Registered social landlords....             | 5,002                                 | 40          | -            | 5,042        | 5,620        | 54          | -            | 5,674        |
| CRE.....                                    | 704                                   | 164         | 57           | 925          | 1,014        | 189         | 45           | 1,248        |
| Project finance .....                       | 602                                   | 73          | 23           | 698          | 712          | 28          | 24           | 764          |
| Other lending .....                         | -                                     | -           | -            | -            | -            | -           | -            | -            |
| <b>Total .....</b>                          | <b>6,308</b>                          | <b>277</b>  | <b>80</b>    | <b>6,665</b> | <b>7,346</b> | <b>271</b>  | <b>69</b>    | <b>7,686</b> |
| <b>Provisions</b>                           |                                       |             |              |              |              |             |              |              |
| Registered social landlords....             | 1                                     | -           | -            | 1            | 1            | -           | -            | 1            |
| CRE.....                                    | 2                                     | 5           | 24           | 31           | 2            | 3           | 16           | 21           |
| Project finance .....                       | -                                     | 2           | 8            | 10           | -            | -           | 9            | 9            |
| Other lending .....                         | -                                     | -           | -            | -            | -            | -           | -            | -            |
| <b>Total .....</b>                          | <b>3</b>                              | <b>7</b>    | <b>32</b>    | <b>42</b>    | <b>3</b>     | <b>3</b>    | <b>25</b>    | <b>31</b>    |
| <b>Provisions as a (%) of total balance</b> |                                       |             |              |              |              |             |              |              |
| Registered social landlords....             | 0.01                                  | 0.76        | -            | 0.02         | 0.01         | 0.18        | -            | 0.02         |
| CRE.....                                    | 0.32                                  | 2.60        | 42.09        | 3.30         | 0.17         | 1.37        | 35.53        | 1.63         |
| Project finance .....                       | 0.02                                  | 2.95        | 38.08        | 1.56         | 0.02         | 0.94        | 37.47        | 1.22         |
| Other lending .....                         | -                                     | -           | -            | -            | -            | -           | -            | -            |
| <b>Total .....</b>                          | <b>0.05</b>                           | <b>2.43</b> | <b>40.95</b> | <b>0.64</b>  | <b>0.04</b>  | <b>1.09</b> | <b>36.20</b> | <b>0.40</b>  |

Over the period, the performance of the commercial portfolio has remained stable, with 95% (30 September 2019: 96%) of balances remaining in stage 1. Of the £277 million (30 September 2019: £271 million) stage 2 loans, which represent 4.2% (30 September 2019: 3.5%) of total balances, £2 million (30 September 2019: £2 million) were in arrears by 30 days or more, with the remainder in stage 2 due to non-arrears factors such as a deterioration in risk rating or placement on a watchlist.

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

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

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

### **Credit quality**

The Issuer adopts robust credit management policies and processes to recognise 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 amortised cost only.

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

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

Notes:

The risk grades in the table above are based upon supervisory slotting criteria, under which exposures are classified into categories depending on the underlying credit risk, with the assessment based upon financial strength, asset characteristics, and the strength of the sponsor and the security. The credit quality of the portfolio has remained broadly stable, with 86% (30 September 2019: 93%) of the portfolio rated as satisfactory or better. There has however been some migration downwards to satisfactory, reflecting value and cash flow volatility driven by current market conditions.

Risk grades for the project finance portfolio are also based upon supervisory slotting criteria with 90% of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model with major drivers being financial strength, independent visibility assessment ratings provided by the UK Regulator of Social Housing, and the type and size of registered social landlord. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults, the credit quality remains high, with an average 12-month PD of 0.04% across the portfolio.

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

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

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

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

Credit risk exposure by industry sector is broadly unchanged from the year end, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 43% (30 September 2019: 46%) of the total CRE portfolio balance. The exposure to retail assets has reduced to £191 million (4 April 2020: £202 million), with a weighted average LTV of 63% (4 April 2020: 53%). Exposure to the leisure and hotel sector has reduced to £69 million (4 April 2020: £84 million), with a weighted average LTV of 54% (4 April 2020: 46%).

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

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

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

### **Gross balances subject to forbearance<sup>(1)</sup>**

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

Note:

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

Possession balances represent loans against which the Issuer has taken ownership of properties pending their sale. Assets over which possession has been taken are realised 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. The Issuer does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

Although collateral can be an important mitigant of credit risk, it is the Issuer's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than rely on the value of the security offered. In the event of default, the Issuer 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 the Issuer's exposure to credit risk.

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

Note:

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

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

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

### Consumer banking gross balances

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

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

### Impairment losses for the period

|                                 | As of 30 September   |           |
|---------------------------------|----------------------|-----------|
|                                 | 2020                 | 2019      |
|                                 | ( <i>£ million</i> ) |           |
| Overdrawn current accounts..... | 9                    | 14        |
| Personal loans.....             | 59                   | 24        |
| Credit cards .....              | 16                   | 20        |
| <b>Total.....</b>               | <b>84</b>            | <b>58</b> |

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

Note:

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

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

Consumer banking stage 3 gross balances and provisions include charged off balances. These are accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months) whilst recovery activities take place. Excluding these charged off balances and related provisions, the total provision coverage has increased to 7.2% (30 September 2019: 4.9%).

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

### Introduction

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

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

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

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

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

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

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

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

|                           | <b>For the year ended 4 April 2020</b> |                           |   |                         |
|---------------------------|--|---------------------------|---|-------------------------|
|                           | <b>Underlying profit</b>               | <b>FSCS and bank levy</b> | <b>Gain from derivatives and hedge accounting</b> | <b>Statutory profit</b> |
|                           | <i>(£ million)</i>                     |                           |   |                         |
| Net interest income ..... | 2,810                                  | -                         | -   | 2,810                   |
| Other income.....         | 236                                    | -                         | -   | 236                     |

|   |              |          |            |              |
|---|--------------|----------|------------|--------------|
| Movements on derivatives and hedge accounting ..... | -            | -        | (7)        | (7)          |
| <b>Total income</b> .....                           | <b>3,046</b> | -        | <b>(7)</b> | <b>3,039</b> |
| Administrative expenses .....                       | (2,312)      | -        | -          | (2,312)      |
| <b>Pre-provision underlying profit</b> .....        | <b>734</b>   | -        | <b>(7)</b> | <b>727</b>   |
| Impairment losses .....                             | (209)        | -        | -          | (209)        |
| Provisions for liabilities and charges ...          | (56)         | 4        | -          | (52)         |
| <b>Profit before tax</b> .....                      | <b>469</b>   | <b>4</b> | <b>(7)</b> | <b>466</b>   |

**For the year ended 4 April 2019**

|   | <b>Underlying profit</b> | <b>Gain from<br/>derivatives and<br/>hedge accounting</b> | <b>Statutory profit</b> |
|---|--------------------------|---|-------------------------|
|   |                          | <i>(£ million)</i>  |                         |
| Net interest income .....                           | 2,915                    | -   | 2,915                   |
| Other income .....                                  | 255                      | -   | 255                     |
| Movements on derivatives and hedge accounting ..... | -                        | 36  | 36                      |
| <b>Total income</b> .....                           | <b>3,170</b>             | <b>36</b>   | <b>3,206</b>            |
| Administrative expenses .....                       | (2,254)                  | -   | (2,254)                 |
| <b>Pre-provision underlying profit</b> .....        | <b>916</b>               | <b>36</b>   | <b>952</b>              |
| Impairment losses .....                             | (113)                    | -   | (113)                   |
| Provisions for liabilities and charges ...          | (15)                     | -   | (6)                     |
| <b>Profit before tax</b> .....                      | <b>788</b>               | <b>36</b>   | <b>833</b>              |

The following discussion considers the Issuer's results for the year ended 4 April 2020 compared to its results for the year ended 4 April 2019:

***Total income***

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

|  | <b>For the year ended 4 April</b> |              |
|--|-----------------------------------|--------------|
|  | <b>2020</b>                       | <b>2019</b>  |
|  | <i>(£ million)</i>                |              |
| Net interest income .....                                  | 2,810                             | 2,915        |
| Net fees and commissions .....                             | 169                               | 201          |
| Other operating income .....                               | 67                                | 54           |
| Gains/(losses) from derivatives and hedge accounting ..... | (7)                               | 36           |
| <b>Total</b> .....   | <b>3,039</b>                      | <b>3,206</b> |

***Net interest income***

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

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

**For the year ended 4 April**

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

#### *On investment securities*

Interest and other income from investment securities comprises interest income earned on the corporate and government investment securities that the Issuer purchases for its own account to manage its liquidity portfolios and net realised gains and losses on its sales of these instruments.

Interest and other income from investment securities increased by 2.6% to £199 million for the year ended 4 April 2020, compared with £194 million for the year ended 4 April 2019.

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

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets.” In the year ended 4 April 2020, the Issuer incurred a net expense of £402 million on financial instruments used to hedge its fixed rate assets, compared with a net expense of £315 million in the year ended 4 April 2019.

#### *Interest expense and similar charges*

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

The Issuer continues to attract more current account members, with 759,000 (2019: 794,000) new accounts opened in the year, taking the Issuer to its long term target of achieving a 10% share of all current accounts.<sup>6</sup> The Issuer’s share of main current accounts rose to 8.1% (2019: 8.0%).<sup>7</sup> The Issuer is the number one net gainer of current accounts using the current account switching service in the nine months to December 2019.<sup>8</sup>

<sup>6</sup> CACI (Feb 2020)

<sup>7</sup> CACI (Feb 2020) and internal calculations. ‘Main current accounts’ includes main standard and packaged accounts

<sup>8</sup>; Pay.UK monthly CASS data, 9 months to December 2019.

### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that the Issuer pays on subordinated debt instruments and other deposits and borrowings. In the year ended 4 April 2020, interest on subordinated liabilities increased to £309 million from £238 million in the year ended 4 April 2019. Average balances increased by £2,132 million to £8,601 million in the year ended 4 April 2020 from £6,469 million in the year ended 4 April 2019.

Other interest expense on deposits and other borrowings includes the interest that the Issuer pays on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended 4 April 2020, other interest expense on deposits and other borrowings increased by 15.9% to £240 million from £207 million in the year ended 4 April 2019. The increase was mainly due to higher balances on business savings (non-member deposits) and deposits from financial institutions.

### *Debt securities in issue*

Debt securities in issue include interest that the Issuer pays on certificates of deposit, time deposits, commercial paper, covered bonds, medium-term notes and securitisations. In the year ended 4 April 2020, interest expense on debt securities in issue increased by 10.7% to £745 million from £673 million in the year ended 4 April 2019. The increase was due to a number of factors, including higher covered bond and securitisation book, in addition to high spreads due to market volatility.

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

The Issuer uses derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as “net income/expense on financial instruments hedging liabilities.” In the year ended 4 April 2020, net income on financial instruments used to hedge the Issuer’s fixed rate liabilities was £349 million, compared with a net income of £270 million in the year ended 4 April 2019.

### *Net fees and commissions*

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

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

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

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

### ***Other operating income***

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

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

All derivatives the Issuer enters into are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives, the Issuer's use of which is regulated by the UK Building Societies Act, are only used to limit the extent to which the Issuer 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, the Issuer enters into certain derivative contracts which, although efficient economically, cannot be included in effective hedge accounting relationships. Consequently, although the implicit interest cost of the underlying instrument and associated derivatives are included in "Net interest income" in the income statement, fair value movements on such derivatives are included in "Gains from derivatives and hedge accounting."

Losses from derivatives and hedge accounting were £7 million in the year ended 4 April 2020 compared to gains of £36 million in the year ended 4 April 2019. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

Included within the losses of £7 million (4 April 2019: gains of £36 million) was the impact of the following:

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

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

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

|   | <b>For the year ended 4 April</b> |              |
|---|-----------------------------------|--------------|
|   | <b>2020</b>                       | <b>2019</b>  |
|   | <i>(£ million)</i>                |              |
| Administrative expenses.....                              | 1,646                             | 1,705        |
| Depreciation and amortisation.....                        | 666                               | 549          |
| <b>Total Administrative expenses .....</b>                | <b>2,312</b>                      | <b>2,254</b> |
| Impairment losses on loans and advances to customers..... | 209                               | 113          |
| Provisions for liabilities and charges.....               | 52                                | 6            |
| <b>Total.....</b>   | <b>2,573</b>                      | <b>2,373</b> |

### Administrative expenses

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

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

|  | For the year ended 4 April |              |
|--|----------------------------|--------------|
|  | 2020                       | 2019         |
|  | ( <i>£ million</i> )       |              |
| Employee costs:                                  |                            |              |
| Salaries, bonuses and social security costs..... | 647                        | 645          |
| Pension costs .....                              | 15                         | 181          |
| Other administrative expenses.....               | 984                        | 879          |
| <b>Total</b> .....                               | <b>1,646</b>               | <b>1,705</b> |

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

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

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

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

On 17 February 2020, the Issuer announced that it would be closing the Fund to future accrual on 31 March 2021, with affected employees being moved to the GPP for future pension savings. From 1 April 2021, members are expected to move from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index (**CPI**). As CPI is lower than the previous assumptions which were based on the retail price index (**RPI**) and pay growth, a gain of £164 million has been recognised as a past service credit within administrative expenses in the year ended 4 April 2020. All affected employees who are active members of the Fund on 31 March 2021, or those who were active members at the point they were made redundant on or after 18 September 2019, will receive a one-off payment which may be taken in cash or as a contribution to their pensions. The cost of accruing for these payments of £60 million has been recognised within 'administrative expenses – other staff related costs' in the year ended 4 April 2020.

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

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



### Depreciation and amortisation

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

### Impairment losses on loans and advances to customers

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

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

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

|  | For the year ended 4 April |            |
|--|----------------------------|------------|
|  | 2020                       | 2019       |
|  | <i>(£ million)</i>         |            |
| Residential lending.....                       | 53                         | (17)       |
| Consumer banking.....                          | 159                        | 114        |
| <b>Retail lending</b>                          | <b>212</b>                 | <b>97</b>  |
| Commercial and other lending .....             | (3)                        | 16         |
| <b>Impairment losses on loans and advances</b> | <b>209</b>                 | <b>113</b> |

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

### Provisions for liabilities and charges

|                                 | For the year ended 4 April |          |
|---------------------------------|----------------------------|----------|
|                                 | 2020                       | 2019     |
|                                 | <i>(£ million)</i>         |          |
| FSCS .....                      | -                          | (9)      |
| Customer redress provision..... | 56                         | 15       |
| <b>Total</b> .....              | <b>56</b>                  | <b>6</b> |

The income statement charge for provisions for liabilities and charges of £56 million (2019: £6 million) includes the customer redress net income statement charge of £56 million (2019: £15 million).

The Issuer holds provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the year primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of the Issuer's PPI provision it has considered the implications of the guidance published by the FCA in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

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

The FSCS has confirmed that there will be no further interest costs following the sale of Bradford & Bingley plc asset portfolios and subsequent repayment of the loan to HM Treasury. In common with other financial institutions subject to the FSCS, the Group continues to have a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure.

### Taxes

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

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

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

Note:

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

### Balance Sheet Review

Total assets grew by 4%, from £238.3 billion as of 4 April 2019 to £248.0 billion as of 4 April 2020, with growth in retail lending and treasury balances of £2.8 billion and £4.7 billion respectively, offset by a small reduction in commercial lending balances.

### Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 94.2% of the Issuer’s total loans and advances to customers at 4 April 2020. This is an increase from 93.8% as at 4 April 2019, reflecting the Issuer’s strategy of exiting non-core commercial lending:

|  | As at 4 April                   |              |                |              |
|--|---------------------------------|--------------|----------------|--------------|
|  | 2020                            |              | 2019           |              |
|  | (£ million, except percentages) |              |                |              |
| Prime residential mortgages .....        | 151,084                         | 75.5%        | 151,473        | 76.4%        |
| Specialist residential mortgages .....   | 37,503                          | 18.7%        | 34,333         | 17.3%        |
| <b>Total residential mortgages</b> ..... | <b>188,587</b>                  | <b>94.2%</b> | <b>185,806</b> | <b>93.8%</b> |
| Commercial lending .....                 | 7,150                           | 3.6%         | 8,194          | 4.1%         |

|  | <b>As at 4 April</b>                   |             |                |               |
|--|--|-------------|----------------|---------------|
|  | <b>2020</b>                            |             | <b>2019</b>    |               |
|  | <i>(£ million, except percentages)</i> |             |                |               |
| Consumer banking .....                             | 4,500                                  | 2.2%        | 4,168          | 2.1%          |
| <b>Gross balances</b> .....                        | <b>200,237</b>                         | <b>100%</b> | <b>198,168</b> | <b>100.0%</b> |
| Fair value adjustments for micro hedged risk ..... | 741                                    | -           | 883            | -             |
| <b>Total</b> .....                                 | <b>200,978</b>                         | <b>-</b>    | <b>199,051</b> | <b>-</b>      |

### Residential mortgage portfolio

Residential mortgages include prime and specialist loans, with new lending in the specialist portfolio comprised entirely of BTL lending. Gross mortgage lending in the period was £30.9 billion (4 April 2019: £36.4 billion), representing a market share of 11.4% (4 April 2019: 13.4%).

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

The average LTV of new lending in the year ended 4 April 2020, weighted by value was 72% (4 April 2019: 71%) primarily due to the Issuer's strategy to continue supporting the first time buyer market as it recognises the importance of helping people take their initial steps onto the housing ladder. Modest house price growth has resulted in the average LTV of the Issuer's portfolio remaining at 58% (4 April 2019: 58%). Residential mortgage arrears have remained constant at 0.4% (4 April 2019: 0.4%).

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

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

|   | <b>As at 4 April</b> |             |
|---|----------------------|-------------|
|   | <b>2020</b>          | <b>2019</b> |
|   | <i>(percentages)</i> |             |
| <b>LTV distribution of residential mortgages:</b> |                      |             |
| 0% - 60% .....                                    | 22                   | 25          |
| 60% - 75% .....                                   | 34                   | 33          |
| 75% - 80% .....                                   | 7                    | 7           |
| 80% - 85% .....                                   | 11                   | 10          |
| 85% - 90% .....                                   | 22                   | 22          |
| 90% - 95% .....                                   | 4                    | 3           |
| >95% .....  |                      | -           |
| <b>Total</b> .....                                | <b>100</b>           | <b>100</b>  |
| Average loan to value of stock .....              | 58                   | 58          |
| Average loan to value of new business .....       | 72                   | 71          |
| <b>New business profile:</b>                      |                      |             |
| First-time buyers .....                           | 33                   | 35          |
| Home movers .....                                 | 24                   | 25          |
| Remortgagers .....                                | 20                   | 25          |
| BTL .....   | 22                   | 14          |
| Other.....  | 1                    | 1           |
| <b>Total</b> .....                                | <b>100</b>           | <b>100</b>  |

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

Total residential balance sheet provisions at 4 April 2020 were £252 million, compared with £206 million at 4 April 2019.

|  | As at 4 April        |             |
|--|----------------------|-------------|
|  | 2020                 | 2019        |
| <b>Cases three months or more in arrears as (%) of total book of residential mortgages</b> | <i>(percentages)</i> |             |
| Prime .....  | 0.33                 | 0.35        |
| Specialist .....   | 0.74                 | 0.82        |
| <b>Total Group residential mortgages</b> .....   | <b>0.41</b>          | <b>0.43</b> |
| <b>UK Finance (UKF) industry average <sup>(1)</sup></b> .....                              | <b>0.74</b>          | <b>0.78</b> |

Note:

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

Reflecting the Issuer's low risk profile, performance of the mortgage books has remained strong with the total group residential mortgages more than three months in arrears staying constant. The Issuer's overall arrears percentage of 0.41% compares favourably with the UK Finance (UKF) industry average of 0.74% (4 April 2019: 0.78%) as reported by UKF.

The table below shows possessions as a percentage of the Issuer's total residential mortgages as at 4 April 2020 and 4 April 2019:

|   | As at 4 April        |             |
|---|----------------------|-------------|
|   | 2020                 | 2019        |
| <b>Possessions as (%) of total residential mortgages (number of properties)</b> | <i>(percentages)</i> |             |
| Prime .....   | 0.01                 | 0.01        |
| Specialist .....  | 0.05                 | 0.05        |
| <b>Total Group residential mortgages</b> .....                                  | <b>0.02</b>          | <b>0.01</b> |

The Issuer's approach to dealing with customers in financial difficulties combined with its historically cautious approach to lending, means that the Issuer only takes possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended 4 April 2020, the properties taken into possession increased to 248, representing only 0.02% of the Issuer's book compared to the industry average of 0.03% (source: UKF).

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

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

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

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

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

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

#### For residential mortgage loans

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

| Balances subject to forbearance 2020                | Prime              | Specialist | Total        |
|---|--------------------|------------|--------------|
|   | <i>(£ million)</i> |            |              |
| Past term interest only concessions .....           | 117                | 120        | 237          |
| Interest only concessions.....                      | 533                | 48         | 581          |
| Capitalisation.....                                 | 231                | 102        | 333          |
| Term extensions (within term) .....                 | 34                 | 13         | 47           |
| Permanent interest only conversions .....           | 2                  | 35         | 37           |
| <b>Total forbearance .....</b>                      | <b>917</b>         | <b>318</b> | <b>1,235</b> |
| <b>Impairment provision on forborne loans .....</b> | <b>5</b>           | <b>12</b>  | <b>17</b>    |
| Balances subject to forbearance 2019                | Prime              | Specialist | Total        |
|   | <i>(£ million)</i> |            |              |
| Past term interest only concessions .....           | 122                | 134        | 256          |
| Interest only concessions.....                      | 525                | 59         | 584          |
| Capitalisation.....                                 | 192                | 51         | 243          |
| Term extensions (within term) .....                 | 35                 | 13         | 48           |
| Permanent interest only conversions .....           | 3                  | 33         | 36           |
| <b>Total forbearance .....</b>                      | <b>877</b>         | <b>290</b> | <b>1,167</b> |
| <b>Impairment provision on forborne loans .....</b> | <b>5</b>           | <b>11</b>  | <b>16</b>    |

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

| As at 4 April      |                                 |                    |                                 |
|--------------------|---------------------------------|--------------------|---------------------------------|
| 2020               |                                 | 2019               |                                 |
| <i>(£ million)</i> | <i>(% of total prime loans)</i> | <i>(£ million)</i> | <i>(% of total prime loans)</i> |
|                    |                                 |                    |                                 |

|   |              |                          |              |                          |
|---|--------------|--------------------------|--------------|--------------------------|
|   |              | <i>and<br/>advances)</i> |              | <i>and<br/>advances)</i> |
| Past term interest only concessions ..... | 237          | 19.2%                    | 256          | 25.2%                    |
| Interest only concessions.....            | 581          | 47.0%                    | 584          | 57.4%                    |
| Capitalisation.....                       | 333          | 27.0%                    | 93           | 9.1%                     |
| Term extensions (within term) .....       | 47           | 3.8%                     | 48           | 4.7%                     |
| Permanent interest only conversions ..... | 37           | 3.0%                     | 36           | 3.5%                     |
| <b>Total forbearance .....</b>            | <b>1,235</b> | <b>100.0%</b>            | <b>1,017</b> | <b>100.0%</b>            |

The following table presents negative equity on residential mortgages:

|                     | <b>As at 4 April</b> |             |
|---------------------|----------------------|-------------|
|                     | <b>2020</b>          | <b>2019</b> |
|                     | <i>(£ million)</i>   |             |
| Stage 1 and 2 ..... | 23                   | 26          |
| Stage 3 .....       | 4                    | 4           |
| <b>Total.....</b>   | <b>27</b>            | <b>30</b>   |

#### **For commercial loans**

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

The table below provides details of the commercial loans which are subject to forbearance as at 4 April 2020 and 2019. Loans where more than one concession event has occurred are reported under the latest event.

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

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

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

#### For consumer loans

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

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

#### Commercial loan portfolio

During the year, commercial and other lending balances have decreased to £7.9 billion (2019: £9.1 billion). Continuing the deleveraging activity in previous financial years, the overall portfolio is increasingly weighted towards registered social landlords, with balances of £5.4 billion (2019: £6.0 billion), and project finance with balances of £0.7 billion (2019:

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

### Commercial and other lending gross balances

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

Notes:

- (1) Loans to registered landlords are secured on residential property.
- (2) Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts under the Private Finance Initiative.
- (3) Micro hedged risk relates to loans hedged on an individual basis.

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

|                   | For the year ended 4 April |                       |
|-------------------|----------------------------|-----------------------|
|                   | 2020                       | 2019                  |
|                   | <b>(IFRS 9 basis)</b>      | <b>(IAS 39 basis)</b> |
|                   | ( <i>£ million</i> )       |                       |
| <b>Total.....</b> | <b>(3)</b>                 | <b>16</b>             |

Note:

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

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

The Issuer's commercial lending portfolio of £7.1 billion as at 4 April 2020 (4 April 2019: £8.2 billion) comprises £1.0 billion secured on CRE (4 April 2019: £1.4 billion), £5.4 billion advanced to registered social landlords (**RSL**) (4 April 2019: £6.0 billion) and £0.7 billion advanced under Project Finance, principally via the private finance initiative (**PFI**) (4 April 2019: £0.9 billion). The Issuer's CRE portfolio is diverse both in terms of sectors and geographic spread.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with the Issuer's forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired CRE loans amounted to £50 million as at 4 April 2020 (4 April 2019: £48 million) and provisions held against the portfolio amounted to £29 million (4 April 2019: £22 million) representing a coverage ratio of 58% (4 April 2019: 46%).

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



## Commercial and other lending product and staging analysis

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

Note:

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

Over the year, the performance of the commercial and other lending portfolios has remained stable, with 95% (4 April 2019: 95%) of balances remaining in stage 1. Of the £268 million stage 2 loans (4 April 2019: £299 million), less than £1 million (4 April 2019: £1 million) is in arrears by 30 days or more, with the remainder in stage 2 due to non-arrears factors such as a deterioration in risk rating or placement on a watchlist.

The increase in CRE stage 2 and 3 balances is in respect of a small number of loans that are subject to increased loan maturity risk, with stage 3 (credit-impaired) loans, at £50 million (4 April 2019: £48 million), equating to 5% (4 April 2019: 3%) of the total CRE exposure.

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

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

### Credit quality

The Issuer adopts robust credit management policies and processes to recognise 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 amortised cost only.

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

|                   | For the year ended 4 April |            |           |            |                      |                    |            |           |              |                      |
|-------------------|----------------------------|------------|-----------|------------|----------------------|--------------------|------------|-----------|--------------|----------------------|
|                   | 2020                       |            |           |            |                      | 2019               |            |           |              |                      |
|                   | Stage 1                    | Stage 2    | Stage 3   | Total      | Provision Coverage   | Stage 1            | Stage 2    | Stage 3   | Total        | Provision Coverage   |
|                   | <i>(£ million)</i>         |            |           |            | <i>(percentages)</i> | <i>(£ million)</i> |            |           |              | <i>(percentages)</i> |
| Strong .....      | 433                        | 18         | -         | 451        | 0.1                  | 676                | 57         | -         | 733          | 0.3                  |
| Good .....        | 289                        | 67         | -         | 356        | 0.6                  | 381                | 76         | -         | 457          | 0.1                  |
| Satisfactory..... | 69                         | 10         | -         | 79         | 1.7                  | 65                 | 8          | -         | 73           | 0.4                  |
| Weak.....         | -                          | 60         | -         | 60         | 1.2                  | -                  | 72         | -         | 72           | 1.4                  |
| Impaired.....     | -                          | -          | 50        | 50         | 36.2                 | -                  | -          | 48        | 48           | 37.1                 |
| <b>Total.....</b> | <b>791</b>                 | <b>155</b> | <b>50</b> | <b>996</b> | <b>2.3</b>           | <b>1,122</b>       | <b>213</b> | <b>48</b> | <b>1,383</b> | <b>1.6</b>           |

Notes:

The risk grades in the table above are based upon supervisory slotting criteria, under which exposures are classified into categories depending on the underlying credit risk, with assessment based upon financial strength, asset characteristics, the strength of the sponsor and the security. As CRE balances reduce, the credit quality of the portfolio remains strong, with 89% (4 April 2019: 91%) of the portfolio rated as satisfactory or better, as at 4 April 2020.

Risk grades for the project finance portfolio are also based upon supervisory slotting criteria with 90% of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model with major drivers being financial strength, independent visibility assessment ratings provided by the UK Regulator of Social Housing, and the type and size of registered social landlord. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults, the credit quality remains high, with an average 12-month PD of 0.04% across the portfolio.

In addition to the above, £57 million (4 April 2019: £57 million) of commercial lending balances were classified as FVTPL, of which £54 million (4 April 2019: £53 million) related to CRE loans with a risk grade of satisfactory.

**CRE Balances by LTV and region**

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

**CRE Lending gross balances by LTV and region<sup>(1)</sup>**

|  | As at 4 April      |            |              |            |            |              |
|--|--------------------|------------|--------------|------------|------------|--------------|
|  | 2020               |            |              | 2019       |            |              |
|  | London             | Rest of UK | Total        | London     | Rest of UK | Total        |
|  | <i>(£ million)</i> |            |              |            |            |              |
| Fully collateralised                   |                    |            |              |            |            |              |
| LTV ratio <sup>(2)</sup>               |                    |            |              |            |            |              |
| Less than 25% .....                    |                    | 62         | 59           | 121        | 89         | 70           |
| 25% to 50% .....                       |                    | 315        | 254          | 569        | 559        | 298          |
| 51% to 75% .....                       |                    | 167        | 115          | 282        | 181        | 175          |
| 76% to 90% .....                       |                    | 3          | 43           | 46         | 1          | 20           |
| 91% to 100% .....                      |                    | -          | -            | -          | 1          | 6            |
|  | <b>547</b>         | <b>471</b> | <b>1,018</b> | <b>831</b> | <b>569</b> | <b>1,400</b> |
| Not fully collateralised               |                    |            |              |            |            |              |
| Over 100% LTV .....                    |                    | -          | 32           | 32         | -          | 36           |
| Collateral value.....                  |                    | -          | 19           | 19         | -          | 19           |
| Negative equity.....                   |                    | -          | 13           | 13         | -          | 17           |
| <b>Total CRE Loans.....</b>            | <b>547</b>         | <b>503</b> | <b>1,050</b> | <b>831</b> | <b>605</b> | <b>1,436</b> |
| <b>Geographical concentration.....</b> | <b>52%</b>         | <b>48%</b> | <b>100%</b>  | <b>58%</b> | <b>42%</b> | <b>100%</b>  |

Notes:

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

Changes to the regional distribution of the CRE portfolio reflect the managed reduction of the portfolio, with 52% (4 April 2019: 58%) of the CRE exposure now being secured against assets located in London. Over the year, the LTV distribution of the CRE portfolio remained stable, with 93% (4 April 2019: 96%) of the portfolio having an LTV of 66% or less, and 66% (4 April 2019: 71%) of the portfolio having an LTV of 50% or less.

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

Credit risk exposure by industry sector is broadly unchanged from the prior year, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 42% (2019: 45%) of the total CRE portfolio balance. Over the year, the Issuer's exposure to retail assets has reduced to £202 million (2019: £274 million), with a weighted average LTV of 53% (2019: 46%). Exposure to the leisure and hotel sector has also reduced to £84 million (2019: £110 million), with a weighted average LTV of 46% (2019: 49%).

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

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

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

### **Gross balances subject to forbearance<sup>(1)</sup>**

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

Note:

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

Possession balances represent loans against which the Issuer has taken ownership of properties pending their sale. Assets over which possession has been taken are realised 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. The Issuer does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

Although collateral can be an important mitigant of credit risk, it is the Issuer's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than rely on the value of the security offered. In the event of default, the Issuer 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 the Issuer's exposure to credit risk.

The Issuer's 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 the Issuer's assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The table below represents a breakdown of CRE lending balances by LTV and their share in the total CRE loans as at 4 April 2020 and 2019.

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

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

## Consumer banking

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

### Consumer banking gross balances by payment due status

|                              | As at 4 April              |                    |              |       |                           |                    |              |       |       |      |
|------------------------------|----------------------------|--------------------|--------------|-------|---------------------------|--------------------|--------------|-------|-------|------|
|                              | 2020                       |                    |              |       | 2019                      |                    |              |       |       |      |
|                              | Overdrawn current accounts | Personal loans     | Credit cards | Total | Overdrawn current account | Personal loans     | Credit cards | Total |       |      |
| <i>(Audited)</i>             |                            |                    |              |       |                           |                    |              |       |       |      |
|                              |                            | <i>(£ million)</i> |              |       |                           | <i>(£ million)</i> |              |       |       |      |
|                              |                            |                    |              |       |                           |                    |              |       |       |      |
| Not past due.....            | 226                        | 2,830              | 1,528        | 4,584 | 91.8                      | 279                | 2,282        | 1,667 | 4,228 | 92.2 |
| Past due up to 3 months..... | 16                         | 65                 | 36           | 117   | 2.3                       | 12                 | 48           | 30    | 90    | 1.9  |
| Past due 3 to 6 months.....  | 4                          | 11                 | 9            | 24    | 0.5                       | 3                  | 8            | 11    | 22    | 0.5  |
| Past due 6 to 12 months..... | 3                          | 14                 | 2            | 19    | 0.4                       | 3                  | 15           | 2     | 20    | 0.4  |

|                                  |            |              |              |              |            |            |              |              |              |            |
|----------------------------------|------------|--------------|--------------|--------------|------------|------------|--------------|--------------|--------------|------------|
| Past due over 12 months .....    | 3          | 12           | -            | 15           | 0.3        | 3          | 14           | -            | 17           | 0.4        |
| Charged off <sup>(1)</sup> ..... | 28         | 98           | 109          | 235          | 4.7        | 24         | 82           | 103          | 209          | 4.6        |
| <b>Total</b> .....               | <b>280</b> | <b>3,030</b> | <b>1,684</b> | <b>4,994</b> | <b>100</b> | <b>324</b> | <b>2,449</b> | <b>1,813</b> | <b>4,586</b> | <b>100</b> |

Note:

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

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

### Consumer banking gross balances

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

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

### Impairment losses for the year

|                                 | 2020        | 2019       |
|---------------------------------|-------------|------------|
| (Audited)                       | (£ million) |            |
| Overdrawn current accounts..... | 21          | 9          |
| Personal loans.....             | 82          | 38         |
| Credit cards .....              | 56          | 67         |
| <b>Total</b> .....              | <b>159</b>  | <b>114</b> |

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

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

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

## Consumer banking product and staging analysis

|   | As at 4 April      |              |              |   |              |              |              |              |              |
|---|--------------------|--------------|--------------|---|--------------|--------------|--------------|--------------|--------------|
|   | 2020               |              |              |   |              | 2019         |              |              |              |
|   | Stage 1            | Stage 2      | Stage 3      | Covid-19 additional provisions <sup>(1)</sup> | Total        | Stage 1      | Stage 2      | Stage 3      | Total        |
| <i>(Audited)</i>                            | <i>(£ million)</i> |              |              |   |              |              |              |              |              |
| <b>Gross balances</b>                       |                    |              |              |   |              |              |              |              |              |
| Overdrawn current accounts.                 | 149                | 89           | 42           | -   | 280          | 187          | 100          | 37           | 324          |
| Personal loans .....                        | 2,597              | 296          | 137          | -   | 3,030        | 2,140        | 186          | 123          | 2,449        |
| Credit cards .....                          | 1,111              | 442          | 131          | -   | 1,684        | 1,211        | 475          | 127          | 1,813        |
| <b>Total .....</b>                          | <b>3,857</b>       | <b>827</b>   | <b>310</b>   | <b>-</b>                                      | <b>4,994</b> | <b>3,538</b> | <b>761</b>   | <b>287</b>   | <b>4,586</b> |
| <b>Provisions</b>                           |                    |              |              |   |              |              |              |              |              |
| Overdrawn current accounts.                 | 2                  | 17           | 37           | 3   | 59           | 2            | 18           | 33           | 53           |
| Personal loans .....                        | 15                 | 33           | 119          | 23  | 190          | 11           | 22           | 107          | 140          |
| Credit cards .....                          | 15                 | 91           | 122          | 17  | 245          | 14           | 92           | 119          | 225          |
| <b>Total .....</b>                          | <b>32</b>          | <b>141</b>   | <b>278</b>   | <b>43</b>                                     | <b>494</b>   | <b>27</b>    | <b>132</b>   | <b>259</b>   | <b>418</b>   |
| <b>Provisions as a (%) of total balance</b> |                    |              |              |   |              |              |              |              |              |
| Overdrawn current accounts.                 | 1.75               | 19.06        | 87.02        | -   | 21.21        | 1.30         | 17.42        | 89.92        | 16.37        |
| Personal loans .....                        | 0.56               | 11.15        | 86.78        | -   | 6.27         | 0.53         | 12.11        | 86.58        | 5.74         |
| Credit cards .....                          | 1.33               | 20.67        | 92.86        | -   | 14.55        | 1.12         | 19.33        | 93.61        | 12.38        |
| <b>Total .....</b>                          | <b>0.82</b>        | <b>17.09</b> | <b>89.39</b> | <b>-</b>                                      | <b>9.9</b>   | <b>0.77</b>  | <b>17.32</b> | <b>90.12</b> | <b>9.11</b>  |

Note:

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

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

Consumer banking stage 3 gross balances and provisions include charged off balances. These are accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months) whilst recovery activities take place. Excluding these charged off balances and related provisions, the provisions as a percentage of total balances is 5.7% (2019: 5.0%).

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

In the audited consolidated financial statements as of and for the year ended 4 April 2020, certain amounts have been restated in respect of the year ended 4 April 2019 to reflect the adoption on 5 April 2019 of accounting standard, IAS 12 "Income Taxes", as further described in note 1 to the audited consolidated financial statements as of and for the year ended 4 April 2020, which largely impacts the Issuer's income statement and members' interests and equity. For purposes of comparability, however, this section "--Results of Operations for the Year Ended 4 April 2019 Compared with the Year Ended 4 April 2018" discloses the figures as reported in the audited consolidated financial statements as of and for the year ended 4 April 2019, which have not been restated.

## ***Introduction***

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

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

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

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

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

Notwithstanding the fact that cost growth in recent years is the result of conscious decisions to support the Issuer's strategy and the service provided to members, the Issuer recognises the need to improve efficiency, and that cost increases significantly ahead of inflation are not sustainable in the continuing low interest rate environment faced by the Issuer. The Issuer will continue its focus on operational efficiency, exploiting the benefits of past and ongoing investment while continuing to prioritise the needs of the Issuer's members.

During the year ended 4 April 2019, the Issuer has made good progress with its efficiency program successfully delivering over £100 million in sustainable savings, meaning that the Issuer is on course to achieve its target of realising £500 million of sustainable savings by 2023. As the program develops the Issuer will evolve its target of cost savings with a current expectation that this will increase.

During the year ended 4 April 2019, investment focused on service improvements for members, both in branch and through digital channels, including updating the Issuer's savings point of sale systems to allow real time online account opening, delivery of in-house credit risk assessments for prime mortgages, upgrades to the Issuer's Banking App for smartphones and tablets, and the roll out of further video links in branches which allow members greater flexibility to speak face to face with advisers in another location. The Issuer has also invested in IT resilience and ensuring compliance with UK and EU regulatory requirements.

Following a review of amounts capitalised for assets in use or in the course of development, asset write downs and depreciation charges of £141 million (4 April 2018: £141 million) were recognised in the year due to adjustments to asset lives, reflecting the pace of change of technology and changing member needs. Profit before tax on a reported basis and underlying basis are set out below. Certain aspects of the Issuer's results are presented to reflect management's view of the underlying results and to provide a clearer representation of the Issuer's performance.

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

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**For the year ended 4 April 2019**

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

**For the year ended 4 April 2018**

|   | Underlying profit    | FSCS     | Gain from derivatives and hedge accounting | Statutory profit |
|---|----------------------|----------|--|------------------|
|   | ( <i>£ million</i> ) |          |  |                  |
| Net interest income .....                           | 3,004                | -        | -  | 3,004            |
| Other income.....                                   | 128                  | -        | (1)  | 128              |
| Movements on derivatives and hedge accounting ..... | -                    | -        | (1)  | (1)              |
| <b>Total income</b> .....                           | <b>3,132</b>         | <b>-</b> | <b>-</b>                                   | <b>3,131</b>     |
| Administrative expenses .....                       | (2,024)              | -        | (1)  | (2,024)          |
| <b>Pre-provision underlying profit</b> .....        | <b>1,108</b>         | <b>-</b> | <b>-</b>                                   | <b>1,107</b>     |
| Impairment losses .....                             | (105)                | -        | -  | (105)            |
| Provisions for liabilities and charges .....        | (26)                 | 1        | (1)  | 25               |
| <b>Profit before tax</b> .....                      | <b>977</b>           | <b>1</b> | <b>-</b>                                   | <b>977</b>       |

The following discussion considers the Issuer's results for the year ended 4 April 2019 compared to its results for the year ended 4 April 2018:

**Total income**

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

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



### *Net interest income*

Net interest income decreased by 3% to £2,915 million for the year ended 4 April 2019 compared with £3,004 million for the year ended 4 April 2018 due to lower funding costs, which were offset by a decrease in mortgage income as a result of sustained competition in retail lending markets.

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

|   | <b>For the year ended 4 April</b> |                |
|---|-----------------------------------|----------------|
|   | <b>2019</b>                       | <b>2018</b>    |
|   | <i>(£ million)</i>                |                |
| <b>Interest and similar income:</b>                           |                                   |                |
| On residential mortgages .....                                | 4,469                             | 4,532          |
| On other loans .....  | 656                               | 677            |
| On investment securities .....                                | 194                               | 129            |
| On other liquid assets .....                                  | 137                               | 67             |
| Net expense on financial instruments hedging assets.....      | (338)                             | (594)          |
| <b>Total interest and similar income .....</b>                | <b>5,118</b>                      | <b>4,811</b>   |
| <b>Interest expense and similar charges:</b>                  |                                   |                |
| On UK retail member deposits .....                            | (1,335)                           | (1,140)        |
| On subscribed capital .....                                   | (14)                              | (15)           |
| <b>On deposits and other borrowings:</b>                      |                                   |                |
| Subordinated liabilities .....                                | (238)                             | (175)          |
| Other.....  | (207)                             | (320)          |
| Debt securities in issue .....                                | (673)                             | (712)          |
| Net income on financial instruments hedging liabilities ..... | 270                               | 563            |
| Pension interest cost .....                                   | (6)                               | (8)            |
| <b>Total interest expense and similar charges .....</b>       | <b>(2,203)</b>                    | <b>(1,807)</b> |
| <b>Net interest income.....</b>                               | <b>2,915</b>                      | <b>3,004</b>   |

### *On investment securities*

Interest and other income from investment securities comprises interest income earned on the corporate and government investment securities that the Issuer purchases for its own account to manage its liquidity portfolios and net realised gains and losses on its sales of these instruments.

Interest and other income from investment securities increased by 50% to £194 million for the year ended 4 April 2019, compared with £129 million for the year ended 4 April 2018.

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

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets.” In the year ended 4 April 2019, the Issuer incurred a net expense of £315 million on financial instruments used to hedge its fixed rate assets, compared with a net expense of £543 million in the year ended 4 April 2018.

### *Interest expense and similar charges*

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

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

#### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that the Issuer pay on subordinated debt instruments and other deposits and borrowings. In the year ended 4 April 2019, interest on subordinated liabilities increased to £238 million from £175 million in the year ended 4 April 2018. Average balances increased to £6,469 million in the year ended 4 April 2019 from £4,108 million in the year ended 4 April 2018.

Other interest expense on deposits and other borrowings includes the interest that the Issuer pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended 4 April 2019, other interest expense on deposits and other borrowings decreased by 35% to £207 million from £320 million in the year ended 4 April 2018. This decrease was due, in part, to a decrease in expenses related to the redemption and maturity of protected equity bonds (PEB) deposits which have returns linked to the performance of specified stock market indices, which for the year ended 4 April 2019 was nil (4 April 2018: £210 million). The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities was nil for the year ended 4 April 2019 (4 April 2018: £206 million) in relation to the associated derivatives.

#### *Debt securities in issue*

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

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

The Issuer uses derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as "net income/expense on financial instruments hedging liabilities." In the year ended 4 April 2019, net income on financial instruments used to hedge the Issuer's fixed rate liabilities was £270 million, compared with a net income of £563 million in the year ended 4 April 2018.

#### *Net fees and commissions*

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

|                                  | <b>For the year ended 4 April</b> |                |            |               |                |            |
|----------------------------------|-----------------------------------|----------------|------------|---------------|----------------|------------|
|                                  | <b>2019</b>                       |                |            | <b>2018</b>   |                |            |
|                                  | <b>Income</b>                     | <b>Expense</b> | <b>Net</b> | <b>Income</b> | <b>Expense</b> | <b>Net</b> |
|                                  | <i>(£ million)</i>                |                |            |               |                |            |
| Current account and savings..... | 261                               | (202)          | 59         | 246           | (187)          | 59         |
| General insurance .....          | 65                                | -              | 65         | 76            | -              | 76         |
| Protection and investments.....  | 63                                | -              | 63         | 65            | -              | 65         |
| Mortgage .....                   | 13                                | (1)            | 12         | 16            | (2)            | 14         |
| Credit card.....                 | 43                                | (39)           | 4          | 42            | (45)           | (3)        |
| Other fees and commissions.....  | 4                                 | (6)            | (2)        | 4             | (10)           | (6)        |
| <b>Fee and commission .....</b>  | <b>449</b>                        | <b>(248)</b>   | <b>201</b> | <b>449</b>    | <b>(244)</b>   | <b>205</b> |

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

In the year ended 4 April 2019, net fees and commissions decreased by 2% to £201 million compared with £205 million in the year ended 4 April 2018, principally reflecting movements in General Insurance fees and commissions (£11 million lower in the year ended 4 April 2019) and Credit Card fees and commissions (£7 million higher in the year ended 4 April 2019).

***Other operating income***

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

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

All derivatives the Issuer enters into are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives, the Issuer’s use of which is regulated by the UK Building Societies Act, are only used to limit the extent to which the Issuer 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, the Issuer enters into certain derivative contracts which, although efficient economically, cannot be included in effective hedge accounting relationships. Consequently, although the implicit interest cost of the underlying instrument and associated derivatives are included in “Net interest income” in the income statement, fair value movements on such derivatives are included in “Gains from derivatives and hedge accounting.”

Gains from derivatives and hedge accounting were £36 million in the year ended 4 April 2019 compared to losses of £1 million in the year ended 4 April 2018. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

Included within the gain of £36 million (4 April 2017: loss of £1 million) was the impact of the following:

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

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

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

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

***Operating expenses and similar charges***

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

| <b>For the year ended 4 April</b> |             |
|-----------------------------------|-------------|
| <b>2019</b>                       | <b>2018</b> |

|  | <i>(£ million)</i> |              |
|--|--------------------|--------------|
| Administrative expenses.....                                 | 1,705              | 1,627        |
| Depreciation and amortisation.....                           | 549                | 397          |
| Impairment losses on loans and advances to customers.....    | 113                | 107          |
| Provisions for liabilities and charges.....                  | 6                  | 25           |
| Impairment (recoveries)/losses on investment securities..... | -                  | (2)          |
| <b>Total</b> .....   | <b>2,373</b>       | <b>2,154</b> |

#### *Administrative expenses*

Administrative expenses increased by 5% in the year ended 4 April 2019 to £1,705 million from £1,627 million in the year ended 4 April 2018 largely driven by ongoing investment in the business, general inflation and increased levels of business activity.

The following table sets forth the components of administrative expenses for the years ended 4 April 2019 and 2018, respectively:

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

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

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

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

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

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

#### *Depreciation and amortisation*

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

### Impairment losses on loans and advances to customers

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

Impairment losses on loans and advances to customers for the year ended 4 April 2019 increased by 6% to £113 million from £107 million for the year ended 4 April 2018.

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

|   | <b>For the year ended 4 April</b> |                           |
|---|-----------------------------------|---------------------------|
|   | <b>2019</b>                       | <b>2018<sup>(1)</sup></b> |
|   | <i>(£ million)</i>                |                           |
| Residential lending.....                                    | (17)                              | 11                        |
| Consumer banking.....                                       | 114                               | 97                        |
| <b>Retail lending</b> .....                                 | <b>97</b>                         | <b>108</b>                |
| Commercial and other lending.....                           | 16                                | (1)                       |
| <b>Impairment losses on loans and advances</b> .....        | <b>113</b>                        | <b>107</b>                |
| Impairment (reversals)/losses on investment securities..... | -                                 | (2)                       |
| <b>Total</b> .....  | <b>113</b>                        | <b>105</b>                |

Notes:

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

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

### Provisions for liabilities and charges

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

Notes:

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

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

The Issuer holds provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the year primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of the Issuer's PPI provision it has considered the implications of the guidance published by the FCA in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case.

#### Taxes

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

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

|  | <b>For the year ended 4 April</b> |             |
|--|-----------------------------------|-------------|
|  | <b>2019</b>                       | <b>2018</b> |
|  | <i>(£ million)</i>                |             |
| Current tax:   |                                   |             |
| UK corporation tax .....                                     | 209                               | 246         |
| Adjustments in respect of prior years .....                  | (12)                              | (12)        |
| <b>Total current tax</b> .....                               | <b>197</b>                        | <b>234</b>  |
| Deferred tax:  |                                   |             |
| Current year charge/(credit) .....                           | 6                                 | (7)         |
| Adjustments in respect of prior years .....                  | 9                                 | 9           |
| Effect of deferred tax provided at different tax rates ..... | 3                                 | (4)         |
| <b>Total deferred taxation</b> .....                         | <b>18</b>                         | <b>(2)</b>  |
| <b>Statutory tax charge</b> .....                            | <b>215</b>                        | <b>232</b>  |

#### Balance Sheet Review

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

#### Loans and advances to customers

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

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

|                    |                |   |                |
|--------------------|----------------|---|----------------|
| <b>Total</b> ..... | <b>199,051</b> | - | <b>191,421</b> |
|--------------------|----------------|---|----------------|

Notes:

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

### Residential mortgage portfolio

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

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

The average LTV of new lending in the year ended 4 April 2019, weighted by value, remained at 71% (4 April 2018: 71%) primarily due to the Issuer’s strategy to increase lending to the first time buyer market as it recognises the importance of helping people take their initial steps onto the housing ladder. Modest house price growth has resulted in the average LTV of the Issuer’s portfolio increasing to 58% (4 April 2018: 56%). Residential mortgage arrears have remained constant at 0.4% (4 April 2018: 0.4%).

Non-performing balances have increased by £54 million to £2,773 million (4 April 2018: £2,719 million). The impairment provision balance has decreased to £206 million (4 April 2018: £235 million). This decrease in provisions is largely due to continued run-off of legacy, higher risk portfolios combined with refinements to the Issuer’s provisioning methodology. Impairment provisions as a percentage of non-performing balances decreased to 7.4% (4 April 2018: 8.6%).

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

|   | <b>As at 4 April</b> |             |
|---|----------------------|-------------|
|   | <b>2019</b>          | <b>2018</b> |
|   | <i>(percentages)</i> |             |
| <b>LTV distribution of residential mortgages:</b> |                      |             |
| 0% - 60%.....                                     | 25                   | 26          |
| 60% - 75%.....                                    | 33                   | 30          |
| 75% - 80%.....                                    | 7                    | 9           |
| 80% - 85%.....                                    | 10                   | 14          |
| 85% - 90%.....                                    | 22                   | 18          |
| 90% - 95%.....                                    | 3                    | 3           |
| >95%.....   | -                    | -           |
| <b>Total</b> .....                                | <b>100</b>           | <b>100</b>  |
| Average loan to value of stock.....               | 58                   | 56          |
| Average loan to value of new business.....        | 71                   | 71          |
| <b>New business profile:</b>                      |                      |             |
| First-time buyers.....                            | 35                   | 38          |
| Home movers.....                                  | 25                   | 29          |
| Remortgagers.....                                 | 25                   | 21          |
| BTL.....  | 14                   | 11          |
| Other.....  | 1                    | 1           |
| <b>Total</b> .....                                | <b>100</b>           | <b>100</b>  |

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

Total residential balance sheet provisions at 4 April 2019 were £206 million, compared with £235 million at 4 April 2018.

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

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

The table below shows possessions as a percentage of the Issuer's total residential mortgages as at 4 April 2019 and 4 April 2018:

|   | As at 4 April        |             |
|---|----------------------|-------------|
|   | 2019                 | 2018        |
| <b>Possessions as (%) of total residential mortgages (number of properties)</b> | <i>(percentages)</i> |             |
| Prime .....   | 0.01                 | 0.01        |
| Specialist .....  | 0.05                 | 0.05        |
| <b>Total Group residential mortgages</b> .....                                  | <b>0.01</b>          | <b>0.02</b> |

The Issuer's approach to dealing with customers in financial difficulties combined with its historically cautious approach to lending, means that it only takes possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended 4 April 2019, the properties taken into possession decreased to 231, representing only 0.01% of the Issuer's book compared to the industry average of 0.02% (source: CML).

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

|   | As at 4 April                          |                    |              |              |               |                    |              |              |
|---|--|--------------------|--------------|--------------|---------------|--------------------|--------------|--------------|
|   | 2019                                   |                    |              |              | 2018          |                    |              |              |
|   | Prime lending                          | Specialist lending | Total        | (%)          | Prime lending | Specialist lending | Total        | (%)          |
|   | <i>(£ billion, except percentages)</i> |                    |              |              |               |                    |              |              |
| <b>Not impaired:</b>                          |  |                    |              |              |               |                    |              |              |
| Neither past due nor impaired.....            | 149.8                                  | 33.5               | 183.3        | 98.5         | 142.4         | 32.2               | 174.6        | 98.5         |
| Past due up to 3 months but not impaired..... | 1.3                                    | 0.6                | 1.9          | 1.0          | 1.3           | 0.7                | 2.0          | 1.1          |
| Impaired .....                                | 0.4                                    | 0.4                | 0.8          | 0.4          | 0.3           | 0.4                | 0.7          | 0.4          |
| <b>Total</b> .....                            | <b>151.5</b>                           | <b>34.5</b>        | <b>186.0</b> | <b>100.0</b> | <b>144.0</b>  | <b>33.3</b>        | <b>177.3</b> | <b>100.0</b> |

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

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



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

|  | As at 4 April                          |                    |            |            |               |                    |            |            |
|--|--|--------------------|------------|------------|---------------|--------------------|------------|------------|
|  | 2019                                   |                    |            |            | 2018          |                    |            |            |
|  | Prime lending                          | Specialist lending | Total      | (%)        | Prime lending | Specialist lending | Total      | (%)        |
|  | <i>(£ million, except percentages)</i> |                    |            |            |               |                    |            |            |
| <b>Impaired status:</b>                    |  |                    |            |            |               |                    |            |            |
| Past due 3 to 6 months .....               | 177                                    | 159                | 336        | 44         | 162           | 159                | 321        | 44         |
| Past due 6 to 12 months .....              | 122                                    | 121                | 243        | 32         | 113           | 110                | 223        | 30         |
| Past due over 12 months .....              | 84                                     | 69                 | 153        | 20         | 89            | 76                 | 165        | 22         |
| Litigation (past term interest only) ..... | -                                      | -                  | -          | -          | 1             | 1                  | 2          |            |
| Possessions.....                           | 7                                      | 21                 | 28         | 4          | 8             | 23                 | 31         | 4          |
| <b>Total.....</b>                          | <b>390</b>                             | <b>370</b>         | <b>760</b> | <b>100</b> | <b>373</b>    | <b>369</b>         | <b>742</b> | <b>100</b> |

### For residential mortgage loans

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

| <b>Balances subject to forbearance 2019</b>               | <b>Prime</b>       | <b>Specialist</b> | <b>Total</b> |
|---|--------------------|-------------------|--------------|
|   | <i>(£ million)</i> |                   |              |
| Past term interest only concessions .....                 | 122                | 134               | 256          |
| Interest only concessions.....                            | 525                | 59                | 584          |
| Capitalisation.....                                       | 42                 | 51                | 93           |
| Term extensions (within term) .....                       | 35                 | 13                | 48           |
| Permanent interest only conversions .....                 | 3                  | 33                | 36           |
| <b>Total forbearance .....</b>                            | <b>727</b>         | <b>290</b>        | <b>1,017</b> |
| <b>Impairment provision on forborne loans .....</b>       | <b>5</b>           | <b>11</b>         | <b>16</b>    |
| <b>Balances subject to forbearance 2018<sup>(1)</sup></b> | <b>Prime</b>       | <b>Specialist</b> | <b>Total</b> |
|   | <i>(£ million)</i> |                   |              |
| Past term interest only concessions .....                 | 130                | 136               | 266          |
| Interest only concessions.....                            | 511                | 66                | 577          |
| Capitalisation.....                                       | 45                 | 59                | 104          |
| Term extensions (within term) .....                       | 35                 | 14                | 49           |
| Permanent interest only conversions .....                 | 5                  | 24                | 29           |
| <b>Total forbearance .....</b>                            | <b>726</b>         | <b>299</b>        | <b>1,025</b> |
| <b>Impairment provision on forborne loans .....</b>       | <b>5</b>           | <b>11</b>         | <b>16</b>    |

Notes:

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

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

|   | <b>As at 4 April</b> |  |                           |  |
|---|----------------------|--|---------------------------|--|
|   | <b>2019</b>          |  | <b>2018<sup>(1)</sup></b> |  |
|   | ( <i>£ million</i> ) | ( <i>% of total prime loans and advances</i> ) | ( <i>£ million</i> )      | ( <i>% of total prime loans and advances</i> ) |
| Past term interest only concessions ..... | 256                  | 25.2%  | 266                       | 26.0%  |
| Interest only concessions.....            | 584                  | 57.4%  | 577                       | 56.3%  |
| Capitalisation.....                       | 93                   | 9.1%   | 104                       | 10.1%  |
| Term extensions (within term) .....       | 48                   | 4.7%   | 49                        | 4.8%   |
| Permanent interest only conversions ..... | 36                   | 3.5%   | 29                        | 2.8%   |
| <b>Total forbearance .....</b>            | <b>1,017</b>         | <b>100.0%</b>                                  | <b>1,025</b>              | <b>100.0%</b>                                  |

Notes:

- (1) Figures have been adjusted to reflect the impact of applying IFRS 9: “Financial Instruments” from 5 April 2018. Further information is provided in note 1 to the Issuer’s audited consolidated financial statements as of and for the year ended 4 April 2019.

The following table presents negative equity on residential mortgages:

|                     | <b>As at 4 April</b> |                           |
|---------------------|----------------------|---------------------------|
|                     | <b>2019</b>          | <b>2018<sup>(1)</sup></b> |
|                     | ( <i>£ million</i> ) |                           |
| Stage 1 and 2 ..... | 26                   | 33                        |
| Stage 3 .....       | 4                    | 5                         |
| <b>Total.....</b>   | <b>30</b>            | <b>38</b>                 |

Notes:

- (1) Figures have been adjusted to reflect the impact of applying IFRS 9: “Financial Instruments” from 5 April 2018. Further information is provided in note 1 to the Issuer’s audited consolidated financial statements as of and for the year ended 4 April 2019.

### For commercial loans

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

The table below provides details of the commercial loans which are subject to forbearance as at 4 April 2019 and 2018. Loans where more than one concession event has occurred are reported under the latest event.

|                             | <b>As at 4 April</b> |                           |
|-----------------------------|----------------------|---------------------------|
|                             | <b>2019</b>          | <b>2018<sup>(1)</sup></b> |
|                             | ( <i>£ million</i> ) |                           |
| Refinance.....              | 44                   | 78                        |
| Modifications:              |                      |                           |
| Interest concession .....   |                      |                           |
| Capital concession.....     | 2                    | 8                         |
| Security amendment.....     | 6                    | 9                         |
| Extension at maturity ..... | 12                   | 42                        |
| Breach of covenant.....     | 122                  | 139                       |

|   |            |            |
|---|------------|------------|
| <b>Total</b> .....                                  | <b>186</b> | <b>276</b> |
| <b>Impairment provision on forborne loans</b> ..... | <b>23</b>  | <b>19</b>  |

Notes:

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

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

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

### For consumer loans

The table below provides details of the consumer banking exposures which are subject to forbearance as at 4 April 2019 and 4 April 2018. Where more than one concession event has occurred, exposures are reported under the latest event.

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

Notes:

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

### Commercial loan portfolio

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

### Commercial and other lending gross balances

|  | <b>As at 4 April</b> |                           |
|--|----------------------|---------------------------|
|  | <b>2019</b>          | <b>2018<sup>(6)</sup></b> |
|  | <i>(£ million)</i>   |                           |
| Registered social landlords <sup>(1)</sup> ..... | 5,980                | 6,816                     |
| Commercial real estate (CRE).....                | 1,383                | 1,810                     |
| Project finance <sup>(2)</sup> .....             | 807                  | 906                       |
| Other lending <sup>(3)</sup> .....               | 8                    | 8                         |

|  |              |               |
|--|--------------|---------------|
| <b>Commercial and other lending balances at amortised cost .....</b> | <b>8,178</b> | <b>9,540</b>  |
| Fair value adjustment for micro hedged risk <sup>(4)</sup> .....     | 883          | 1,042         |
| Commercial lending balances <sup>(5)</sup> .....                     | 57           | 58            |
| <b>Total.....</b>  | <b>9,118</b> | <b>10,640</b> |

Notes:

- (1) Loans to registered landlords are secured on residential property.
- (2) Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts under the Private Finance Initiative.
- (3) Other lending previously included balances held with counterparties which are institutions similar to banks. These are now reported in loans and advances to banks and similar institutions, and comparatives for the prior period have been restated to disclose information on the same basis. Further details are included to note 1 to the audited consolidated financial statements for the year ended 4 April 2019.
- (4) Micro hedged risk relates to loans hedged on an individual basis.
- (5) As a result of their contractual cash flow characteristics, certain commercial loans were reclassified from amortised cost to Fair value through profit or loss (FVTPL) on transition to IFRS 9 on 5 April 2018 and remeasured at fair value.
- (6) Figures have been adjusted to reflect the impact of applying IFRS 9: "Financial Instruments" from 5 April 2018. Further information is provided in note 1 to the Issuer's audited consolidated financial statements as of and for the year ended 4 April 2019.

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

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

|                   | <b>For the year ended 4 April</b> |                       |
|-------------------|-----------------------------------|-----------------------|
|                   | <b>2019</b>                       | <b>2018</b>           |
|                   | <b>(IFRS 9 basis)</b>             | <b>(IAS 39 basis)</b> |
|                   | <i>(£ million)</i>                | <i>(£ million)</i>    |
| <b>Total.....</b> | <b>16</b>                         | <b>(1)</b>            |

Note:

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

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

The Issuer's commercial lending portfolio of £8.2 billion as at 4 April 2019 (4 April 2018: £9.6 billion) comprises £1.4 billion secured on CRE (4 April 2018: £1.9 billion), £6.0 billion advanced to RSL (4 April 2018: £6.8 billion) and £0.8 billion advanced under Project Finance, principally via the PFI (4 April 2018: £0.9 billion). The Issuer's CRE portfolio is diverse both in terms of sectors and geographic spread.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with the Issuer's forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired CRE loans amounted to £48 million as at 4 April 2019 (4 April 2018: £37 million) and provisions held against the portfolio amounted to £22 million (4 April 2018: £21 million) representing a coverage ratio of 46% (4 April 2018: 50%).

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

#### Commercial and other lending product and staging analysis

**For the year ended 4 April**

|   | 2019          |             |              |              | 2018 <sup>(1)</sup> |             |              |              |
|---|---------------|-------------|--------------|--------------|---------------------|-------------|--------------|--------------|
|   | Stage 1       | Stage 2     | Stage 3      | Total        | Stage 1             | Stage 2     | Stage 3      | Total        |
|   | (£ million)   |             |              |              |                     |             |              |              |
| <b>Gross balances</b>                       |               |             |              |              |                     |             |              |              |
| Registered social landlords ....            | 5,923         | 57          | -            | 5,980        | 6,725               | 91          | -            | 6,816        |
| CRE .....                                   | 1,122         | 213         | 48           | 1,383        | 1,587               | 186         | 37           | 1,810        |
| Project finance .....                       | 754           | 29          | 24           | 807          | 818                 | 88          | -            | 906          |
| Other lending .....                         | 8             | -           | -            | 8            | 8                   | -           | -            | 8            |
| <b>Total.....</b>                           | <b>7,807</b>  | <b>299</b>  | <b>72</b>    | <b>8,178</b> | <b>9,138</b>        | <b>365</b>  | <b>37</b>    | <b>9,540</b> |
| <b>Provisions</b>                           |               |             |              |              |                     |             |              |              |
| Registered social landlords ....            | 1             | -           | -            | 1            | 1                   | -           | -            | 1            |
| CRE .....                                   | 2             | 2           | 18           | 22           | 5                   | 3           | 13           | 21           |
| Project finance .....                       | 1             | -           | 17           | 18           | -                   | 7           | -            | 7            |
| Other lending .....                         | -             | -           | -            | -            | -                   | -           | -            | -            |
| <b>Total.....</b>                           | <b>4</b>      | <b>2</b>    | <b>35</b>    | <b>41</b>    | <b>6</b>            | <b>10</b>   | <b>13</b>    | <b>29</b>    |
| <b>Provisions as a (%) of total balance</b> | (percentages) |             |              |              |                     |             |              |              |
| Registered social landlords ....            | 0.02          | 0.18        | -            | 0.02         | 0.01                | 0.15        | -            | 0.01         |
| CRE .....                                   | 0.19          | 0.96        | 37.11        | 1.58         | 0.32                | 1.19        | 36.99        | 1.15         |
| Project finance .....                       | 0.15          | 0.97        | 71.54        | 2.20         | 0.02                | 8.37        | -            | 0.83         |
| Other lending .....                         | -             | -           | -            | -            | 1.25                | -           | -            | 1.25         |
| <b>Total.....</b>                           | <b>0.05</b>   | <b>0.81</b> | <b>48.74</b> | <b>0.50</b>  | <b>0.07</b>         | <b>2.74</b> | <b>35.55</b> | <b>0.30</b>  |

Notes:

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

Over the year, the performance of the commercial and other lending portfolios has remained stable, with 95% (4 April 2018: 96%) of balances remaining in stage 1. Of the £299 million stage 2 loans (4 April 2018: £365 million), £1 million (4 April 2018: £2 million) is in arrears by 30 days or more, with the remainder in stage 2 due to non-arrears factors such as a deterioration in risk rating or placement on a watchlist.

The increase in CRE stage 2 and 3 balances is in respect of a small number of loans that are subject to increased loan maturity risk, with stage 3 (credit-impaired) loans, at £48 million (4 April 2018: £37 million), equating to 3% (4 April 2018: 2%) of the total CRE exposure.

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (4 April 2018: 1%) of the exposure is in stage 2. Against a backdrop of a long history of zero defaults, the risk profile of this portfolio remains low.

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

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

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

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

#### **Credit quality**

The Issuer adopts robust credit management policies and processes to recognise 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 amortised cost only.

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

|                    | For the year ended 4 April |            |           |              |                      |                     |            |           |              |                      |
|--------------------|----------------------------|------------|-----------|--------------|----------------------|---------------------|------------|-----------|--------------|----------------------|
|                    | 2019                       |            |           |              | Provision Coverage   | 2018 <sup>(1)</sup> |            |           |              | Provision Coverage   |
|                    | Stage 1                    | Stage 2    | Stage 3   | Total        |                      | Stage 1             | Stage 2    | Stage 3   | Total        |                      |
|                    | <i>(£ million)</i>         |            |           |              | <i>(percentages)</i> | <i>(£ million)</i>  |            |           |              | <i>(percentages)</i> |
| Strong .....       | 676                        | 57         | -         | 733          | 0.3                  | 912                 | 91         | -         | 932          | 0.5                  |
| Good .....         | 381                        | 76         | -         | 457          | 0.1                  | 614                 | 186        | -         | 693          | 0.1                  |
| Satisfactory ..... | 65                         | 8          | -         | 73           | 0.4                  | 61                  | 88         | -         | 93           | 1.2                  |
| Weak .....         | -                          | 72         | -         | 72           | 1.4                  | -                   | 88         | -         | 55           | 2.0                  |
| Impaired .....     | -                          | -          | 48        | 48           | 37.1                 | -                   | -          | 37        | 37           | 36.0                 |
| <b>Total .....</b> | <b>1,122</b>               | <b>213</b> | <b>48</b> | <b>1,383</b> | <b>1.6</b>           | <b>1,587</b>        | <b>453</b> | <b>37</b> | <b>1,810</b> | <b>1.1</b>           |

Notes:

- (1) Figures have been adjusted to reflect the impact of applying IFRS 9: “Financial Instruments” from 5 April 2018. Further information is provided in note 1 to the Issuer’s audited consolidated financial statements as of and for the year ended 4 April 2019.

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

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

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

In addition to the above, £57 million (4 April 2018: £58 million) of commercial lending balances were classified as FVTPL, of which £53 million (4 April 2018: £52 million) related to CRE loans with a risk grade of satisfactory.

**CRE Balances by LTV and region**

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

**CRE Lending gross balances by LTV and region<sup>(1)</sup>**

|                          | As at 4 April      |            |              |                     |            |              |
|--------------------------|--------------------|------------|--------------|---------------------|------------|--------------|
|                          | 2019               |            |              | 2018 <sup>(3)</sup> |            |              |
|                          | London             | Rest of UK | Total        | London              | Rest of UK | Total        |
|                          | <i>(£ million)</i> |            |              |                     |            |              |
| Fully collateralised     |                    |            |              |                     |            |              |
| LTV ratio <sup>(2)</sup> |                    |            |              |                     |            |              |
| Less than 25% .....      | 89                 | 70         | 159          | 189                 | 124        | 313          |
| 25% to 50% .....         | 559                | 298        | 857          | 596                 | 374        | 943          |
| 51% to 75% .....         | 181                | 175        | 356          | 241                 | 291        | 532          |
| 76% to 90% .....         | 1                  | 20         | 21           | 4                   | 51         | 55           |
| 91% to 100% .....        | 1                  | 6          | 7            | 1                   | 4          | 5            |
|                          | <b>831</b>         | <b>569</b> | <b>1,400</b> | <b>1,004</b>        | <b>844</b> | <b>1,848</b> |
| Not fully collateralised |                    |            |              |                     |            |              |
| Over 100% LTV .....      | -                  | 36         | 36           | -                   | 16         | 16           |
| Collateral value .....   | -                  | 19         | 19           | -                   | 7          | 7            |
| Negative equity .....    | -                  | 17         | 17           | -                   | 9          | 9            |

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

Notes:

- (1) A CRE loan may be secured on assets located in different regions. The calculation for regional allocation has been changed in the year to reflect a more refined approach, with comparatives presented on a consistent basis.
- (2) The LTV ratio is calculated on the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The Investment Property (IPD) monthly index is used.
- (3) Figures have been adjusted to reflect the impact of applying IFRS 9: "Financial Instruments" from 5 April 2018. Further information is provided in note 1 to the Issuer's audited consolidated financial statements as of and for the year ended 4 April 2019.

Changes to the regional distribution of the CRE portfolio reflect the managed reduction of the portfolio, with 58% (4 April 2018: 54%) of the CRE exposure now being secured against assets located in London. Over the year, the LTV distribution of the CRE portfolio remained stable, with 96% (4 April 2018: 96%) of the portfolio having an LTV of 75% or less, and 71% (4 April 2018: 67%) of the portfolio having an LTV of 50% or less.

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

Credit risk exposure by industry sector is unchanged from the prior year, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, including FVTPL balances, the highest concentration is to the residential investment sector at 44% (4 April 2018: 44%). Over the year, the Issuer's exposure to retail assets has reduced from £367 million to £286 million.

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

Of the £1,436 million (4 April 2018: £1,864 million) CRE exposure, including FVTPL balances, £24 million (4 April 2018: £52 million) relates to balances with arrears, of which £2 million (4 April 2018: £24 million) have arrears greater than 3 months.

### **Gross balances subject to forbearance<sup>(1)</sup>**

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

Note:

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

Possession balances represent loans against which the Issuer has taken ownership of properties pending their sale. Assets over which possession has been taken are realised 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. The Issuer does not normally occupy repossessed properties for its business use or use assets obtained in its operations.

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

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

The Issuer's 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 the Issuer's assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The table below represents a breakdown of CRE lending balances by LTV and their share in the total CRE loans as at 4 April 2019 and 2018.

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

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

## Consumer banking

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

### Consumer banking gross balances by payment due status

|                              | As at 4 April              |                    |              |       |            |                           |                    |              |       |            |
|------------------------------|----------------------------|--------------------|--------------|-------|------------|---------------------------|--------------------|--------------|-------|------------|
|                              | 2019                       |                    |              |       |            | 2018                      |                    |              |       |            |
|                              | Overdrawn current accounts | Personal loans     | Credit cards | Total | (%)        | Overdrawn current account | Personal loans     | Credit cards | Total | (%)        |
| <i>(Audited)</i>             |                            |                    |              |       |            |                           |                    |              |       |            |
|                              |                            | <i>(£ million)</i> |              |       | <i>(%)</i> |                           | <i>(£ million)</i> |              |       | <i>(%)</i> |
| Not past due.....            | 279                        | 2,282              | 1,667        | 4,228 | 92.2       | 235                       | 1,882              | 1,656        | 3,773 | 91.9       |
| Past due up to 3 months..... | 12                         | 48                 | 30           | 90    | 1.9        | 12                        | 43                 | 33           | 88    | 2.1        |
| Past due 3 to 6 months.....  | 3                          | 8                  | 11           | 22    | 0.5        | 4                         | 13                 | 11           | 28    | 0.7        |
| Past due 6 to 12 months..... | 3                          | 15                 | 2            | 20    | 0.4        | 3                         | 12                 | 2            | 17    | 0.4        |



|                                  |            |              |              |              |            |            |              |              |              |            |
|----------------------------------|------------|--------------|--------------|--------------|------------|------------|--------------|--------------|--------------|------------|
| Past due over 12 months .....    | 3          | 14           | -            | 17           | 0.4        | 3          | 13           | -            | 16           | 0.4        |
| Charged off <sup>(1)</sup> ..... | 24         | 82           | 103          | 209          | 4.6        | 20         | 68           | 97           | 185          | 4.5        |
| <b>Total</b> .....               | <b>324</b> | <b>2,449</b> | <b>1,813</b> | <b>4,586</b> | <b>100</b> | <b>277</b> | <b>2,031</b> | <b>1,799</b> | <b>4,107</b> | <b>100</b> |

Note:

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

The consumer banking portfolio comprises balances or unsecured retail banking products: current accounts overdrafts of £0.3 billion (4 April 2018, £0.3 billion), personal loans of £2.4 billion (4 April 2018: £2.0 billion), and credit cards of £1.8 billion (4 April 2018: £1.8 billion). Over the year total balances across these portfolios have grown by £0.5 billion to £4.6 billion (4 April 2018: £4.1 billion), equating to 12.2% growth, and credit quality has remained stable.

### Consumer banking gross balances

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

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

### Impairment losses for the year

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

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

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

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

| Consumer banking product and staging analysis |         |         |       |                     |         |         |       |
|---|---------|---------|-------|---------------------|---------|---------|-------|
| As at 4 April                                 |         |         |       |                     |         |         |       |
| 2019  |         |         |       | 2018 <sup>(1)</sup> |         |         |       |
| Stage 1                                       | Stage 2 | Stage 3 | Total | Stage 1             | Stage 2 | Stage 3 | Total |

<sup>9</sup> Borrowers are classified as being in persistent debt when they have paid more interest, fees and charges than capital over an 18-month period.

(£ million)

| <b>Gross balances</b>                       |              |              |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Overdrawn current accounts .....            | 187          | 100          | 37           | 324          | 149          | 94           | 34           | 277          |
| Personal loans .....                        | 2,140        | 186          | 123          | 2,449        | 1,803        | 116          | 112          | 2,031        |
| Credit cards .....                          | 1,211        | 475          | 127          | 1,813        | 1,312        | 365          | 122          | 1,799        |
| <b>Total.....</b>                           | <b>3,538</b> | <b>761</b>   | <b>287</b>   | <b>4,586</b> | <b>3,264</b> | <b>575</b>   | <b>268</b>   | <b>4,107</b> |
| <b>Provisions</b>                           |              |              |              |              |              |              |              |              |
| Overdrawn current accounts .....            | 2            | 18           | 33           | 53           | 2            | 23           | 30           | 55           |
| Personal loans .....                        | 11           | 22           | 107          | 140          | 10           | 18           | 96           | 124          |
| Credit cards .....                          | 14           | 92           | 119          | 225          | 13           | 62           | 111          | 186          |
| <b>Total.....</b>                           | <b>27</b>    | <b>132</b>   | <b>259</b>   | <b>418</b>   | <b>25</b>    | <b>103</b>   | <b>237</b>   | <b>365</b>   |
| <b>Provisions as a (%) of total balance</b> |              |              |              |              |              |              |              |              |
| Overdrawn current accounts .....            | 1.30         | 17.42        | 89.92        | 16.37        | 1.34         | 24.19        | 90.52        | 19.97        |
| Personal loans .....                        | 0.53         | 12.11        | 86.58        | 5.74         | 0.57         | 15.16        | 86.31        | 6.11         |
| Credit cards .....                          | 1.12         | 19.33        | 93.61        | 12.38        | 12.38        | 17.09        | 90.64        | 10.36        |
| <b>Total.....</b>                           | <b>0.77</b>  | <b>17.32</b> | <b>90.12</b> | <b>9.11</b>  | <b>9.11</b>  | <b>17.86</b> | <b>88.45</b> | <b>8.90</b>  |

Note:

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

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

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

## Country exposure

The following section summarises the Issuer's direct exposure to institutions, corporates, and other issued securities domiciled in the peripheral Eurozone countries:

| As at 30 September 2020                                    |                               |            |            |              |              |            |             |          |                |              |                              |               |               |
|--|-------------------------------|------------|------------|--------------|--------------|------------|-------------|----------|----------------|--------------|------------------------------|---------------|---------------|
|  | Austria                       | Belgium    | Finland    | France       | Germany      | Ireland    | Netherlands | Spain    | Total Eurozone | USA          | Japan                        | Rest of World | Total         |
|  | <i>(£ million, unaudited)</i> |            |            |              |              |            |             |          |                |              |                              |               |               |
| Government bonds.....                                      | 531                           | 604        | 641        | 1,273        | 1,364        | 123        | 514         | -        | 5,050          | 3,996        | 1,572                        | 1,445         | 12,063        |
| Mortgage backed securities .....                           | -                             | -          | -          | -            | -            | -          | 129         | -        | 129            | -            | -                            | -             | 129           |
| Covered bonds .....  | -                             | -          | 26         | 116          | 46           | -          | -           | -        | 188            | -            | -                            | 460           | 648           |
| Supranationals bonds.....                                  | -                             | -          | -          | -            | -            | -          | -           | -        | -              | -            | -                            | -             | 904           |
| Loans and advances to banks and similar institutions ..... | -                             | -          | -          | -            | 221          | -          | -           | 4        | 225            | 89           | -                            | 41            | 355           |
| Other assets.....  | -                             | -          | -          | 25           | 123          | -          | -           | -        | 148            | -            | -                            | -             | 148           |
| <b>Total.....</b>  | <b>531</b>                    | <b>604</b> | <b>667</b> | <b>1,414</b> | <b>1,754</b> | <b>123</b> | <b>643</b>  | <b>4</b> | <b>5,740</b>   | <b>4,085</b> | <b>1,572</b>                 | <b>2,850</b>  | <b>14,247</b> |
| As at 30 September 2019                                    |                               |            |            |              |              |            |             |          |                |              |                              |               |               |
|  | Austria                       | Belgium    | Finland    | France       | Germany      | Ireland    | Netherlands | Spain    | Total Eurozone | USA          | Rest of World <sup>(1)</sup> | Total         |               |
|  | <i>(£ million, unaudited)</i> |            |            |              |              |            |             |          |                |              |                              |               |               |
| Government bonds.....                                      | 144                           | 362        | 392        | 254          | 711          | 44         | 143         | -        | 2,050          | 3,321        | 1,109                        | 6,480         |               |
| Mortgage backed securities .....                           | -                             | -          | -          | -            | -            | -          | 200         | -        | 200            | -            | -                            | 200           |               |
| Covered bonds .....  | -                             | -          | 26         | -            | 32           | -          | -           | -        | 58             | -            | -                            | 499           | 557           |
| Supranationals bonds.....                                  | -                             | -          | -          | -            | -            | -          | -           | -        | -              | -            | -                            | 713           | 713           |

| As at 30 September 2019                                    |            |            |            |            |              |                               |             |          |                |              |                              |              |
|--|------------|------------|------------|------------|--------------|-------------------------------|-------------|----------|----------------|--------------|------------------------------|--------------|
|  | Austria    | Belgium    | Finland    | France     | Germany      | Ireland                       | Netherlands | Spain    | Total Eurozone | USA          | Rest of World <sup>(1)</sup> | Total        |
|  |            |            |            |            | 299          |                               |             |          | 299            | 89           | 30                           | 418          |
|  |            |            |            |            |              | <i>(£ million, unaudited)</i> |             |          |                |              |                              |              |
| Loans and advances to banks and similar institutions ..... | -          | -          | -          | -          |              |                               |             |          |                |              |                              |              |
| Other assets.....  | -          | -          | -          | 32         | 133          | -                             | -           | -        | 165            | 71           | -                            | 236          |
| <b>Total.....</b>  | <b>144</b> | <b>362</b> | <b>418</b> | <b>286</b> | <b>1,175</b> | <b>44</b>                     | <b>343</b>  | <b>-</b> | <b>2,772</b>   | <b>3,481</b> | <b>2,351</b>                 | <b>8,604</b> |

Notes:

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

None of the Issuer's exposures detailed in the tables above were in default as at 30 September 2020, and it did not incur any impairment on these assets in the six month period ended 30 September 2020. The Issuer continues to monitor closely the exposures to these countries.

## Funding and Liquidity

### Funding strategy

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

### Managing liquidity and funding risk

The Issuer manages liquidity and funding risk within a comprehensive risk framework which includes policies, strategy, limit setting and monitoring, stress testing and robust governance controls. See "Risk Factors—Risk Related to the Issuer's Business" for additional information on funding and liquidity risk.

The Issuer's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid assets, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable the Issuer to meet financial obligations as they fall due, even during episodes of stress. This is achieved through

the management and stress testing of business cash flows and through translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high quality liquid assets and appropriate encumbrance levels are maintained.

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

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

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

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

TFS was a scheme launched by the Bank of England in August 2016 within a package of monetary stimulus measures, with the purpose of encouraging lending institutions to pass on base rate cuts, by providing an efficient source of funding. It closed on 28 February 2018, and as of 30 September 2020, the Issuer had TFS drawings of £17 billion.

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

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

### ***Liquidity***

The Issuer monitors its liquidity position relative to internal risk appetite and the regulatory short-term liquidity stress metric, the Liquidity Coverage Ratio (LCR). The Issuer’s LCR at 30 September 2020 was 153% (30 September 2019: 140%), which is above the regulatory minimum of 100%.

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

### **Wholesale funding**

An analysis of the Issuer’s wholesale funding is set out in the table below:

| <b>As at 30 September<br/>2020</b>     | <b>As at 4 April 2020</b> |
|--|---------------------------|
| <i>(£ billion, except percentages)</i> |                           |

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

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

The table below sets out the Issuer's wholesale funding by currency as at 30 September 2020:

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

The table below sets out the Issuer's wholesale funding by currency as at 4 April 2020:

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

The table below sets out the Issuer's wholesale funding by currency as at 4 April 2019:

| <b>As at 4 April 2019</b>    |                    |             |            |              |              |
|------------------------------|--------------------|-------------|------------|--------------|--------------|
|                              | <b>GBP</b>         | <b>EUR</b>  | <b>USD</b> | <b>Other</b> | <b>Total</b> |
|                              | <i>(£ billion)</i> |             |            |              |              |
| Repos.....                   | 0.4                | 0.3         | 0.1        | -            | 0.8          |
| Deposits.....                | 6.0                | 1.2         | 0.1        | -            | 7.3          |
| Certificates of deposit..... | 3.2                | 1.1         | 0.5        | -            | 4.8          |
| Commercial paper .....       | -                  | 0.3         | 2.9        | -            | 3.2          |
| Covered bonds.....           | 3.8                | 12.9        | -          | 0.1          | 16.8         |
| Medium term notes.....       | 2.0                | 3.0         | 1.9        | 0.6          | 7.5          |
| Securitisations .....        | 0.7                | 1.1         | 1.2        | -            | 3.0          |
| Term Funding Scheme .....    | 17.0               | -           | -          | -            | 17.0         |
| Other.....                   | 0.2                | 0.6         | -          | -            | 0.8          |
| <b>Total.....</b>            | <b>33.3</b>        | <b>20.5</b> | <b>6.7</b> | <b>0.7</b>   | <b>61.2</b>  |

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

At 30 September 2020, cash, government bonds and supranational bonds included in the liquid asset buffer represented 116% (4 April 2020: [122]%) of wholesale funding maturing in less than one year, assuming no rollovers.

The tables below set out the residual maturity of the wholesale funding book as at 30 September 2020 and 4 April 2020 respectively:

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

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

| As at 30 September 2020                |   |  |  |                              |   |                |              |
|--|---|--|--|------------------------------|---|----------------|--------------|
|  | Over one month but not more than three months | Over three months but not more than six months | Over six months but not more than one year | Sub-total less than one year | Over one year but not more than two years | Over two years | Total        |
| <i>(£ billion, except percentages)</i> |   |  |  |                              |   |                |              |
| Repos .....                            | 2.0   | -  | -  | 2.0                          | -   | -              | 2.0          |
| Deposits .....                         | 8.7   | 0.5  | 1.4  | 10.7                         | -   | -              | 10.7         |
| Certificates of deposit.....           | 0.4   | 0.3  | -  | 0.7                          | -   | -              | 0.7          |
| Commercial paper .....                 | 4.8   | 1.4  | -  | 6.2                          | -   | -              | 6.2          |
| Covered bonds.....                     | 0.1   | 0.1  | 2.6  | 2.8                          | 3.5                                       | 11.0           | 17.3         |
| Medium-term notes .....                | -   | -  | 0.1  | 0.8                          | 0.8                                       | 7.0            | 8.6          |
| Securitisations.....                   | 0.4   | -  | 0.1  | 1.0                          | 0.8                                       | 1.6            | 3.4          |
| Term Funding Scheme                    | -   | 2.0  | 4.0  | 9.5                          | 7.6                                       | 6.1            | 23.2         |
| Other .....                            | -   | -  | -  | -                            | 0.1                                       | 1.1            | 1.2          |
| <b>Total .....</b>                     | <b>16.4</b>                                   | <b>4.3</b>                                     | <b>8.2</b>                                 | <b>33.7</b>                  | <b>12.8</b>                               | <b>26.8</b>    | <b>73.3</b>  |
| Of which secured .....                 | 2.5   | 2.1  | 6.7  | 15.3                         | 12.0                                      | 19.6           | 46.9         |
| Of which unsecured .....               | 13.9  | 2.2  | 1.5  | 18.4                         | 0.8                                       | 7.2            | 26.4         |
| <b>% of total .....</b>                | <b>22.4</b>                                   | <b>5.9</b>                                     | <b>11.2</b>                                | <b>46.0</b>                  | <b>17.5</b>                               | <b>36.5</b>    | <b>100.0</b> |

| As at 4 April 2020                     |   |  |  |                              |   |                |              |
|--|---|--|--|------------------------------|---|----------------|--------------|
|  | Over one month but not more than three months | Over three months but not more than six months | Over six months but not more than one year | Sub-total less than one year | Over one year but not more than two years | Over two years | Total        |
| <i>(£ billion, except percentages)</i> |   |  |  |                              |   |                |              |
| Repos .....                            | 0.6   | -  | -  | 0.6                          | -   | -              | 0.6          |
| Deposits .....                         | 5.2   | 1.6  | 1.9  | 8.7                          | -   | -              | 8.7          |
| Certificates of deposit.....           | 0.1   | 1.7  | 0.2  | 2.0                          | -   | -              | 2.0          |
| Commercial paper .....                 | -   | 0.9  | 0.7  | 1.6                          | -   | -              | 1.6          |
| Covered bonds.....                     | -   | -  | 0.9  | 3.5                          | 2.6                                       | 13.7           | 19.8         |
| Medium-term notes .....                | -   | -  | 0.2  | 0.2                          | 0.7                                       | 6.3            | 7.2          |
| Securitisations.....                   | 0.3   | -  | 0.5  | 1.2                          | 0.7                                       | 2.3            | 4.2          |
| Term Funding Scheme                    | -   | -  | 6.0  | 6.0                          | 11.0                                      | -              | 17.0         |
| Other .....                            | -   | -  | -  | -                            | 0.2                                       | 1.0            | 1.2          |
| <b>Total .....</b>                     | <b>6.2</b>                                    | <b>4.2</b>                                     | <b>4.2</b>                                 | <b>23.8</b>                  | <b>15.2</b>                               | <b>23.3</b>    | <b>62.3</b>  |
| Of which secured .....                 | 0.9   | 1.2  | 1.4  | 12.5                         | 14.5                                      | 16.8           | 43.8         |
| Of which unsecured .....               | 5.3   | 3.0  | 2.8  | 11.3                         | 0.7                                       | 6.5            | 18.5         |
| <b>% of total .....</b>                | <b>10.0</b>                                   | <b>6.7</b>                                     | <b>6.7</b>                                 | <b>38.2</b>                  | <b>24.4</b>                               | <b>37.4</b>    | <b>100.0</b> |

## External Credit Ratings

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

|         | Senior Preferred | Short-Term | Senior Non-Preferred | Tier 2 | Date of last rating action /confirmation | Outlook |
|---------|------------------|------------|----------------------|--------|--|---------|
| S&P     | A                | A-1        | BBB+                 | BBB    | April 2020                               | Stable  |
| Moody's | A1               | P-1        | Baa2                 | Baa2   | July 2020                                | Stable  |

|       | <b>Senior Preferred</b> | <b>Short-Term</b> | <b>Senior Non-Preferred</b> | <b>Tier 2</b> | <b>Date of last rating action /confirmation</b> | <b>Outlook</b> |
|-------|-------------------------|-------------------|-----------------------------|---------------|---|----------------|
| Fitch | A+                      | F1                | A                           | BBB+          | September 2020                                  | Negative       |

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

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

### Treasury Assets

The Issuer's liquidity and investment portfolio held on the balance sheet at 30 September 2020 of £48.6 billion (30 September 2019: £38.6 billion) is held in two separate portfolios: liquid assets and other securities.

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

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

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

All assets shown above, other than cash and loans and advances to banks, are classified Fair Value through Other Comprehensive Income (FVOCI) investment securities.

Ratings are obtained from S&P in the majority of cases, or from Moody's if there is no S&P rating available, and internal ratings are used if neither is available.



A monthly review of the current and expected future performance of all treasury assets is undertaken, with regular independent review, underpinned by robust risk reporting and performance metrics, to measure, mitigate and manage credit risk. In accordance with accounting standards, assets are impaired where there is objective evidence that current events or performance will result in a loss. In assessing impairment the Issuer evaluates, among other factors, normal volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance and underlying cash flows.

Collateral held as security for treasury assets is determined by the nature of the instrument. Treasury liquidity and portfolios are generally unsecured with the exception of reverse repos, asset-backed securities (**ABS**) and similar instruments, which are secured by pools of financial assets. Within loans and advances as at 4 April 2020 are reverse repos of nil (4 April 2019: £494 million), which are secured by high quality liquid assets.

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

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

Of these assets, £27 million (4 April 2020: £18 million) are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 13. Further detail on the Level 3 portfolio is provided in note 13 in the Issuer's unaudited condensed consolidated financial statements for the six months ended 30 September 2020.

As at 30 September 2020, the balance on the FVOCI reserve was a £44 million profit, net of tax (4 April 2020: AFS reserve £(17) million loss). The movements in the FVOCI reserve reflect general market movements and the realisation of gains through disposal of investment assets. The fair value movement of FVOCI assets that are not impaired has no effect on the Issuer's profit. As at 30 September 2020 investment securities classified as FVTPL totalled £12 million (4 April 2020: £12 million).

The following table provides an analysis of financial assets and liabilities held on the Issuer's balance sheet at fair value, grouped in levels 1 to 3 based on the degree to which the fair value is observable:

|  | <b>As at 30 September 2020</b> |                |                | <b>Total</b>  |
|--|--------------------------------|----------------|----------------|---------------|
|  | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b> |               |
|  | <i>(£ million)</i>             |                |                |               |
| <b>Financial Assets:</b>                               |                                |                |                |               |
| Government and supranational investments ..            | 19,809                         | -              | -              | 19,809        |
| Other debt investment securities.....                  | 1,756                          | 791            | 6              | 2,553         |
| Investment in equity shares .....                      | -                              | -              | 21             | 21            |
| <b>Total investment securities<sup>(i)</sup> .....</b> | <b>21,565</b>                  | <b>791</b>     | <b>27</b>      | <b>22,383</b> |
| Interest rate swaps .....                              | -                              | 1,664          | -              | 1,664         |
| Cross currency interest rate swaps.....                | -                              | 2,586          | -              | 2,586         |
| Forward foreign exchange .....                         | -                              | 90             | -              | 90            |
| Index linked swaps .....                               | -                              | -              | 51             | 51            |
| Bond futures .....                                     | -                              | -              | -              | -             |
| <b>Total derivative financial instruments.....</b>     | <b>-</b>                       | <b>4,340</b>   | <b>51</b>      | <b>4,391</b>  |
| Loans and advances to customers <sup>(ii)</sup> .....  | -                              | -              | 126            | 126           |
| <b>Total financial assets .....</b>                    | <b>21,565</b>                  | <b>5,131</b>   | <b>204</b>     | <b>26,900</b> |
| <b>Financial liabilities:</b>                          |                                |                |                |               |
| Interest rate swaps .....                              | -                              | (1,114)        | -              | (1,114)       |
| Cross currency interest rate swaps.....                | -                              | (386)          | -              | (386)         |

**As at 30 September 2020**

|  | Level 1  | Level 2            | Level 3      | Total          |
|--|----------|--------------------|--------------|----------------|
|  |          | <i>(£ million)</i> |              |                |
| Forward foreign exchange .....                     | -        | (37)               | -            | (37)           |
| Inflation swaps.....                               | -        | -                  | (116)        | (116)          |
| Bond forwards .....                                | -        | -                  | -            | -              |
| Swaptions .....                                    | -        | -                  | -            | -              |
| <b>Total derivative financial instruments.....</b> | <b>-</b> | <b>(1,537)</b>     | <b>(116)</b> | <b>(1,653)</b> |
| <b>Financial liabilities .....</b>                 | <b>-</b> | <b>(1,537)</b>     | <b>(116)</b> | <b>(1,653)</b> |

**As at 4 April 2020**

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

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

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

**As at 4 April 2018**

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

Notes:

- (1) Investment securities exclude £1,594 million of investment securities held at amortised cost (2019: £1,656 million, and 2018: £1,120 million of held to maturity investment securities and £1 million of available for sale investments in equity shares).
- (2) On transition to IFRS 9, certain loans and advances to customers have been classified as FVTPL.

The Issuer's Level 1 portfolio comprises government and other highly rated securities for which traded prices are readily available.

Asset valuations for Level 2 investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 investment securities are valued from models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs

The Group's Level 3 portfolio consists of:

- certain loans and advances to customers, including a closed portfolio of residential mortgages and a small number of commercial loans;
- certain investment securities, comprising primarily investments made in Fintech companies; and
- inflation swaps.

## **Financial Condition of Nationwide**

### ***Capital Resources***

Capital is held by the Issuer to protect its depositors, cover its inherent risks, provide a cushion for stress events and support its business strategy. In assessing the adequacy of the Issuer's capital resources, it considers its risk appetite in the context of the material risks to which it is exposed and the appropriate strategies required to manage those risks. The Issuer manages its capital structure to ensure it continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, the Issuer targets strong capital ratios relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the fair value other comprehensive income reserve and pension deficit) are all considered. The Issuer's strategic leverage ratio target is 4.5%.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. In recent years, the Issuer has demonstrated its ability to supplement retained earnings through the issuance of CET1, AT1 and Tier 2 capital instruments and have delivered significant deleveraging of the Issuer's non-core CRE portfolio and out of policy treasury assets. The capital disclosures included below are reported on a CRD IV end point basis unless otherwise stated. This assumes that all CRD IV requirements are in force during the period, with no transitional provisions permitted. In addition, the disclosures are on a Group (consolidated) basis, including all subsidiary entities, unless otherwise stated.

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

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

Notes:

- (1) Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
- (2) A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
- (3) Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in the Issuer's own credit standing and risk, in accordance with CRD IV rules.
- (4) Intangible assets, goodwill and defined benefit pension fund assets are deducted from capital resources after netting associated deferred tax liabilities.
- (5) Where capital expected loss exceeds accounting impairment provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where impairment provisions exceed capital expected loss, the excess balance is added back to Tier 2 capital, gross of tax. This

calculation is not performed for equity exposures, in line with Article 159 of CRR. The expected loss amounts for equity exposures are deducted from CET1 capital, gross of tax.

- (6) The transitional adjustments to capital resources apply scaled relief for the impact of IFRS 9, over a 5-year transition period. Further detail regarding these adjustments is provided in the Interim Pillar 3 disclosures at nationwide.co.uk.
- (7) On 24 April 2019 the Issuer announced the redemption of the AT1 instrument in full at the first call date of 20 June 2019, therefore making it ineligible as regulatory capital from the date of this announcement.
- (8) Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for 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.
- (9) Includes temporary relief to mitigate the impact of volatility in central government debt on capital ratios, in line with the Covid-19 banking package.

The Issuer's key capital measures are summarised in the table below:

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

Notes:

- (1) The figures for 4 April 2019 have been restated in respect of counterparty credit risk exposures; this increased total RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio. There is no change to the UK or CRR leverage ratio to 1 decimal place.
- (2) The UK leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves.
- (3) The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.

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

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

The Issuer's risk-based capital ratios remain in excess of regulatory requirements with its CET1 ratio of 34.5% (30 September 2019: 31.5%) above its CET1 capital requirement of 13.1%. This includes a minimum CET1 capital requirement of 9.6% (Pillar 1 and Pillar 2A) and the CRD IV combined buffer requirements of 3.5% of RWAs.

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

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

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

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

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

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

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

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



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

Notes:

- (1). This column includes credit risk exposures, securitisations, 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 standardised approach to operational risk, as per article 317 of CRR.
- (3). Counterparty credit risk relates to derivative financial instruments, securities financing transactions and exposures to central counterparties.
- (4). The figures for 4 April 2019 have been restated in respect of counterparty credit risk exposures, increasing total RWAs by 0.5%.
- (5). Other relates to equity, fixed and other assets.

For further information and analysis of the Issuer's capital resources, see "Capitalisation and Indebtedness."

### Short-Term Borrowings

The Issuer's short-term borrowings fluctuate considerably depending on the its current operating needs. The terms of the Issuer's short-term borrowings are less than one year.

### Investments

The Issuer's principal investments are targeted at three distinct areas: meeting regulatory and mandatory requirements; ensuring that technology and property infrastructure is resilient and secure; and, providing strategic investment. The strength of the Issuer's business means it is well placed to invest confidently in its future. The Issuer will develop new propositions, further enhance its service, simplify its operations and build new skills for the future.

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

### FSCS

In common with other financial institutions subject to the FSCS, the Issuer continues to have a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure.

### Bank Levy

Bank levy requirements were introduced in the UK in July 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK and is based on the chargeable equity and liabilities at the balance sheet date. An allowance is given against the first £20 billion of chargeable equity and liabilities, meaning that smaller

institutions are effectively exempted from the levy. Non-chargeable equity and liabilities include Tier 1 capital, insured retail deposits, repos secured on sovereign debt, retirement benefit obligations and tax liabilities. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of equity and liabilities subject to the levy. From 1 January 2016, the Government has been implementing a gradual reduction in bank levy rates combined with the introduction of a corporation tax surcharge (at 8%) on the taxable profits of banking companies and building societies within the charge to corporation tax. The bank levy charge for the year ended 4 April 2020 was £55 million (year ended 4 April 2019: £43 million).

### **Contractual Commitments**

For details of the amounts of certain of the Issuer's financial and other contractual liabilities and when payments are due, without taking into account customer deposits, deposits by other financial institutions and debt securities in issue and derivative financial instruments, please see notes 28 and 29 to the Issuer's audited consolidated financial statements as at and for the year ended 4 April 2020 incorporated by reference herein.

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

For a description of off-balance sheet commitment items under IFRS, please see note 29 to the Issuer's audited consolidated financial statements as at and for the year ended 4 April 2020 incorporated by reference herein.

### **Critical Accounting Policies**

For details on the Issuer's critical accounting policies under IFRS, please see note 2 to the audited consolidated financial statements as at and for the year ended 4 April 2020 incorporated by reference herein.

### **Adoption of new and revised IFRS standards**

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

## SELECTED STATISTICAL INFORMATION

The following information has been extracted from the Society's management information systems. This information is unaudited. The information contained in this section should be read in conjunction with the Society's consolidated financial statements as well as the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### Average Balance Sheets and Interest Rates

The tables below present, in accordance with IFRS, the average balances for the Society's interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the years ended 4 April 2020, 2019 and 2018, respectively:

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

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

**For the year ended 4 April 2019**

|   | <b>Average<br/>balance<sup>(1)</sup></b> | <b>Interest<sup>(2)</sup></b> | <b>Average yield/<br/>rate</b> |
|---|--|-------------------------------|--------------------------------|
| <i>(£ million, except percentages)</i>  |  |                               |                                |
| <b>Interest-earning assets:</b>   |  |                               |                                |
| Loans to credit institutions .....  | 20,590                                   | 164                           | 0.80%                          |
| Debt securities & derivative financial instruments <sup>(2)</sup> ...                 | 18,793                                   | 88                            | 0.47%                          |
| Loans to customers.....   | 196,030                                  | 4,866                         | 2.48%                          |
| <b>Total average interest-earning assets.....</b>                                     | <b>235,413</b>                           | <b>5,118</b>                  | <b>2.17%</b>                   |
| <b>Non-interest-earning assets:</b>   |  |                               |                                |
| Tangible fixed assets .....   | 876                                      |                               |                                |
| Fair value adjustment for hedged risk .....   | 26                                       |                               |                                |
| Other financial assets at fair value.....   | -  |                               |                                |
| Other assets .....  | 652                                      |                               |                                |
| Goodwill and intangible fixed assets.....   | 1,308                                    |                               |                                |
| Investment properties .....   | 9  |                               |                                |
| Deferred tax assets .....   | 88                                       |                               |                                |
| <b>Total average assets.....</b>  | <b>238,372</b>                           |                               |                                |
| <b>Interest-bearing liabilities:</b>  |  |                               |                                |
| UK retail member deposits.....  | 152,926                                  | 1,331                         | 0.87%                          |
| Other deposits.....   | 27,153                                   | 168                           | 0.62%                          |
| Debt securities in issue and derivative financial<br>instruments <sup>(2)</sup> ..... | 37,304                                   | 516                           | 1.38%                          |
| Subordinated liabilities.....   | 6,469                                    | 177                           | 2.73%                          |
| Subscribed Capital.....   | 257                                      | 5                             | 2.10%                          |
| Unwind of discount of pension liabilities.....  | -  | 6                             | 0.00%                          |
| <b>Total average interest-bearing liabilities.....</b>                                | <b>224,109</b>                           | <b>2,203</b>                  | <b>0.98%</b>                   |
| <b>Non-interest-bearing liabilities:</b>  |  |                               |                                |
| Other liabilities.....  | 1,399                                    |                               |                                |
| Fair value adjustment for hedged risk .....   | (30)                                     |                               |                                |
| Other financial liabilities at fair value.....  | -  |                               |                                |
| Reserves .....  | 12,733                                   |                               |                                |
| Current taxes .....   | 161                                      |                               |                                |
| <b>Total average liabilities.....</b>   | <b>238,372</b>                           |                               |                                |

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

**For the year ended 4 April 2018<sup>(1)</sup>**

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

**For the year ended 4 April 2018<sup>(1)</sup>**

|  | <b>Average<br/>balance<sup>(2)</sup></b> | <b>Interest<sup>(3)</sup></b> | <b>Average yield/ rate</b> |
|--|--|-------------------------------|----------------------------|
|  | <i>(£ million, except percentages)</i>   |                               |                            |
| Tangible fixed assets .....  | 836                                      |                               |                            |
| Fair value adjustment for hedged risk .....  | 288                                      |                               |                            |
| Other financial assets at fair value.....  | 1  |                               |                            |
| Other assets .....   | 555                                      |                               |                            |
| Goodwill and intangible fixed assets.....  | 1,309                                    |                               |                            |
| Investment properties .....  | 8  |                               |                            |
| Deferred tax assets .....  | 90                                       |                               |                            |
| <b>Total average assets</b> .....  | <b>230,079</b>                           |                               |                            |
| <b>Interest-bearing liabilities:</b>   |  |                               |                            |
| UK retail member deposits.....   | 146,297                                  | 1,115                         | 0.76%                      |
| Other deposits.....  | 21,768                                   | 61                            | 0.28%                      |
| Debt securities in issue and derivative financial instruments <sup>(2)</sup> ..... | 43,925                                   | 501                           | 1.14%                      |
| Subordinated liabilities.....  | 4,108                                    | 117                           | 2.85%                      |
| Subscribed Capital.....  | 267                                      | 5                             | 2.02%                      |
| Unwind of discount of pension liabilities.....                                     | 0  | 8                             | 0.00%                      |
| <b>Total average interest-bearing liabilities</b> .....                            | <b>216,365</b>                           | <b>1,807</b>                  | <b>0.83%</b>               |
| <b>Non-interest-bearing liabilities:</b>   |  |                               |                            |
| Other liabilities .....  | 1,668                                    |                               |                            |
| Fair value adjustment for hedged risk .....  | (33)                                     |                               |                            |
| Other financial liabilities at fair value .....                                    | 4  |                               |                            |
| Reserves .....   | 11,920                                   |                               |                            |
| Current taxes .....  | 155                                      |                               |                            |
| <b>Total average liabilities</b> .....   | <b>230,079</b>                           |                               |                            |

Notes:

- (1) Figures have been adjusted to reflect the impact of applying IFRS 9: “Financial Instruments” from 5 April 2018. Further information is provided in note 1 to the Issuer’s audited consolidated financial statements as of and for the year ended 4 April 2019.
- (2) Average balances are based on the balance as of the end of each month during the financial year.
- (3) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

**Average Net Interest Margin and Spread**

The following tables show the Issuer’s average interest-earning assets, average interest-bearing liabilities and net interest income and illustrate the comparative net interest margin and net interest spread for the years ended 4 April 2020, 2019 and 2018, respectively:

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

Notes:

- (1) Defined as total interest income less total interest expense.

- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.  
(3) Defined as net interest income divided by weighted average interest-earning assets.

|  | <b>As at 4 April 2019</b>              |
|--|--|
|  | <i>(£ million, except percentages)</i> |
| Net average interest-earning assets .....                  | 235,413                                |
| Net average interest-bearing liabilities .....             | 224,109                                |
| Net interest income <sup>(1)</sup> .....                   | 2,915                                  |
| Average yield on average interest-earning assets .....     | 2.17%                                  |
| Average rate on average interest-bearing liabilities ..... | 0.98%                                  |
| Net interest spread <sup>(2)</sup> .....                   | 1.19%                                  |
| Net interest margin <sup>(3)</sup> .....                   | 1.24%                                  |

Notes:

- (1) Defined as total interest income less total interest expense.  
(2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.  
(3) Defined as net interest income divided by weighted average interest-earning assets.

|  | <b>As at 4 April 2018</b>              |
|--|--|
|  | <i>(£ million, except percentages)</i> |
| Net average interest-earning assets .....                  | 262,992                                |
| Net average interest-bearing liabilities .....             | 216,365                                |
| Net interest income <sup>(1)</sup> .....                   | 3,004                                  |
| Average yield on average interest-earning assets .....     | 2.12%                                  |
| Average rate on average interest-bearing liabilities ..... | 0.83%                                  |
| Net interest spread <sup>(2)</sup> .....                   | 1.29%                                  |
| Net interest margin <sup>(3)</sup> .....                   | 1.33%                                  |

Notes:

- (1) Defined as total interest income less total interest expense.  
(2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.  
(3) Defined as net interest income divided by weighted average interest-earning assets.

### Changes in Interest Income and Expenses – Volume and Rate Analysis

The following table allocates the changes in the Issuer's interest income and expense between changes in average volume and changes in the average rates for the year ended 4 April 2020 compared to the year ended 4 April 2019. The Issuer calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in the Issuer's audited consolidated financial statements incorporated by reference herein:

|  | <b>Year ended 4 April 2020 compared to year ended 4 April 2019</b> |                   |                         |
|--|--|-------------------|-------------------------|
|  | <b>Increase/(decrease) in net interest due to changes in:</b>      |                   |                         |
|  | <b>Volume</b>  | <b>Yield/rate</b> | <b>Total net change</b> |
|  | <i>(£ million)</i>   |                   |                         |
| <b>Interest income:</b> <sup>(1)</sup> |  |                   |                         |
| Loans to credit institutions .....     | 182  | 15                | 197                     |

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

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

The following table allocates the changes in the Issuer's interest income and expense between changes in average volume and changes in the average rates for the year ended 4 April 2019 compared to the year ended 4 April 2018. The Issuer calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in the Issuer's audited consolidated financial statements incorporated by reference herein:

**Year ended 4 April 2019 compared to year ended 4 April 2018**

|  | <b>Increase/(decrease) in net interest due to changes in:</b> |                   |                         |
|--|---|-------------------|-------------------------|
|  | <b>Volume</b>   | <b>Yield/rate</b> | <b>Total net change</b> |
|  | <i>(£ million)</i>  |                   |                         |
| <b>Interest income:</b> <sup>(1)</sup>                             |   |                   |                         |
| Loans to credit institutions .....                                 | 110   | 54                | 164                     |
| Debt securities and derivative financial instruments .....         | 2,563   | 38                | 2,601                   |
| Loans to customers.....  | 5,748   | 208               | 5,956                   |
| <b>Total interest income</b> .....                                 | <b>8,421</b>  | <b>300</b>        | <b>8,721</b>            |
| <b>Interest expense:</b> <sup>(1)</sup>                            |   |                   |                         |
| UK retail member deposits.....                                     | 6,629   | 216               | 6,845                   |
| Other Deposits.....  | 5,385   | 107               | 5,492                   |
| Debt Securities in Issue and Derivative Financial Instruments..... | (6,621)   | 15                | (6,606)                 |
| Subordinated liabilities.....                                      | 2,361   | 60                | 2,421                   |
| Subscribed Capital.....  | (10)  | -                 | (10)                    |
| Unwind of Discount of Pension Liabilities .....                    | -   | (2)               | (2)                     |
| <b>Total interest expense</b> .....                                | <b>7,744</b>  | <b>396</b>        | <b>8,140</b>            |
| <b>Net interest income</b> .....                                   | <b>677</b>  | <b>(96)</b>       | <b>581</b>              |

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

The following table allocates the changes in the Issuer's interest income and expense between changes in average volume and changes in the average rates for the year ended 4 April 2018 compared to the year ended 4 April 2017. The Issuer calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in the Issuer's audited consolidated financial statements incorporated by reference herein:

| <b>Year ended 4 April 2018 compared to year ended 4 April 2017</b> |                   |                         |              |
|--|-------------------|-------------------------|--------------|
| <b>Increase/(decrease) in net interest due to changes in:</b>      |                   |                         |              |
| <b>Volume</b>  | <b>Yield/rate</b> | <b>Total net change</b> |              |
| <i>(£ million)</i>   |                   |                         |              |
| <b>Interest income:<sup>(1)</sup></b>                              |                   |                         |              |
| Loans to credit institutions .....                                 | 5                 | 46                      | 51           |
| Debt securities and derivative financial instruments .....         | 4                 | (12)                    | (8)          |
| Loans to customers.....  | 140               | (415)                   | (275)        |
| <b>Total interest income.....</b>                                  | <b>173</b>        | <b>(405)</b>            | <b>(232)</b> |
| <b>Interest expense:<sup>(1)</sup></b>                             |                   |                         |              |
| UK retail member deposits.....                                     | 29                | (304)                   | (275)        |
| Other Deposits.....  | 8                 | 10                      | 18           |
| Debt securities in issue .....                                     | (14)              | (29)                    | (43)         |
| Subordinated liabilities.....                                      | 49                | (19)                    | 30           |
| Subscribed capital .....   | (5)               | (11)                    | (16)         |
| <b>Total interest expense.....</b>                                 | <b>66</b>         | <b>(349)</b>            | <b>(283)</b> |
| <b>Net interest income.....</b>                                    | <b>107</b>        | <b>(56)</b>             | <b>51</b>    |

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

### Investment Securities Portfolios

As at 30 September 2020, the Issuer's investment securities portfolios were carried at a book value of £23,977 million, representing 9.2% of the Issuer's total assets. The Issuer only purchases investment-grade debt securities and do not operate a trading portfolio. The following table provides information on the breakdown of the Issuer's investment securities as at 30 September 2020 and as at 4 April 2020, 2019 and 2018, respectively:

|   | <b>As at 30<br/>September</b> | <b>As at 4 April</b> |               |               |
|---|-------------------------------|----------------------|---------------|---------------|
|   | <b>2020</b>                   | <b>2020</b>          | <b>2019</b>   | <b>2018</b>   |
| <i>(£ million)</i>                                      |                               |                      |               |               |
| Government and supranational investment securities..... | 19,809                        | 15,897               | 12,306        | 9,592         |
| Other debt investment securities .....                  | 4,147                         | 4,094                | 3,909         | 3,450         |
| Investments in equity shares.....                       | 21                            | 13                   | 19            | 4             |
| <b>Total.....</b>                                       | <b>23,977</b>                 | <b>20,004</b>        | <b>16,234</b> | <b>13,046</b> |

### Investment portfolio by credit rating & country/region



As at 30 September 2020

| (£ million)  | AAA           | AA        | A         | Other    | UK       | US        | Europe    | Japan     | Other    |           |
|--|---------------|-----------|-----------|----------|----------|-----------|-----------|-----------|----------|-----------|
|  | (percentages) |           |           |          |          |           |           |           |          |           |
| <b>Liquid Assets:</b>  |               |           |           |          |          |           |           |           |          |           |
| Government Bonds <sup>(2)</sup> .....  | 18,905        | 33        | 57        | 10       | -        | 36        | 21        | 28        | 8        | 7         |
| Supranational bonds.....   | 904           | 86        | 14        | -        | -        | -         | -         | -         | -        | 100       |
| Covered bonds.....   | 1,756         | 100       | -         | -        | -        | 63        | -         | 22        | -        | 15        |
| Residential mortgage backed securities (RMBS) Asset backed Securities (other)..... | 438           | 100       | -         | -        | -        | 71        | -         | 29        | -        | -         |
|  | 312           | 100       | -         | -        | -        | 61        | -         | 39        | -        | -         |
| <b>Liquid Assets total.....</b>  | <b>22,315</b> | <b>43</b> | <b>49</b> | <b>8</b> | <b>-</b> | <b>38</b> | <b>18</b> | <b>27</b> | <b>7</b> | <b>11</b> |
| <b>Other Securities<sup>(3)(1)</sup> .....</b>                                     |               |           |           |          |          |           |           |           |          |           |
| RMBS FVOCI.....  | 16            | 100       | -         | -        | -        | 100       | -         | -         | -        | -         |
| RMBS amortised cost .....  | 1,594         | 83        | 12        | 5        | -        | 100       | -         | -         | -        | -         |
| Other Investments <sup>(4)</sup> .....   | 52            | -         | 48        | -        | 52       | 52        | -         | 48        | -        | -         |
| <b>Other securities total .....</b>  | <b>1,662</b>  | <b>81</b> | <b>13</b> | <b>5</b> | <b>1</b> | <b>99</b> | <b>-</b>  | <b>1</b>  | <b>-</b> | <b>-</b>  |
| <b>Total.....</b>  | <b>23,977</b> | <b>45</b> | <b>46</b> | <b>8</b> | <b>-</b> | <b>42</b> | <b>17</b> | <b>25</b> | <b>6</b> | <b>10</b> |

Notes:

- (1) Ratings used are obtained from Standard & Poor's (S&P), and from Moody's or Fitch if no S&P rating is available.
- (2) Balances classified as government bonds include government guaranteed and agency bonds.
- (3) Includes RMBS (UK buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR)
- (4) Includes investment securities held at FVTPL of £12 million for 2020 (4 April 2019: £12million, 4 April 2018 IAS 39 basis £nil.).]

As at 30 September 2019

| (£ million)  | AAA           | AA        | A         | Other     | UK       | US        | Europe    | Other     |           |
|--|---------------|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|
|  | (percentages) |           |           |           |          |           |           |           |           |
| <b>Liquid Assets:</b>                              |               |           |           |           |          |           |           |           |           |
| Government Bonds <sup>(2)</sup> .....              | 11,863        | 37        | 56        | 7         | -        | 45        | 28        | 19        | 8         |
| Supranational bonds.....                           | 713           | 100       | -         | -         | -        | -         | -         | -         | 100       |
| Covered bonds <sup>(3)</sup> .....                 | 1,428         | 100       | -         | -         | -        | 61        | -         | 19        | 20        |
| Residential mortgage backed securities (RMBS)..... | 506           | 100       | -         | -         | -        | 60        | -         | 50        | -         |
| Asset backed Securities (other).....               | 270           | 100       | -         | -         | -        | 51        | -         | 49        | -         |
| <b>Liquid Assets total.....</b>                    | <b>14,780</b> | <b>49</b> | <b>45</b> | <b>6</b>  | <b>0</b> | <b>45</b> | <b>22</b> | <b>20</b> | <b>13</b> |
| <b>Other Securities<sup>(4)</sup> .....</b>        |               |           |           |           |          |           |           |           |           |
| RMBS FVOCI.....                                    | 113           | 40        | 33        | 27        | -        | 100       | -         | -         | -         |
| RMBS amortised cost .....                          | 1,697         | 84        | 6         | 8         | 2        | 100       | -         | -         | -         |
| Other Investments <sup>(5)</sup> .....             | 128           | -         | 25        | 56        | 19       | 19        | 56        | 25        | -         |
| <b>Other securities total.....</b>                 | <b>1,938</b>  | <b>76</b> | <b>9</b>  | <b>12</b> | <b>3</b> | <b>94</b> | <b>4</b>  | <b>2</b>  | <b>-</b>  |
| <b>Total.....</b>                                  | <b>16,718</b> | <b>53</b> | <b>41</b> | <b>6</b>  | <b>-</b> | <b>51</b> | <b>20</b> | <b>18</b> | <b>12</b> |

Notes:

- (1) Ratings used are obtained from Standard & Poor's (S&P) and from Moody's or Fitch if no S&P rating is available. For loans and advances to banks and similar institutions, internal ratings are used.
- (2) Balances classified as government bonds include government guaranteed and agency bonds.
- (3) Prior year ratings have been restated to be consistent with the current year presentation.
- (4) Includes RMBS (UK buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).
- (5) Includes investment securities held at FVTPL of £91 million (4 April 2019: £78 million)

The following table shows the contractual maturity of investment securities held as at 4 April 2020, 2019 and 2018:

|                                   | 2020        | 2019 | 2018 |
|-----------------------------------|-------------|------|------|
|                                   | (£ million) |      |      |
| Due less than 1 month .....       | 18          | 16   | 76   |
| Due between 1 and 3 months .....  | 495         | 20   | 64   |
| Due between 3 and 6 months .....  | 376         | 114  | 17   |
| Due between 6 and 9 months .....  | 107         | 284  | 141  |
| Due between 9 and 12 months ..... | 137         | 78   | 89   |
| Due between 1 and 2 years.....    | 373         | 971  | 387  |

|                                   | 2020          | 2019               | 2018          |
|-----------------------------------|---------------|--------------------|---------------|
|                                   |               | <i>(£ million)</i> |               |
| Due between 2 and 5 years.....    | 4,715         | 5,558              | 2,498         |
| Due after more than 5 years ..... | 13,783        | 9,193              | 9,774         |
| <b>Total</b> .....                | <b>20,004</b> | <b>16,234</b>      | <b>13,046</b> |

## Loan Portfolio

As at 4 April 2020 total loans to customers excluding fair value adjustments for portfolio hedged risk, including accrued interest, were £200,237 million, representing 81% of the Issuer's total assets. The Issuer's loan portfolio net of allowances has increased by 0.3% during the last year from £203,060 million as at 4 April 2019 to £203,614 million as at 4 April 2020.

The following table summarizes the Issuer's loan portfolio, net of allowances, as at 4 April 2020, 2019 and 2018, respectively:

|  | As at 4 April  |                    |                     |
|--|----------------|--------------------|---------------------|
|  | 2020           | 2019               | 2018 <sup>(1)</sup> |
|  |                | <i>(£ million)</i> |                     |
| Residential mortgage loans.....                            | 151,084        | 151,473            | 144,011             |
| Consumer banking.....                                      | 4,500          | 4,168              | 3,742               |
| Specialist Lending .....                                   | 37,503         | 34,333             | 33,057              |
| Commercial Lending.....                                    | 7,150          | 8,194              | 9,569               |
| <b>Total loans to customers</b> .....                      | <b>200,237</b> | <b>198,168</b>     | <b>190,379</b>      |
| Fair value adjustment for micro hedged risk <sup>(2)</sup> | 741            | 883                | 1,042               |
| Loans and advances to banks .....                          | 3,636          | 4,009              | 3,493               |
| <b>Total</b> .....   | <b>204,614</b> | <b>203,060</b>     | <b>194,914</b>      |

Notes:

- (1) Figures have been adjusted to reflect the impact of applying IFRS 9: "Financial Instruments" from April 5, 2018. Further information is provided in note 1 to the Issuer's audited consolidated financial statements as of and for the year ended 4 April 2019.
- (2) Under IFRS the carrying value of the hedged item is adjusted for the change in value of the hedged risk.

The following table presents the contractual maturity distribution for repayment for the loan portfolio held by us as at 4 April 2020:

|   | As at 4 April 2020 |                     |                           |                          |                   |                      |
|---|--------------------|---------------------|---------------------------|--------------------------|-------------------|----------------------|
|   | Due on Demand      | Due within 3 Months | Due in 3 months to 1 year | Due in 1 year to 5 years | Due after 5 years | Total <sup>(1)</sup> |
|   |                    |                     |                           |                          |                   |                      |
|   |                    |                     |                           |                          |                   | <i>(£ million)</i>   |
| Loans and advances to customers .....                           | 2,856              | 1,395               | 6,348                     | 32,253                   | 158,126           | 200,978              |
| Loans and advances to banks ...                                 | 2,832              | -                   | -                         | -                        | 804               | 3,636                |
| <b>Total Loans portfolio net of impairment provisions</b> ..... | <b>5,688</b>       | <b>1,395</b>        | <b>6,348</b>              | <b>32,253</b>            | <b>158,930</b>    | <b>204,614</b>       |

Note:

- (1) The maturity analysis is produced on the basis that where a loan is repayable by instalments, each instalment is treated as a separate repayment.

## Loans in Arrears

Loans in arrears refer to amounts that are unpaid at their contractual date. A customer is in arrears when they are behind in fulfilling their obligations such that an outstanding loan payment is overdue. Such a customer can also be said

to be in a state of delinquency. When a customer is in arrears, the entire outstanding balance is said to be delinquent, meaning that delinquent balances are the total outstanding loans on which payments are overdue.

The following tables show the payment status of all residential mortgages as at 4 April 2020 and 2019:

|  | As at 4 April 2020 |                    |                |            | As at 4 April 2019 |                    |                |            |
|--|--------------------|--------------------|----------------|------------|--------------------|--------------------|----------------|------------|
|  | Prime              | Specialist         | Total          | %          | Prime              | Specialist         | Total          | %          |
| <i>(Audited)</i>                         |                    | <i>(£ million)</i> |                |            |                    | <i>(£ million)</i> |                |            |
| Not past due .....                       | 149,387            | 36,684             | 186,071        | 98.5       | 149,771            | 33,468             | 183,239        | 98.5       |
| Past due 0 to 1 month.....               | 1,062              | 356                | 1,418          | 0.8        | 1,038              | 392                | 1,430          | 0.8        |
| Past due 1 to 3 months.....              | 311                | 307                | 618            | 0.3        | 318                | 265                | 583            | 0.3        |
| Past due 3 to 6 months.....              | 177                | 142                | 319            | 0.2        | 177                | 159                | 336            | 0.2        |
| Past due 6 to 12 months.....             | 112                | 109                | 221            | 0.1        | 122                | 121                | 243            | 0.1        |
| Past due over 12 months.....             | 82                 | 81                 | 163            | 0.1        | 84                 | 69                 | 153            | 0.1        |
| Possessions.....                         | 9                  | 20                 | 29             | -          | 7                  | 21                 | 28             | -          |
| <b>Total residential mortgages .....</b> | <b>151,140</b>     | <b>37,699</b>      | <b>188,839</b> | <b>100</b> | <b>151,517</b>     | <b>34,495</b>      | <b>186,012</b> | <b>100</b> |

The proportion of loans in arrears has remained stable at 1.5% (4 April 2019: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending. In total, £352 million (4 April 2019: £370 million) of specialist lending balances were more than 3 months past due or in possession, which includes the impact of the change in the treatment of arrears on deceased accounts described above. Of the £352 million (2019: £370 million), £220 million (4 April 2019: £233 million) relates to legacy portfolios in run-off.

As at 4 April 2020, the mortgage portfolios include 1,556 (2019: 1,491) mortgage accounts, including those in possession, where payments were more than 12 months in arrears. The total principal outstanding in these cases was £181 million (2019: £165 million), and the total value of arrears was £22 million (4 April 2019: £20 million) or 0.01% (4 April 2019: 0.01%) of total mortgage balances.

The Issuer is providing support to customers who have been financially affected by Covid-19. Payment holidays granted in this respect will suppress the impact of the pandemic on arrears in the short term.

The following table shows the payment status of all residential mortgages as at 4 April 2019 and 4 April 2018:

|                              | As at 4 April 2019 |                    |                |            | As at 4 April 2018 |                    |                |            |
|------------------------------|--------------------|--------------------|----------------|------------|--------------------|--------------------|----------------|------------|
|                              | Prime              | Specialist         | Total          | %          | Prime              | Specialist         | Total          | %          |
| <i>(Audited)</i>             |                    | <i>(£ million)</i> |                |            |                    | <i>(£ million)</i> |                |            |
| Not past due .....           | 149,771            | 33,468             | 183,239        | 98.5       | 142,383            | 32,197             | 174,580        | 98.5       |
| Past due up to 3 months..... | 1,356              | 657                | 2,013          | 1.1        | 1,294              | 685                | 1,979          | 1.1        |
| Past due 3 to 6 months.....  | 177                | 159                | 336            | 0.2        | 162                | 159                | 321            | 0.2        |
| Past due 6 to 12 months..... | 122                | 121                | 243            | 0.1        | 113                | 110                | 223            | 0.1        |
| Past due over 12 months..... | 84                 | 69                 | 153            | 0.1        | 89                 | 76                 | 165            | 0.1        |
| Possessions.....             | 7                  | 21                 | 28             | -          | 8                  | 23                 | 31             | -          |
| <b>Total.....</b>            | <b>151,517</b>     | <b>34,495</b>      | <b>186,012</b> | <b>100</b> | <b>144,049</b>     | <b>33,250</b>      | <b>177,299</b> | <b>100</b> |

The proportion of loans in arrears remained stable at 1.5% as at 4 April 2019 (4 April 2018: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the favourable economic conditions and low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending.

## Loan Loss Experience

The Issuer assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments or the debt being restructured to reduce the burden on the borrower.

The Issuer first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by us to reduce any differences between loss estimates and actual loss experience.

The following table sets forth the movement in the Issuer's allowances for loan losses for the year ended 4 April 2020:

| Group  | Reconciliation of movements in gross balances and impairment provisions |                |                         |                |                                |                |                |                |  |
|--|---|----------------|-------------------------|----------------|--------------------------------|----------------|----------------|----------------|--|
|  | Non-credit impaired   |                |                         |                | Credit impaired <sup>(1)</sup> |                |                | Total          |  |
|  | Subject to 12 month ECL   |                | Subject to lifetime ECL |                | Subject to lifetime ECL        |                |                |                |  |
|  | Stage 1   |                | Stage 2                 |                | Stage 3 end POCI               |                |                |                |  |
| Gross balances   | Provisions  | Gross balances | Provisions              | Gross balances | Provisions                     | Gross balances | Provisions     |                |  |
| At April 5, 2019.....  | 187,368   | 68             | 9,539                   | 261            | 1,797                          | 336            | 198,704        | 665            |  |
| Stage transfers:   |   |                |                         |                |                                |                |                |                |  |
| Transfers from Stage 1 to Stage 2.....   | (16,930)  | (39)           | 16,930                  | 39             | -                              | -              | -              | -              |  |
| Transfers to Stage 3.....  | (330)   | -              | (938)                   | (110)          | 1,268                          | 110            | -              | -              |  |
| Transfers from Stage 2 to Stage 1.....   | 14,397  | 226            | (14,397)                | (226)          | -                              | -              | -              | -              |  |
| Transfers from Stage 3.....  | 202   | 2              | 554                     | 23             | (756)                          | (25)           | -              | -              |  |
| Net remeasurement of ECL arising from transfer of stage.....                       |   | (184)          |                         | 262            |                                | 18             |                | 96             |  |
| <b>Net movement arising from transfer of stage<sup>(2)</sup>.....</b>              | <b>(2,661)</b>  | <b>5</b>       | <b>2,149</b>            | <b>(12)</b>    | <b>512</b>                     | <b>103</b>     | <b>-</b>       | <b>96</b>      |  |
| New assets originated or purchased <sup>(3)</sup> .....                            | 34,049  | 31             | -                       | -              | -                              | -              | 34,049         | 31             |  |
| Further lending/repayments <sup>(4)</sup> .....                                    | (9,947)   | (24)           | (77)                    | (10)           | (81)                           | (21)           | (10,105)       | (55)           |  |
| Changes in risk parameters in relation to credit quality <sup>(5)</sup> .....      | -   | (1)            | -                       | 42             | -                              | 26             | -              | 67             |  |
| Other items impacting income statement charge/(reversal) including recoveries..... | -   | -              | -                       | -              | (1)                            | (11)           | (1)            | (11)           |  |
| Redemptions <sup>(6)</sup> .....   | (20,406)  | (4)            | (921)                   | (12)           | (302)                          | (4)            | (21,629)       | (20)           |  |
| Additional provision for Covid-19 <sup>(7)</sup> .....                             |   |                |                         |                |                                |                |                | 101            |  |
| Income statement charge for the year   |   |                |                         |                |                                |                |                | 209            |  |
| Decrease due to write-offs.....  | -   | -              | -                       | -              | (123)                          | (99)           | (123)          | (99)           |  |
| Other provision movements.....   | -   | -              | -                       | -              | -                              | 11             | -              | 11             |  |
| <b>4 April 2020<sup>(7)</sup>.....</b>   | <b>188,403</b>  | <b>75</b>      | <b>10,690</b>           | <b>269</b>     | <b>1,802</b>                   | <b>341</b>     | <b>200,895</b> | <b>786</b>     |  |
| <b>Net carrying amount<sup>(7)</sup>.....</b>                                      |   | <b>188,328</b> |                         | <b>10,421</b>  |                                | <b>1,461</b>   |                | <b>200,109</b> |  |

Notes:

- (1) Group gross balances of credit impaired loans include £155 million (2019: £167 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (2019: £6 million).
- (2) The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.
- (3) If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in Stage 1.
- (4) This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.

- (5) This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.
- (6) For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.
- (7) An additional provision for credit losses has been recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. For the Group, the additional provision at 4 April 2020 is £101 million. This additional provision has not been allocated to underlying loans nor has it been attributed to stages, but is shown in the total column of the table.

The following table sets forth the Issuer's impairment provisions for the years ended 4 April 2020, 2019 and 2018:

#### Impairment provisions

|                                    | 2020       | 2019                 | 2018 <sup>(1)</sup> |
|------------------------------------|------------|----------------------|---------------------|
|                                    |            | ( <i>£ million</i> ) |                     |
| Prime residential .....            | 56         | 44                   | 47                  |
| Specialist residential.....        | 196        | 162                  | 188                 |
| Consumer banking.....              | 494        | 418                  | 365                 |
| Commercial and other lending ..... | 40         | 41                   | 29                  |
| <b>Total.....</b>                  | <b>786</b> | <b>665</b>           | <b>629</b>          |

Note:

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

The following tables show the allowances for loan losses as a percentage of total loans, analysed by category for the six months ended 30 September 2019 and the years ended 4 April 2020, 2019 and 2018:

| 30 September 2020                      | Total Balance  | (%) of Total | Provision  | Provision/Tot<br>al Balance |
|--|----------------|--------------|------------|-----------------------------|
| Prime residential mortgages .....      | 151,291        | 74.91%       | 78         | 0.05%                       |
| Specialist residential mortgages ..... | 39,070         | 19.35%       | 224        | 0.57%                       |
| Consumer banking.....                  | 4,225          | 2.09%        | 531        | 12.57%                      |
| Commercial and other lending .....     | 7,376          | 3.65%        | 42         | 0.57%                       |
| <b>Total.....</b>                      | <b>201,962</b> | <b>100%</b>  | <b>875</b> | <b>0.43%</b>                |

| 4 April 2020                           | Total Balance  | (%) of Total | Provision  | Provision/Tot<br>al Balance |
|--|----------------|--------------|------------|-----------------------------|
| Prime residential mortgages .....      | 151,084        | 75.17%       | 56         | 0.04%                       |
| Specialist residential mortgages ..... | 37,503         | 18.66%       | 196        | 0.52%                       |
| Consumer banking.....                  | 4,500          | 2.24%        | 494        | 10.98%                      |
| Commercial and other lending .....     | 7891           | 3.93%        | 40         | 0.51%                       |
| <b>Total.....</b>                      | <b>200,978</b> | <b>100%</b>  | <b>786</b> | <b>0.39%</b>                |

| 4 April 2019                           | Total Balance  | (%) of Total   | Provision  | Provision/Tot<br>al Balance |
|--|----------------|----------------|------------|-----------------------------|
| Prime residential mortgages .....      | 151,473        | 76.10%         | 44         | 0.03%                       |
| Specialist residential mortgages ..... | 34,333         | 17.25%         | 162        | 0.47%                       |
| Consumer banking.....                  | 4,168          | 2.09%          | 418        | 10.03%                      |
| Commercial and other lending .....     | 9,077          | 4.56%          | 41         | 0.45%                       |
| <b>Total.....</b>                      | <b>199,051</b> | <b>100.00%</b> | <b>665</b> | <b>0.33%</b>                |

| 4 April 2018 <sup>(1)</sup>            | Total Balance  | (%) of Total   | Provision  | Provision/Tot<br>al Balance |
|--|----------------|----------------|------------|-----------------------------|
| Prime residential mortgages .....      | 144,011        | 75.23%         | 47         | 0.03%                       |
| Specialist residential mortgages ..... | 33,057         | 17.27%         | 188        | 0.57%                       |
| Consumer banking.....                  | 3,742          | 1.95%          | 365        | 9.75%                       |
| Commercial and other lending .....     | 10,611         | 5.55%          | 29         | 0.27%                       |
| <b>Total.....</b>                      | <b>191,421</b> | <b>100.00%</b> | <b>629</b> | <b>0.33%</b>                |

Note:

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

## Deposits

The following table sets out the average balances and average interest rates for each deposit type for the year ended 4 April 2020:

|   | <b>For year ended 4 April 2020</b>     |                          |
|---|--|--------------------------|
|   | <b>Average balance</b>                 | <b>Average rate paid</b> |
|   | <i>(£ million, except percentages)</i> |                          |
| UK retail member deposits.....  | 157,140                                | 0.86%                    |
| Other customer deposits and amounts due to banks <sup>(1)</sup> ..... | 26,995                                 | 0.72%                    |

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

The following table sets out the average balances and average interest rates for each deposit type for the year ended 4 April 2019:

|   | <b>For year ended 4 April 2019</b>     |                          |
|---|--|--------------------------|
|   | <b>Average balance</b>                 | <b>Average rate paid</b> |
|   | <i>(£ million, except percentages)</i> |                          |
| UK retail member deposits.....  | 152,926                                | 0.87%                    |
| Other customer deposits and amounts due to banks <sup>(1)</sup> ..... | 27,153                                 | 0.62%                    |

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

The following table sets out the average balances and average interest rates for each deposit type for the year ended 4 April 2018:

|   | <b>For year ended 4 April 2018</b>     |                          |
|---|--|--------------------------|
|   | <b>Average balance</b>                 | <b>Average rate paid</b> |
|   | <i>(£ million, except percentages)</i> |                          |
| UK retail member deposits.....  | 146,297                                | 0.76%                    |
| Other customer deposits and amounts due to banks <sup>(1)</sup> ..... | 21,768                                 | 0.28%                    |

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant “member” status.

## Maturity of Deposits

The following table shows the maturity analysis of time deposits over \$100,000 and certificates of deposit as at 4 April 2020:

**As at 4 April 2020**

|                            | <b>Time deposits</b>                   | <b>Certificates of deposit</b> | <b>Total</b> | <b>(%)</b>  |
|----------------------------|--|--------------------------------|--------------|-------------|
|                            | <i>(£ million, except percentages)</i> |                                |              |             |
| Less than 3 months.....    | 1,471                                  | 1,839                          | 3,310        | 93%         |
| 3 months to 6 months ..... | 79                                     | 154                            | 233          | 7%          |
| 6 months to 1 year .....   | 4                                      | 12                             | 16           | -           |
| Over 1 year.....           | -                                      | 5                              | 5            | -           |
| <b>Total</b> .....         | <b>1,554</b>                           | <b>2,010</b>                   | <b>3,564</b> | <b>100%</b> |

**Return on Assets**

The following table represents net income as a percentage of total average assets:

|   | <b>For the year ended 4 April</b>      |             |             |
|---|--|-------------|-------------|
|   | <b>2020</b>                            | <b>2019</b> | <b>2018</b> |
|   | <i>(£ million, except percentages)</i> |             |             |
| Net income <sup>(1)</sup> .....           | 365                                    | 636         | 745         |
| Total average assets <sup>(2)</sup> ..... | 248,545                                | 238,368     | 230,081     |
| Return on total average assets .....      | 0.15%                                  | 0.27%       | 0.32%       |

Notes:

- (1) Net income represents profit for the financial year after tax.  
(2) Total average asset is based on the total assets as of the end of each month during the financial year.

As a mutual organisation, the Issuer is managed for the benefit of its members, primarily its retail savings and residential mortgage customers, rather than for equity shareholders. The Issuer returns value to its members by offering generally higher interest rates on savings and lower interest rates on loans than those offered by its main competitors. As a result, the Issuer typically earns lower profits than its main competitors, which are typically banks or other non-mutual organisations. However, most of the Issuer's net earnings are put into reserves and constitute Tier 1 capital for its capital adequacy requirements.

The Issuer has not presented any information regarding returns on equity because, as a mutual organisation, it do not have equity.

## FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments incorporate the vast majority of the Issuer's assets and liabilities, both on a Group level and for the Society. Given the dominant position of the Society within the Group structure, the term 'Group' is used in the remainder of this note to cover the activities of both Group and Society.

The Issuer accept deposits from customers at fixed and variable interest rates for various periods and seek to earn an interest margin by investing these funds in high quality assets, predominantly mortgages. The principal risks which arise from this core activity, and which need to be managed by Nationwide, are interest rate risk (including basis risk), currency risk, credit risk and liquidity and funding risks.

All risks are monitored and managed within the Enterprise Risk Management Framework ("ERMF"). The ERMF comprises a Board-approved risk appetite, detailed risk management frameworks (including policies and supporting documentation), and independent governance and oversight functions.

The Issuer uses derivative instruments to manage various aspects of risk. However, in doing so it complies with the UK Building Societies Act in relation to the use of derivatives for the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

### Derivatives

The Issuer's risk management approach is to use interest rate and currency derivatives to economically hedge the fair value of fixed rate assets and liabilities. The market risk from fixed rate assets and liabilities may be netted down before deciding to use derivatives. The derivatives used are predominantly interest rate swaps, which convert fixed rate cash flows to a benchmark floating rate such as SOFR, SONIA or €STR, and cross currency swaps which convert foreign currency cash flows to GBP cash flows. In addition, bond forwards are used to reduce swap spread risk within the investment securities portfolio and inflation swaps are used to economically hedge contractual inflation risk within investment securities.

While the Issuer's derivative financial instruments are held for risk mitigation purposes, not all of these derivatives are designated as hedging instruments as defined by IFRS 9.

The following table describes the significant activities the Issuer has undertaken, the risks associated with such activities and the types of derivatives which are used in managing such risks. Such risks may alternatively be managed using cash instruments as part of an integrated approach to risk management:

| Activity  | Risk   | Type of derivative instrument used   |
|---|--|--|
| Savings products and funding activities involving instruments which are fixed rate or which have embedded options                   | Sensitivity to changes in interest rates and inflation risk including differential between Base Rate and SOFR/SONIA/€STR or inflation risk | Interest rate swaps including basis swaps, interest rate futures, swaptions, forward rate agreements and inflation swaps |
| Mortgage lending and investment activities involving instruments which are fixed rate or which include explicit or embedded options | Sensitivity to changes in interest rates, including differential between Base Rate and SOFR/SONIA/€STR and inflation risk.                 | Interest rate swaps including basis swaps, interest rate futures, swaptions, caps, collars, forward rate agreements      |
| Investment and funding in foreign currencies  | Sensitivity to changes in foreign exchange rates   | Cross-currency swaps, FX swaps, foreign exchange transactions  |



The accounting policy for derivatives and hedge accounting is described in the Statement of Accounting Policies. Where possible, the Issuer applies hedge accounting to derivatives in order to reduce accounting volatility. The Issuer currently uses two of the three types of hedge accounting permitted by IFRS 9: fair value hedge accounting and cash flow hedge accounting, but not hedging of a net investment in a foreign operation.

The Board and the ALCO are responsible for setting certain parameters respectively over the Issuer's exposure to interest rates, foreign exchange rates and other indices. The Credit Committee sets the Issuer's credit policy and regularly monitors and reviews credit exposures arising in all aspects of Group operations, including derivatives. All risk committees are overseen by the Executive Risk Committee, while the Board Risk Committee provides oversight of the risk framework for Nationwide including governance.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with certain counterparties are collateralised (e.g. with cash deposits), to mitigate credit exposures. To comply with EU regulatory requirements, the Issuer, as a direct member of a central counterparty (CCP), have central clearing capability which it uses to clear standardised derivatives. Where derivatives are not cleared at a CCP they are transacted under the International Swaps and Derivatives Association (ISDA) Master Agreement.

Each of the principal financial risks to which the Issuer is exposed (interest rate, credit, foreign exchange, liquidity and funding risk) is considered below.

### **Interest rate risk**

The Issuer's main market risk is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities.

To reduce the impact of such movements, hedging activities are undertaken by the Issuer's Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO.

In addition to primary lending and borrowing activities, income volatility arising from certain rate insensitive products (including reserves and CCDS) are structurally hedged.

The Issuer's interest rate risk is measured using a combination of value-based assessments and earnings sensitivity assessments.

The VaR model incorporates risk factors based on historic interest rate and currency movements. A 10-day horizon and a 99% confidence level is typically used in day to day VaR monitoring. VaR is used to monitor interest rate, swap spread, currency and product option risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by management to test the validity of the assumptions and factors used in the VaR calculation. The values reported below are on the same basis as those used internally.

Although VaR is a valuable risk measure, it needs to be viewed in the context of the following limitations which may mean that exposures could be higher than modelled:

- The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence;
- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of offsetting positions in those extreme events;
- The VaR model uses historical data to predict future events. Extreme market moves outside of those used to calibrate the model will deliver exceptions. In periods where volatility is increasing, the model

is likely to under-predict market risks and in periods where volatility is decreasing it is likely to over-predict market risks;

- Historical data may not adequately predict circumstances arising from government interventions and stimulus packages, which increase the difficulty of evaluating risks.

To seek to mitigate these limitations, backtesting of the VaR model is undertaken regularly to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss occurs that is greater than the VaR on any given day. The chart below shows the results of this backtesting. The loss exceptions seen were all driven by significant movements in market rates, most notably in the period leading up to year end with the unprecedented events causing three exceptions in as many weeks. The dynamic recalibration of the VaR model has increased the VaR model output following the incorporation of the period of heightened market volatility caused by Covid-19. In 2019/20, the backtesting and broader model governance did not highlight any model deficiencies.

To evaluate the potential impact of more extreme but plausible events or movements in a set of financial variables, the standard VaR metric is supported with sensitivity and stress analysis.

For example, for interest rate risk exposures, the standard PV01 sensitivity analysis is supplemented by stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are monitored daily.

In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two year period and on a 99% 10-day basis but uses market data from a period of significant financial stress.

The table below highlights the Issuer’s limited exposure to interest rate risk, shown against a range of value-based assessments. These sensitivities do not include retail product behavioural changes, which are captured by other measures.

|  | <b>For the year ended 4 April 2020</b> |             |            | <b>For the year ended 4 April 2019</b> |             |            |
|--|--|-------------|------------|--|-------------|------------|
|  | <b>Average</b>                         | <b>High</b> | <b>Low</b> | <b>Average</b>                         | <b>High</b> | <b>Low</b> |
|  | <i>(£ million)</i>                     |             |            |  |             |            |
| VaR (99%/10-day) <i>(audited)</i> .....        | 1.3                                    | 4.2         | 0.4        | 1.1                                    | 3.1         | 0.4        |
| Sensitivity analysis (PV01) <i>(audited)</i> . | 0.0                                    | 0.1         | 0.0.       | 0.0                                    | 0.1         | (0.1)      |
| Stress testing (PV200: all currencies)         | 6.1                                    | 22.6        | (14.1)     | 6.1                                    | 21.4        | (23.4)     |

Earnings sensitivity assessments are also used to measure the risk that income is adversely impacted by changes in interest rates. These techniques apply rate shocks to the rates paid on liabilities and to the rates earned on assets and the impact on earnings is calculated. The absolute levels of interest rates can influence the flexibility to manage earnings. Illustratively, if interest rates were to fall or become negative, margins may be constrained because it is unlikely that the benefit to borrowers can be fully offset through current account or savings product rate changes.

The Issuer also measures interest rate risk through net interest income (“NII”) and economic value of equity (“EVE”) measures, under a range of shock scenarios which include behavioural assumptions for retail products as interest rates change. These measures are assessed based on the standard shocks prescribed by EBA guidelines, as well as against internally generated shock scenarios.

- NII sensitivities assess the impact to earnings in different interest rate shocks over a one-year period. Sensitivities are calculated based on a static balance sheet, where all assets and liabilities maturing within the year are reinvested in like for like products. The sensitivity also includes the impact arising from off-balance sheet exposures.
- EVE sensitivities measure the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks. Sensitivities are calculated on a run-off balance sheet basis.

Both NII and EVE sensitivities are measured monthly, with risk limits set against the various shocks.

## Credit risk

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk encompasses:

- borrower / counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay the interest or principal on a loan, financial product, or service on time;
- security / collateral risk – the risk of loss arising from deteriorating security / collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification;
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

The Issuer lends in a responsible, affordable and sustainable way to ensure it safeguards its members and its own financial strength throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of the Issuer's strategy, which is articulated as Board risk appetite statements and underlying principles:

The Issuer safeguards its members by lending responsibly:

- The Issuer will only lend to members, customers or counterparties who demonstrate that they can afford to borrow.
- The Issuer will support members and customers buying mortgageable houses of wide-ranging types and qualities.
- The Issuer will work with members, customers and counterparties to recover their financial position should there be a delay, or risk of delay, in meeting their financial obligations.

The Issuer safeguards its financial performance, strength and reputation:

- The Issuer will manage asset quality so that losses through an economic cycle will not undermine profitability, financial strength and the Issuer's standing with internal/external stakeholders.
- The Issuer will ensure that no material segment of the Issuer's lending exposes the Society to excessive loss.
- The Issuer will proactively manage credit risk and comply with regulation.

The Issuer operates with a commitment to responsible lending and a focus on championing good conduct and fair outcomes. In this respect, the Issuer formulates appropriate credit criteria and policies which are aimed at mitigating risk against individual transactions and ensuring that its credit risk exposure remains within risk appetite. The Board Risk Committee and, under a governed delegated mandate structure, the Credit Committee, the Executive Sanctioning Committee and individual Material Risk Takers make credit decisions, based on a thorough credit risk assessment, to ensure that customers are able to meet their obligations.

At a portfolio level, the Issuer measures and manage its risk profile and the performance of its credit portfolios on an ongoing basis, through a formal governance structure. Compliance with Board risk appetite is measured against absolute limits and risk metrics and is reported to the Issuer's Credit Committee monthly, with adverse trends being investigated and corrective action taken to mitigate the risk and bring performance back on track.

The Issuer is committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. This is the case for residential mortgages, consumer banking and commercial lending. Accounts in financial difficulty/arrears are managed by the Issuer's specialist teams to ensure an optimal outcome for the Issuer's members, customers and the Society.

Credit risk within the Treasury portfolio arises primarily from the instruments held and transacted by the Treasury function for operational, liquidity and investment purposes. In addition, counterparty credit risk arises from the use of derivatives to reduce exposure to market risks; these are only transacted with highly rated organisations and collateralised under market standard documentation.

The treasury credit risk function manages all aspects of credit risk in accordance with the Issuer's risk governance frameworks, under the supervision of the Credit Committee.

A monthly review evaluating among other factors, volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance, and underlying cash-flows is undertaken of the current and expected future performance of Treasury assets that determines expected credit loss (ECL) provision requirements. An established governance structure identifies and reviews under-performing assets to assess the likelihood of future losses.

The Issuer has no exposure to emerging markets, hedge funds or credit default swaps.

The following table presents the Issuer's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements and after allowance for impairment where appropriate. The maximum exposure to loss for off-balance sheet financial instruments is considered to be their contractual nominal amounts:

|  | 2020               |               |                              | 2019           |                               |                              |
|--|--------------------|---------------|------------------------------|----------------|-------------------------------|------------------------------|
|  | Carrying value     | Commitments   | Maximum credit risk exposure | Carrying value | Commitments <sup>(1)(2)</sup> | Maximum credit risk exposure |
|  | <i>(£ million)</i> |               |                              |                |                               |                              |
| Cash .....   | 13,748             | -             | 13,748                       | 12,493         | -                             | 12,493                       |
| Loans and advances to banks ...                      | 3,636              | -             | 3,636                        | 4,009          | -                             | 4,009                        |
| Investment securities – FVOCI                        | 18,367             | -             | 18,367                       | 14,500         | -                             | 14,500                       |
| Investment securities – Amortised Cost.....          | 1,625              | -             | 1,625                        | 1,656          | -                             | 1,656                        |
| Investment securities – FVTPL                        | 12                 | -             | 12                           | 78             | -                             | 78                           |
| Derivative financial instruments .....               | 4,771              | -             | 4,771                        | 3,562          | -                             | 3,562                        |
| Fair value adjustment for portfolio hedged risk..... | 1,774              | -             | 1,774                        | 411            | -                             | 411                          |
| Loans and advances to customers .....                | 200,850            | 11,416        | 212,266                      | 198,922        | 12,956                        | 211,878                      |
| <b>Total .....</b>                                   | <b>244,911</b>     | <b>11,416</b> | <b>256,327</b>               | <b>235,760</b> | <b>12,956</b>                 | <b>248,716</b>               |

Notes:

- (1) In addition to the amounts shown above, the Issuer has revocable commitments of £10,139 million (2019: £9,475 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by Nationwide, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.
- (2) The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (which relates to the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to credit risk through the relationship with the underlying loans covered by Nationwide's hedging programs.
- (3) FVTPL residential mortgages include equity release and shared equity loans.

## Currency risk

Currency exposure is managed through natural offsetting on the balance sheet, with derivatives used to maintain the net exposures within limits. ALCO sets and monitors limits on the net currency exposure. The table below sets out the limited extent of the residual exposure to currency risk:

|                        | 2020               |      |     | 2019    |      |     |
|------------------------|--------------------|------|-----|---------|------|-----|
|                        | Average            | High | Low | Average | High | Low |
|                        | <i>(£ million)</i> |      |     |         |      |     |
| VaR (99%/10-day) ..... | 0.0                | 0.3  | 0.0 | 0.1     | 2.4  | 0.0 |

## Liquidity and funding risk

Liquidity risk is the risk that the Issuer is unable to raise cash to settle its financial obligations as they fall due and maintain member and other stakeholder confidence. Funding risk is the risk that the Issuer is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.

The Issuer's management of liquidity and funding risks aims to ensure that there are sufficient liquid assets at all times, both as to amount and quality, to:

- cover cash flow mismatches and fluctuations in funding
- retain public confidence
- meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows, and through the translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high-quality liquid assets and appropriate encumbrance levels are maintained.

The liquidity and funding risk framework is reviewed by the Board as part of the annual Internal Liquidity Adequacy Assessment Process (ILAAP). ALCO is responsible for managing the balance sheet structure, including the Funding Plan, and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

A Liquidity Contingency Plan (LCP), which is part of the wider recovery plan framework, is maintained which describes early warning triggers for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust. The Issuer's Recovery Plan describes potential actions that could be utilised in a more extreme stress.

For contingent purposes, the Issuer pre-positions unencumbered mortgage assets at the Bank of England which can be used in the Bank of England's liquidity operations if market liquidity is severely disrupted.

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for the years ended 4 April 2020 and 2019. In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid faster. This gives rise to mismatches in funding on the balance sheet. The balance sheet structure and risks are managed and monitored by ALCO. The Issuer uses judgement and past behavioural performance of each asset and liability class to forecast the Issuer's likely cash flow requirements.

**As at 4 April 2020**

|  | <b>Not more<br/>than one<br/>month<sup>(1)</sup></b> | <b>1 – 3<br/>months</b> | <b>3 – 12<br/>months</b> | <b>1 – 5 years</b> | <b>More than<br/>5 years</b> | <b>Total</b>   |
|--|--|-------------------------|--------------------------|--------------------|------------------------------|----------------|
|  | <i>(£ million)</i>                                   |                         |                          |                    |                              |                |
| <b>Assets</b>  |  |                         |                          |                    |                              |                |
| Cash.....  | 13,748   | -                       | -                        | -                  | -                            | 13,748         |
| Loans and advances to<br>banks and similar<br>institutions ..... | 2,832  | -                       | -                        | -                  | 804                          | 3,636          |
| Investment securities ..   | 18   | 495                     | 620                      | 5,088              | 13,783                       | 20,004         |
| Derivative financial<br>instruments .....                        | 33   | 77                      | 594                      | 1,840              | 2,227                        | 4,771          |
| Fair value adjustment<br>for portfolio hedged risk<br>.....      | 25   | 65                      | 396                      | 942                | 346                          | 1,774          |
| Loans and advances to<br>customers.....                          | 2,856  | 1,395                   | 6,348                    | 32,253             | 158,126                      | 200,978        |
| <b>Total financial assets</b>                                    | <b>19,512</b>  | <b>2,032</b>            | <b>7,958</b>             | <b>40,123</b>      | <b>175,286</b>               | <b>244,911</b> |
| <b>Liabilities</b>   |  |                         |                          |                    |                              |                |
| Shares .....   | 139,870  | 1,205                   | 5,840                    | 11,596             | 1,180                        | 159,691        |
| Deposits from banks...   | 3,610  | 1,202                   | 6,000                    | 11,000             | -                            | 21,812         |
| Other deposits.....  | 2,164  | 377                     | 1,921                    | 20                 | -                            | 4,482          |
| Fair value adjustment<br>for portfolio hedged risk<br>.....      | 5  | 2                       | 3                        | 19                 | -                            | 29             |
| Secured funding – ABS<br>and covered bonds .....                 | 242  | 26                      | 4,497                    | 13,487             | 6,703                        | 24,955         |
| Senior unsecured .....   | 150  | 2,673                   | 941                      | 4,616              | 2,628                        | 11,008         |
| Derivative financial<br>instruments .....                        | 152  | 95                      | 89                       | 295                | 1,293                        | 1,924          |
| Subordinated liabilities<br>.....                                | 32   | -                       | 731                      | 2,577              | 5,977                        | 9,317          |
| Subscribed capital <sup>(2)</sup> ...                            | 1  | 1                       | 1                        | -                  | 250                          | 253            |
| <b>Total financial<br/>liabilities .....</b>                     | <b>146,226</b>                                       | <b>5,581</b>            | <b>20,023</b>            | <b>43,610</b>      | <b>18,031</b>                | <b>233,471</b> |
| Off balance sheet<br>commitments <sup>(3)</sup> .....            | 11,416   | -                       | -                        | -                  | -                            | 11,416         |
| <b>Net liquidity<br/>difference.....</b>                         | <b>(138,130)</b>                                     | <b>(3,549)</b>          | <b>(12,065)</b>          | <b>(3,487)</b>     | <b>157,255</b>               | <b>24</b>      |
| <b>Cumulative liquidity<br/>difference.....</b>                  | <b>(138,130)</b>                                     | <b>(141,679)</b>        | <b>(153,744)</b>         | <b>(157,231)</b>   | <b>24</b>                    | <b>-</b>       |

**As at 4 April 2019**

|   | <b>Not more<br/>than one<br/>month<sup>(1)</sup></b> | <b>1 – 3<br/>months</b> | <b>3 – 12<br/>months</b> | <b>1 – 5 years</b> | <b>More than<br/>5 years</b> | <b>Total</b>   |
|---|--|-------------------------|--------------------------|--------------------|------------------------------|----------------|
|   | <i>(£ million)</i>                                   |                         |                          |                    |                              |                |
| <b>Assets</b>   |  |                         |                          |                    |                              |                |
| Cash.....   | 12,493   | -                       | -                        | -                  | -                            | 12,493         |
| Loans and advances to<br>banks .....                  | 3,363  | -                       | -                        | -                  | 646                          | 4,009          |
| Investment securities..                               | 16   | 20                      | 476                      | 6,529              | 9,193                        | 16,234         |
| Loans and advances to<br>customers.....               | 3,024  | 1,393                   | 5,959                    | 31,852             | 156,823                      | 199,051        |
| Derivative financial<br>instruments .....             | 18   | 127                     | 132                      | 1,718              | 1,567                        | 3,562          |
| Other financial assets..                              | (2)  | 4                       | 63                       | 203                | 143                          | 411            |
| <b>Total financial assets</b>                         | <b>18,912</b>  | <b>1,544</b>            | <b>6,630</b>             | <b>40,302</b>      | <b>168,372</b>               | <b>235,760</b> |
| <b>Liabilities</b>                                    |  |                         |                          |                    |                              |                |
| Shares .....  | 131,451  | 3,039                   | 7,027                    | 11,312             | 1,140                        | 153,969        |
| Deposits from banks...                                | 3,026  | 1                       | 122                      | 17,000             | -                            | 20,149         |
| Other deposits.....                                   | 2,295  | 625                     | 2,138                    | 16                 | -                            | 5,074          |
| Secured funding – ABS<br>and covered bonds.....       | 1,183  | 887                     | 421                      | 12,121             | 5,777                        | 20,389         |
| Senior unsecured .....                                | 43   | 4,890                   | 4,957                    | 2,396              | 3,267                        | 15,553         |
| Derivative financial<br>instruments .....             | 36   | 118                     | 43                       | 196                | 1,200                        | 1,593          |
| Other financial<br>liabilities.....                   | -  | (1)                     | (2)                      | (14)               | -                            | (17)           |
| Subordinated liabilities<br>.....                     | 18   | -                       | 57                       | 1,418              | 5,213                        | 6,706          |
| Subscribed capital <sup>(2)</sup> ...                 | 1  | 1                       | 1                        | -                  | 247                          | 250            |
| <b>Total financial<br/>liabilities .....</b>          | <b>138,053</b>                                       | <b>9,560</b>            | <b>14,764</b>            | <b>44,445</b>      | <b>16,844</b>                | <b>223,666</b> |
| Off balance sheet<br>commitments <sup>(3)</sup> ..... | 12,956   | -                       | -                        | -                  | -                            | 12,956         |
| <b>Net liquidity<br/>difference.....</b>              | <b>(132,097)</b>                                     | <b>(8,016)</b>          | <b>(8,134)</b>           | <b>(4,143)</b>     | <b>151,528</b>               | <b>(862)</b>   |
| <b>Cumulative liquidity<br/>difference.....</b>       | <b>(132,097)</b>                                     | <b>(140,113)</b>        | <b>(148,247)</b>         | <b>(152,390)</b>   | <b>(862)</b>                 | -              |

Notes:

- i. The analysis excludes certain non-financial assets (including property, plant and equipment, intangible assets, other assets, deferred tax assets and accrued income and prepaid expenses) and non-financial liabilities (including provisions for liabilities and charges, accruals and deferred income, current tax liabilities and other liabilities). The retirement benefit surplus/deficit and lease liabilities have also been excluded.
- ii. Due less than one month includes amounts repayable on demand.
- iii. The principal amount for undated subscribed capital is included within the due after more than five years column.
- 4) Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower can draw down the amount overpaid, and commitments to acquire financial assets.

The following is an analysis of gross undiscounted contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity, on the amounts outstanding at the balance sheet date.

| <b>For the year ended 4 April 2020</b>  |  |                     |                      |                    |                          |                |
|---|--|---------------------|----------------------|--------------------|--------------------------|----------------|
| <b>Gross contractual cash flows</b>   | <b>Not more than one month<sup>(1)</sup></b> | <b>1 – 3 months</b> | <b>3 – 12 months</b> | <b>1 – 5 years</b> | <b>More than 5 years</b> | <b>Total</b>   |
|   | <i>(£ million)</i>                           |                     |                      |                    |                          |                |
| Shares .....  | 139,870                                      | 1,260               | 5,987                | 11,955             | 1,180                    | 160,252        |
| Deposits from banks....   | 3,610  | 1,206               | 6,011                | 11,005             | -                        | 21,832         |
| Other deposits.....   | 2,164  | 382                 | 1,923                | 20                 | -                        | 4,489          |
| Secured funding – ABS and covered bonds.....                                    | 247  | 34                  | 4,731                | 14,115             | 6,609                    | 25,736         |
| Senior unsecured .....  | 151  | 2,681               | 1,057                | 5,035              | 2,621                    | 11,545         |
| Subordinated liabilities  | 36   | -                   | 945                  | 3,464              | 6,304                    | 10,749         |
| Subscribed capital (note ii) .....  | 1  | 1                   | 11                   | 53                 | 255                      | 321            |
| <b>Total non-derivative financial liabilities .....</b>                         | <b>146,079</b>                               | <b>5,564</b>        | <b>20,665</b>        | <b>45,647</b>      | <b>16,969</b>            | <b>234,924</b> |
| Derivative financial instruments .....  | -  | -                   | -                    | -                  | -                        | -              |
| Gross settled derivative outflows.....  | (1,124)                                      | (967)               | (1,621)              | (6,922)            | (5,915)                  | (16,549)       |
| Gross settled derivative inflows.....   | 1,101  | 928                 | 1,534                | 6,533              | 5,605                    | 15,701         |
| Gross settled derivatives – net flows .....                                     | (23)   | (39)                | (87)                 | (389)              | (310)                    | (848)          |
| Net settled derivative liabilities.....   | (70)   | (175)               | (732)                | (2,238)            | (1,224)                  | (4,439)        |
| <b>Total derivative financial liabilities .....</b>                             | <b>(93)</b>                                  | <b>(214)</b>        | <b>(819)</b>         | <b>(2,627)</b>     | <b>(1,534)</b>           | <b>(5,287)</b> |
| <b>Total financial liabilities .....</b>  | <b>145,986</b>                               | <b>5,350</b>        | <b>19,846</b>        | <b>43,020</b>      | <b>15,435</b>            | <b>229,637</b> |
| Off-balance sheet commitments <sup>(3)</sup> .....                              | 11,416                                       | -                   | -                    | -                  | -                        | 11,416         |
| <b>Total financial liabilities including off-balance sheet commitments.....</b> | <b>157,402</b>                               | <b>5,350</b>        | <b>19,846</b>        | <b>43,020</b>      | <b>15,435</b>            | <b>241,053</b> |

| <b>For the year ended 4 April 2019</b>       |  |                     |                      |                    |                          |              |
|--|--|---------------------|----------------------|--------------------|--------------------------|--------------|
| <b>Gross contractual cash flows</b>          | <b>Not more than one month<sup>(1)</sup></b> | <b>1 – 3 months</b> | <b>3 – 12 months</b> | <b>1 – 5 years</b> | <b>More than 5 years</b> | <b>Total</b> |
|  | <i>(£ million)</i>                           |                     |                      |                    |                          |              |
| Shares .....                                 | 131,451                                      | 3,098               | 7,160                | 11,668             | 1,141                    | 154,518      |
| Deposits from banks....                      | 3,026  | 32                  | 215                  | 17,221             | 0                        | 20,494       |
| Other deposits.....                          | 2,295  | 630                 | 2,140                | 16                 | 0                        | 5,081        |
| Secured funding – ABS and covered bonds..... | 1,199  | 835                 | 543                  | 11,806             | 5,901                    | 20,284       |
| Senior unsecured .....                       | 43   | 4,670               | 5,312                | 2,908              | 3,486                    | 16,419       |
| Subordinated liabilities                     | 20   | 0                   | 226                  | 1,495              | 6,412                    | 8,153        |
| Subscribed capital <sup>(2)</sup> ....       | 1  | 1                   | 11                   | 81                 | 217                      | 311          |



**For the year ended 4 April 2019**

| <b>Gross contractual cash flows</b>   | <b>Not more than one month<sup>(1)</sup></b> | <b>1 – 3 months</b> | <b>3 – 12 months</b> | <b>1 – 5 years</b> | <b>More than 5 years</b> | <b>Total</b>   |
|---|--|---------------------|----------------------|--------------------|--------------------------|----------------|
|   | <i>(£ million)</i>                           |                     |                      |                    |                          |                |
| Total non-derivative financial liabilities .....                                | <b>138,035</b>                               | <b>9,266</b>        | <b>15,607</b>        | <b>45,195</b>      | <b>17,157</b>            | <b>225,260</b> |
| Derivative financial instruments .....  |  |                     |                      |                    |                          |                |
| Gross settled derivative outflows.....  | (439)  | (2,565)             | (1,390)              | (4,791)            | (5,349)                  | (14,534)       |
| Gross settled derivative inflows.....   | 427  | 2,485               | 1,288                | 4,378              | 5,086                    | 13,664         |
| Gross settled derivatives – net flows .....                                     | (12)   | (80)                | (102)                | (413)              | (263)                    | (870)          |
| Net settled derivative liabilities.....   | (28)   | (125)               | (350)                | (947)              | (916)                    | (2,366)        |
| <b>Total derivative financial liabilities .....</b>                             | <b>(40)</b>                                  | <b>(205)</b>        | <b>(554)</b>         | <b>(1,360)</b>     | <b>(1,179)</b>           | <b>(3,236)</b> |
| <b>Total financial liabilities .....</b>  | <b>137,995</b>                               | <b>9,061</b>        | <b>15,155</b>        | <b>43,835</b>      | <b>15,978</b>            | <b>222,024</b> |
| Off-balance sheet commitments <sup>(3)</sup> .....                              | 12,956                                       | -                   | -                    | -                  | -                        | 12,956         |
| <b>Total financial liabilities including off-balance sheet commitments.....</b> | <b>150,951</b>                               | <b>9,061</b>        | <b>15,155</b>        | <b>43,835</b>      | <b>15,978</b>            | <b>234,980</b> |

Notes:

- (1) Due less than one month includes amounts repayable on demand.
- (2) The principal amount for undated subscribed capital is included within the due more than five years column.
- (3) Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid and commitments to acquire financial assets

**Fair values of financial assets and liabilities**

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Issuer's balance sheets at fair value:

|  | <b>For the year ended 4 April 2020</b> |                   |
|--|--|-------------------|
|  | <b>Carrying value</b>                  | <b>Fair value</b> |
|  | <i>(£ million)</i>                     |                   |
| <b>Financial assets</b>                |  |                   |
| Loans and advances to banks .....      | 3,636                                  | 3,636             |
| Investment Securities – Amortised Cost | 1,625                                  | 1,594             |
| Loans and advances to customers:       |  |                   |
| Residential mortgages .....            | 188,516                                | 190,580           |
| Consumer banking.....                  | 4,500                                  | 4,452             |
| Commercial and other lending .....     | 7,834                                  | 8,010             |
| <b>Total.....</b>                      | <b>206,111</b>                         | <b>208,272</b>    |
| <b>Financial liabilities</b>           |  |                   |
| Shares .....                           | 159,691                                | 159,891           |
| Deposits from banks.....               | 21,812                                 | 21,810            |
| Other deposits.....                    | 4,482                                  | 4,483             |
| Debt securities in issue .....         | 35,963                                 | 36,014            |
| Subordinated liabilities.....          | 9,317                                  | 8,658             |
| Subscribed capital .....               | 253                                    | 230               |

|                    |                |                |
|--------------------|----------------|----------------|
| <b>Total</b> ..... | <b>231,518</b> | <b>231,086</b> |
|--------------------|----------------|----------------|

**For the year ended 4 April 2019**

|                                   | <b>Carrying value</b> | <b>Fair value</b> |
|-----------------------------------|-----------------------|-------------------|
|                                   | <i>(£ million)</i>    |                   |
| <b>Financial assets</b>           |                       |                   |
| Loans and advances to banks ..... | 4,009                 | 4,009             |
| Investment securities.....        | 1,656                 | 1,651             |
| Loans and advances to customers:  |                       |                   |
| Residential mortgages .....       | 185,734               | 186,151           |
| Consumer banking.....             | 4,168                 | 4,104             |
| Commercial lending .....          | 9,020                 | 8,973             |
| <b>Total</b> .....                | <b>204,587</b>        | <b>204,888</b>    |
| <b>Financial liabilities</b>      |                       |                   |
| Shares .....                      | 153,969               | 153,989           |
| Deposits from banks.....          | 20,149                | 20,149            |
| Other deposits.....               | 5,074                 | 5,074             |
| Debt securities in issue .....    | 35,942                | 36,720            |
| Subordinated liabilities.....     | 6,706                 | 6,681             |
| Subscribed capital .....          | 250                   | 235               |
| <b>Total</b> .....                | <b>222,090</b>        | <b>222,848</b>    |

Note:

(1) The tables above exclude cash for which fair value approximates to carrying value.

***Loans and advances to banks***

The fair value of loans and advances to banks is estimated by discounting expected cash flows at a market discount rate. The carrying amount is considered a reasonable approximation of fair value.

***Loans and advances to customers***

The fair value of loans and advances to customers is estimated by discounting expected cash flows to reflect current rates for similar lending.

Consistent modelling techniques are used across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (the “SVR”) which, for example, in the case of the Issuer’s residential base mortgage rate (the “BMR”) mortgage book, generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

***Shares, deposits and borrowings***

The estimated fair value of deposits with no stated maturity (including non-interest bearing deposits) is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market price represents the discounted amount of estimated future cash flows based on expectations of future

interest rates, customer withdrawals and interest capitalisation. For variable interest rate deposits, estimated future cash flows are discounted using current market interest rates for new debts with similar remaining maturity. For fixed rate shares and deposits, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

### **Debt securities in issue**

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes, where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

### **Subordinated liabilities and subscribed capital**

The fair value of subordinated liabilities and subscribed capital is determined by reference to quoted market prices of similar instruments.

### **Fair value measurement**

The following table provides an analysis of financial assets and liabilities held on the Issuer's balance sheet at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

|                                       | <b>For the year ended 4 April 2020</b> |                              |                              |                |
|---------------------------------------|--|------------------------------|------------------------------|----------------|
|                                       | <b>Level 1<sup>(1)</sup></b>           | <b>Level 2<sup>(2)</sup></b> | <b>Level 3<sup>(3)</sup></b> | <b>Total</b>   |
|                                       | <i>(£ million)</i>                     |                              |                              |                |
| <b>Financial Assets</b>               |  |                              |                              |                |
| Investment securities .....           | 17,480                                 | 881                          | 5                            | 18,366         |
| Investments in equity shares.....     | -                                      | -                            | 13                           | 13             |
| Derivative financial instruments..... | -                                      | 4,771                        | -                            | 4,771          |
| Loans and advances to customers       | -                                      | -                            | 128                          | 128            |
| <b>Total.....</b>                     | <b>17,480</b>                          | <b>5,652</b>                 | <b>146</b>                   | <b>23,278</b>  |
| <b>Financial Liabilities</b>          |  |                              |                              |                |
| Derivative financial instruments..... | -                                      | (1,924)                      | -                            | (1,924)        |
| <b>Total.....</b>                     | <b>-</b>                               | <b>(1,924)</b>               | <b>-</b>                     | <b>(1,924)</b> |
|                                       | <b>For the year ended 4 April 2019</b> |                              |                              |                |
|                                       | <b>Level 1<sup>(1)</sup></b>           | <b>Level 2<sup>(2)</sup></b> | <b>Level 3<sup>(3)</sup></b> | <b>Total</b>   |
|                                       | <i>(£ million)</i>                     |                              |                              |                |
| <b>Financial Assets</b>               |  |                              |                              |                |
| Investment securities—AFS.....        | 13,508                                 | 989                          | 62                           | 14,559         |
| Investments in equity shares.....     | -                                      | -                            | 19                           | 19             |
| Derivative financial instruments....  | -                                      | 3,562                        | -                            | 3,562          |
| Loans and advances to customers..     | -                                      | -                            | 129                          | 129            |
| <b>Total.....</b>                     | <b>13,508</b>                          | <b>4,551</b>                 | <b>210</b>                   | <b>18,269</b>  |
| <b>Financial Liabilities</b>          |  |                              |                              |                |
| Derivative financial instruments....  | -                                      | (1,593)                      | -                            | (1,593)        |
| <b>Total.....</b>                     | <b>-</b>                               | <b>(1,593)</b>               | <b>-</b>                     | <b>(1,593)</b> |

Notes:

- (1) Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.
- (2) Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, ABS, certain CDOs, CLOs and OTC derivatives.

- (3) Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain ABS and bonds.

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. The Issuer fair values a portion of the mortgage commitments on the balance sheet.

The Issuer's Level 1 portfolio comprises government and other highly rated securities for which traded prices are readily available. Asset valuations for Level 2 investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 investment securities are valued using models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs.

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation, and are recognised at the date of the event or change in circumstances which caused the transfer. There were no transfers between the Level 1 and Level 2 portfolios during the year.

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

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

Certain loans and advances to customers have been classified as FVTPL. Level 3 assets in this category include a closed portfolio of residential mortgages and a small number of commercial loans. During the year ended 4 April 2019, a portfolio of residential mortgages was transferred from Level 3 to Level 2 after a market price was obtained. These assets were subsequently sold.

#### ***Investment securities***

The Level 3 items in this category primarily include £14 million (2019: £18 million) of investments made in Fintech companies and £4 million (2019: £62 million) of investments in industry-wide banking and credit card service operations.

#### ***Derivative financial instruments***

During the year ended 4 April 2019, derivatives economically hedging a small closed portfolio of equity release mortgages were settled upon sale of the associated loans.

The tables below set out movements in the Level 3 portfolio, including transfers in and out of Level 3.

#### **Level 3 portfolio – movements analysis**

The table below analyses movements in the Level 3 portfolio:

|   | <b>For the year ended 4 April 2020</b>     |                              |
|---|--|------------------------------|
|   | <b>Loans and advances to<br/>customers</b> | <b>Investment securities</b> |
|   | <i>(£ million)</i>                         |                              |
| <b>As at 4 April 2019</b>   | 129  | 81                           |
| Gains/(losses) recognised in the income statement:                  |  |                              |
| Net interest income/(expense) .....                                 | 3  | -                            |
| (Losses)/gains from derivatives and hedge accounting<br>.....       | -  | 1                            |
| Other operating income .....  | 7  | 11                           |
| Losses recognised in other comprehensive income: .....              |  |                              |
| Fair value movement taken to members' interests<br>and equity ..... | -  | (1)                          |
| Additions .....   | -  | 6                            |

|                                    | <b>For the year ended 4 April 2020</b> |                              |
|------------------------------------|--|------------------------------|
|                                    | <b>Loans and advances to customers</b> | <b>Investment securities</b> |
| Disposals .....                    | -                                      | (80)                         |
| Settlements/repayments.....        | (11)                                   | -                            |
| Transfers out of Level 3 portfolio | -                                      | -                            |
| <b>As at 4 April 2020 .....</b>    | <b>128</b>                             | <b>18</b>                    |

|  | <b>For the year ended 4 April 2019</b> |   |  |
|--|--|---|--|
|  | <b>Investments in equity shares</b>    | <b>Net derivative financial instruments – liabilities</b> | <b>Loans and advances to customers</b> |
|  |  | <i>(£ million)</i>  |  |
| <b>As at 4 April 2018</b>                                  |  |   |  |
| (Loss)/gain recognised in the income statement:            | 44                                     | (4)   | -                                      |
| IFRS9 Transition <sup>(1)</sup> .....                      | 1                                      | -   | 247                                    |
| As at April 5, 2018 .....                                  | 45                                     | (4)   | 247                                    |
| Net interest (expense)/income .....                        | -                                      | -   | 8                                      |
| Gains/(losses) from derivatives and hedge accounting ..... | 4                                      | -   | -                                      |
| Other operating income .....                               | 15                                     | 2   | 6                                      |
| Additions  | 18                                     | -   | -                                      |
| Settlements .....  | (1)                                    | 2   | (21)                                   |
| Transfers out of Level 3 .....                             | -                                      | -   | (111)                                  |
| <b>As at 4 April 2019 .....</b>                            | <b>81</b>                              | <b>-</b>  | <b>129</b>                             |

Note:

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

|  | <b>For the year ended 4 April 2018</b> |   |                              |
|--|--|---|------------------------------|
|  | <b>Investments in equity shares</b>    | <b>Net derivative financial instruments – liabilities</b> | <b>Other deposits – PEBs</b> |
|  |  | <i>(£ million)</i>  |                              |
| <b>As at 4 April 2017</b>  | 66                                     | 228   | (810)                        |
| Gains/(losses) recognised in the income statement:               |  |   |                              |
| Net interest income/(expense) .....                              | -                                      | 206   | (210)                        |
| Losses/(gains) from derivatives and hedge accounting .....       | -                                      | (232)   | 233                          |
| Other operating income .....                                     | 26                                     | -   | -                            |
| (Losses)/gain recognised in other comprehensive income:          |  |   |                              |
| Fair value movement taken to members’ interests and equity ..... | (18)                                   | -   | -                            |
| Settlements .....  |  |   |                              |
| Disposals .....  | -                                      | (206)   | 787                          |
| Transfers out of Level 3 .....                                   | (30)                                   | -   | -                            |

**For the year ended 4 April 2018**

|                                 | <b>Investments in<br/>equity shares</b> | <b>Net derivative<br/>financial<br/>instruments<br/>– liabilities</b> | <b>Other deposits –<br/>PEBs</b> |
|---------------------------------|---|---|----------------------------------|
| <b>As at 4 April 2018</b> ..... | <b>44</b>                               | <b>(4)</b>  | <b>-</b>                         |

*(£ million)*

**Level 3 portfolio – sensitivity analysis**

The table below provides sensitivity analysis of reasonably possible alternative valuation assumptions for the assets in the Level 3 portfolio:

**For the year ended 4 April 2020**

|                                      | <b>Fair value</b> | <b>Favourable<br/>changes</b> | <b>Unfavourable<br/>changes</b> |
|--------------------------------------|-------------------|-------------------------------|---------------------------------|
| Investment securities                | 18                | 2                             | (1)                             |
| Loans and advances to customers..... | 128               | 4                             | (5)                             |
| <b>Total</b> .....                   | <b>146</b>        | <b>6</b>                      | <b>(6)</b>                      |

*(£ million)*

**For the year ended 4 April 2019**

|                                      | <b>Fair value</b> | <b>Favourable<br/>changes</b> | <b>Unfavourable<br/>changes</b> |
|--------------------------------------|-------------------|-------------------------------|---------------------------------|
| Investment securities                | 81                | 36                            | (39)                            |
| Loans and advances to customers..... | 129               | 4                             | (5)                             |
| <b>Total</b> .....                   | <b>210</b>        | <b>40</b>                     | <b>(44)</b>                     |

*(£ million)*

Reasonable alternative assumptions applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The scenarios applied are considered for each product and varied according to the quality of the data and variability of the underlying market

## MANAGEMENT

The Issuer's business is under the control of the Issuer's Board of Directors. Each director is elected annually by the members. The executive directors are the Chief Executive and the Chief Financial Officer. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under the Issuer's rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board meeting to form a quorum.

No potential conflicts of interest exist between any duties to us, as Issuer, of the persons on the Board of Directors and their private interests or other duties.

### Management and Director Changes

Chris Rhodes succeeded Mark Rennison as Chief Financial Officer of the Society on September 16, 2019, and Mark retired from the Board.

Lynne Peacock retired from her position as the Senior Independent Director and Non-Executive Director of the Society on 31 December 2019. On 20 January 2020, the Society announced that Kevin Parry, Non-Executive Director, had succeeded Lynne as Senior Independent Director.

On 10 March 2020, the Society announced that Tony Prestedge had resigned from his position as Deputy Chief Executive and Executive Director following his acceptance of a senior role with Santander UK plc. As a result of his resignation, Tony stepped down from the Board with immediate effect. The position of Deputy Chief Executive has not been replaced, and Tony's accountabilities have been taken up by other members of the Society's senior leadership team.

Baroness Usha Prashar retired at the Society's Annual General Meeting held on 16 July 2020 and will continue to advise the Society on its diversity and community programs.

Tamara Rajah joined the Society as a Non-Executive Director on 1 September 2020.

### Directors

The following table presents information with respect to current directors:

| Name          | Date of Birth     | Position                | Other Directorships  |
|---------------|-------------------|-------------------------|--|
| David Roberts | 12 September 1962 | Chairman                | Beazley plc<br>Beazley Furlonge Limited<br>Campion Willcocks Limited<br>NHS England<br>NHS Improvement   |
| Joe Garner    | 23 June 1969      | Chief Executive Officer | British Triathlon Foundation Trust<br>UK Finance   |
| Chris Rhodes  | 17 March 1963     | Chief Financial Officer | Arkose Funding Limited<br>at.home nationwide Limited<br>Derbyshire Home Loans Limited<br>E-Mex Home Funding Limited<br>Jubilee Mortgages Limited |

| Name             | Date of Birth   | Position               | Other Directorships  |
|------------------|-----------------|------------------------|--|
|                  |                 |                        | NBS Ventures Management Limited<br>First Nationwide<br>LBS Mortgages Limited<br>Nationwide Housing Trust Limited<br>Nationwide Investment No.1 Limited<br>NMC1 Limited<br>Nationwide Syndications Limited<br>Staffordshire Leasing Limited<br>Silverstone Securitisation Holdings Limited<br>The Mortgage Works (UK) plc<br>UCB Home Loans Corporation Limited |
| Rita Clifton     | 30 January 1958 | Non-Executive Director | Ascential plc<br>Rita Clifton Limited<br>The Green Alliance Trust  |
| Mai Fyfield      | 3 May 1969      | Non-Executive Director | ASOS plc<br>BBC Commercial Holdings Limited<br>Roku Inc  |
| Tim Tookey       | 17 July 1962    | Non-Executive Director | Westmoreland Court Management (Beckenham) Limited<br>Royal London Mutual Insurance Society Limited   |
| Kevin Parry      | 29 January 1962 | Non-Executive Director | Daily Mail and General Trust plc<br>KAH Parry Limited<br>The Royal London Mutual Insurance Society Limited   |
| Gunn Waersted    | 16 March 1955   | Non-Executive Director | Petoro AS<br>Telenor ASA<br>Lukris Invest AS<br>Fidelity International (Bermuda)<br>Saferoad ASA   |
| Albert Hitchcock | 16 January 1965 | Non-Executive Director |  |
| Phil Rivett      | 27 June 1955    | Non-Executive Director | Standard Chartered Plc   |
| Tamara Rajah     | 24 August 1982  | Non-Executive Director | Live Better With Limited   |



| Name | Date of Birth | Position | Other Directorships  |
|------|---------------|----------|--|
|      |               |          | Unforgettable Trading Limited<br>Dot London Domains Limited<br>London & Partners Limited<br>London & Partners Ventures Limited<br>Scale Up Institute |

## Biographies

### David Roberts CBE

#### *Chairman*

David joined Nationwide on 1 September 2014 and took over as Chairman in July 2015. David combines a distinctive blend of leadership experience across major listed corporations, the mutual movement, and public service, including 35 years in financial services. He is a passionate champion of Nationwide's social purpose and of the Society's commitment to help improve the financial lives of its members. David also strongly believes in the economic value of commerce and the importance of rebuilding trust in big business.

#### **Current external positions include:**

Chair, Beazley plc

Chair, Beazley Furlonge Limited

Vice Chair, NHS England

Associate non-executive director, NHS Improvement

Non-executive director, Champion Wilcocks Limited

Advisor Board member, The Mentoring Foundation Advisory Council

Member, Strategy Board, Henley Business School, University of Reading

#### **Previous positions include:**

Group Deputy Chair, Lloyds Banking Group plc

Executive director, Barclays Bank plc and CEO, International Retail and Commercial Banking

Chair and CEO, Bawag PSK AG

Non-executive director, BAA plc

Non-executive director, Absa Group SA

### Joe Garner

#### *Chief Executive Officer*

Joe joined Nationwide as CEO in April 2016. Joe's career started with Proctor & Gamble and Dixons Carphone. He later took on leadership roles and in 2004 was appointed as Head of HSBC's Retail and Commercial Bank in the UK. In 2014 he became Chief Executive Officer of Openreach, BT's Infrastructure division. Since Joe joined the Issuer as

CEO in 2016, inspired by its principle of mutuality, the Issuer has grown its membership to a record 16.3 million, delivered £2.5 billion in member financial benefit and continued to lead its peers on customer service. Joe's mission continues to be to inspire colleagues to remain true to the Issuer's social purpose, using the power of the collective to improve people's lives.

**Current external positions include:**

Director, UK Finance

Member, Financial Conduct Authority Practitioner Panel

Chair and Trustee, British Triathlon Trust

Member, Economic Crime Strategy Board

Co-chair, Inclusive Economy Partnership Financial Capability and Inclusion Steering Committee

**Previous positions include:**

CEO, Openreach

Deputy CEO, HSBC Bank plc

Head, HSBC's UK Retail and Commercial Business

Non-executive director, Financial Ombudsman Service

**Chris Rhodes**

*Chief Financial Officer*

Chris joined Nationwide in April 2009 and was appointed Chief Financial Officer (CFO) in October 2019. He is a chartered accountant with over 30 years' experience in retail and commercial banking, holding senior leadership roles across finance, treasury, operations, retail distribution and risk management. Prior to his appointment as CFO, Chris was the Issuer's Chief Product and Propositions Officer. This broad background means he has a deep understanding of the Issuer's business and the mutual business model and he is ideally placed to oversee its long-term financial stability, ensuring that the Issuer continues to invest for the future on behalf of its members.

**Current external positions include:**

Arkose Funding Limited

Silverstone Securitisation Holdings Limited

**Previous positions include:**

Trustee, National Numeracy

Director, Lending Standards Board Limited

Group Finance Director, Alliance and Leicester Group

Deputy Managing Director, Girobank

Board of Director, Visa Europe

## **Rita Clifton CBE**

### *Non-Executive Director*

As a former CEO and Chair of brand consultancy Interbrand, Rita is an acclaimed brand expert. This, and her background in consumer insight, help ensure that member interests are central to Board business. Rita has helped a wide range of iconic British organisations understand how to use research, marketing strategy and communications to build sustainable brand value. She is also a committed advocate for environmental and sustainability issues.

### **Current external positions include:**

- Non-executive director, Ascential plc (previously known as EMAP plc)
- Member, Assurance and Advisory Panel, BP's carbon off-setting program  
"Target Neutral"
- Trustee, Green Alliance
- Director, Rita Clifton Limited
- Fellow, WWF-UK
- Visiting Fellow, Saïd Business School, Oxford University

### **Previous positions include:**

- Non-executive director, ASOS plc
- Chair, BrandCap
- Director, Brandcap Group Limited
- London CEO and Chair, Interbrand
- Vice Chair, Saatchi & Saatchi
- Non-executive director, Dixons Retail plc
- Trustee, WWF (Worldwide Fund for Nature)
- Non-executive director, Bupa
- Non-executive director, Populus Limited
- Member, the UK Government's Sustainable Development Commission

## **Mai Fyfield**

### *Non-Executive Director*

Mai combines her experience as an economist and strategist with considerable commercial experience to guide the Board's strategic thinking and assessment of new opportunities and initiatives. She was Chief Strategy and Commercial Officer at Sky until October 2018, where she led strategy and commercial partnerships across the Sky Group, an organisation she joined in 1999. Mai is a champion of diversity and helping women succeed in senior management and Board positions.

**Current external positions include:**

Non-executive director, Roku Inc.

Non-executive director, Asos Plc

Non-executive director, BBC Commercial Holdings Limited

**Previous positions include:**

Director, Jupiter Entertainment

Chief Strategy and Commercial Officer, Sky Group plc

**Tim Tookey**

*Non-Executive Director*

Tim is a chartered accountant with over 30 years' experience in finance, across retail and commercial banking, life assurance and pensions, and insurance. As a former Chief Financial Officer, Tim has the background and expertise to analyse and test the Society's financial and risk strategies.

**Current external positions include:**

Non-executive director, Royal London Mutual Insurance Society Limited

Director, Westmoreland Court Management (Beckenham) Ltd

**Previous positions include:**

Chief Financial Officer, Quilter plc (previously known as Old Mutual Wealth Management Limited)

Chair, Alliance Trust Savings Limited

Chief Financial Officer, Friends Life Group Limited

Group Finance Director, Lloyds Banking Group

Finance Director, Prudential plc's UK business

**Kevin Parry OBE**

*Non-Executive Director*

Kevin is a chartered accountant with a distinguished career in financial services and professional practice, bringing to the Board expertise in audit, regulation, risk management, and finance. As a former Chair of the Homes and Communities Agency, his perspective on housing is a valuable asset to the Society. He is Chair of Royal London, the largest mutual insurer in the UK. He was a trustee and former Chair of the Royal National Children's SpringBoard Foundation, a charity providing life transforming opportunities through education to disadvantaged children.

**Current external positions include:**

Chair, Royal London Group

Non-executive director and Chair of the Audit and Risk Committee, Daily

Mail and General Trust plc

Director, KAH Parry Limited

**Previous positions include:**

Chair, Intermediate Capital Group plc

Trustee, Royal National Children's Springboard Foundation

Chief Financial Officer, Schroders plc

Chief Executive Officer, Management Consulting Group plc

Managing Partner, Information Communications and Entertainment, KPMG LLP

Senior Independent Director, Standard Life Aberdeen plc

**Gunn Waersted***Non-Executive Director*

Gunn has a distinguished international career, including senior leadership positions in financial services, telecommunications and petrochemicals. She brings to the Board vast experience of driving large-scale operational, cultural change and digital transformation programs to improve customer experience. She is a strong advocate of the need for strong people cultures and creating genuinely diverse organisations.

**Current external positions include:**

Chair, Telenor ASA

Chair, Petoro AS

Member, Fidelity International.

Non-executive director, Saferoad Holding ASA

**Previous positions include:**

CEO, Wealth Management Division, CEO of Nordea Bank Norway and

Executive Vice President at Nordea Bank Group

CEO, Vital Forsikring and Executive Vice President of DnB

Chair, Ferd and BI

Non-executive director, Statkraft, Statoil

CEO, Sparebank 1 Group

**Albert Hitchcock***Non-Executive Director*

Albert is a leader in information technology with over 30 years in the technology industry. His experience is of huge value to the Society as the Issuer continues its ambitious transformation program to meet the expectations of the its members today and in the future.

**Current external positions include:**

Chief Technology and Operations Officer, Pearson plc

LLP Member, Cumberland House BPRA Property Fund LLP

**Previous positions include:**

Technology Advisor to the Board, Royal Bank of Scotland plc

Group Chief Information Officer, Vodafone plc

Global Chief Information officer, Nortel Networks

**Philip Rivett**

*Non-Executive Director*

Philip is a Chartered Accountant with over forty years' experience of professional accountancy and audit with a focus on banks and insurance companies. He brings to the Board a wealth of experience advising major financial services providers in the UK and globally; he has an exceptional leadership track record advocating a collaborative and inclusive approach.

**Current external positions include:**

Non-executive director, Standard Chartered Plc

**Previous positions include:**

Global Chair, Financial Services Group, PricewaterhouseCoopers LLP

**Tamara Rajah**

*Non-Executive Director*

Tamara has significant experience in entrepreneurial ventures and technology, including as founder and CEO of award-winning global healthcare platform, Live Better With. Prior to launching Live Better With, Tamara was one of the youngest partners at strategy firm, McKinsey & Co, where she spent a decade in the healthcare practice and led McKinsey's knowledge and client work on entrepreneurship and technology clusters in life sciences, digital and technology.

**Current external positions include:**

Live Better With Limited (CEO and Director)

Unforgettable Trading Limited

Dot London Domains Limited (Chair)

London & Partners Limited (Chair)

London & Partners Ventures Limited

Scale Up Institute

**Previous positions include:**

Partner, McKinsey & Co

**Committees of The Issuer's Board of Directors**

The Issuer's **Board of Directors** operates through its meetings and through its five main committees, the Audit Committee, the Nomination and Governance Committee, the Remuneration Committee, the Board IT and Resilience

Committee and the Board Risk Committee. To the extent that matters are not reserved to the Issuer's Board of Directors, responsibility is delegated to the Chief Executive Officer, who is assisted by the Nationwide Leadership Team (NLT) and the Executive Risk Committee.

The **Audit Committee** provides oversight and advice to the Board in respect of among other things, financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems.

The purpose of the **Nomination and Governance Committee** is to assist the Chairman in keeping the composition of the Board under review, making recommendations to the Board on succession planning, executive level appointments and leading the appointments process for nominations to the Board. The Committee oversees the implementation of the Society's Inclusion and Diversity strategy and objectives. It also reviews the Board's governance arrangements and makes recommendations to the Board to ensure that the arrangements are consistent with best practice.

The **Remuneration Committee** is responsible for determining and agreeing with the Board the framework or broad policy for remuneration of the Chairman, the directors and other senior executives of the Society including employees who are identified as material risk takers under the PRA Remuneration Code. It determines, within the terms of the agreed policy, the specific remuneration packages for these roles. The Committee also reviews the ongoing appropriateness and relevance of the remuneration policy across the rest of Nationwide.

The Board IT and Resilience Committee provides oversight and advice to the Board on the Society's IT strategy, IT architecture, IT operating model effectiveness, delivery performance and resilience controls, including cyber risk, as well as overseeing the Society's data management strategy.

The purpose of the **Board Risk Committee** is to provide oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite. In addition, the Committee is responsible for monitoring compliance oversight, and the effectiveness of the Enterprise Risk Management Framework ("ERMF"). It also advises the Remuneration Committee on any risk adjustments to be made, including risk appetite, risk monitoring, and risk adjustments to remuneration.

## Management Committees

The **Nationwide Leadership Team** is the Issuer's key operational committee which oversees the day-to-day operations of the Issuer's business. This Committee meets weekly, reviews all matters that are to be presented to the Board of Directors, and is composed of the Issuer's Chief Executive Officer, Chief Financial Officer and the Society's senior leadership team (this includes the Chief Internal Auditor who is an attendee of the Committee).

The **Weekly Heartbeat Committee** reports to the Executive Committee and reviews the end-to-end performance of the Issuer's product and service propositions and agrees actions in order to meet the organisation's strategic objectives. The Committee's membership is wide ranging and comprises of senior leaders from across the Society including the second line.

The **Executive Risk Committee**, which meets on average once a month, is responsible for ensuring a co-ordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the CEO, the CFO and a number of other members of the NLT. It is chaired by the Chief Risk Officer. The risk committees comprise the:

- ALCO (Assets and Liabilities Committee);
- Credit Committee
- Model Risk Oversight Committee (formerly Risk Oversight Committee);
- Operational Risk Committee; and
- Conduct & Compliance Committee.

**ALCO** determines and amends the Society's approach to financial risk and sets thresholds for endorsement by the Executive Risk Committee and approval by the Board. It manages the financial risk profile of the Society in accordance with the Enterprise Risk Management Framework, Board Risk Appetite, Society Strategy and the Financial Plan.

ALCO comprises the Chief Financial Officer (Chair), Chief Executive Officer, Chief Products and Marketing Officer, Chief Risk Officer, Director of Treasury, Deputy Chief Financial Officer and the Chief Credit Officer.

The **Credit Committee** is responsible for determining and amending the Society's attitude to lending risk and set thresholds for endorsement by the Executive Risk Committee and the Board Risk Committee. It also manages the lending risk profile of the Society in accordance with the Enterprise Risk Management Framework, Board Risk Appetite, Society Strategy and the Financial Plan.

The Committee's membership comprises the Chief Credit Officer (Chair), Chief Risk Officer, Chief Products and Marketing Officer, Chief Financial Officer, Head of Secured Credit Risk, Head of Unsecured Portfolio Management, Head of Property and Underwriting Risk Services, Director of Modelling, Head of Commercial and Treasury Credit Risk and Director of Treasury.

The **Model Risk Oversight Committee** is responsible for overseeing the model risk profile of the Society, assessing whether models are fit for purpose and reviewing and challenging the Society's 1st Line use and management of models to manage the risk.

The Committee is comprised of the Head of Model Risk Oversight: Credit, Head of Model Risk Oversight: Finance & MRM, Head of Financial and Strategic Risk, Head of Market, Liquidity and Solvency Risk; and Head of Retail Lending.

The **Operational Risk Committee** is responsible for monitoring operational risk exposures of the Society in accordance with the Enterprise Risk Management Framework, Operational Risk Management Framework, Board Risk Appetite and Society Strategy. It ensures that controls over operational risks are designed and operating effectively and that actions address control deficiencies and are implemented in a timely manner. It also informs the Executive Risk Committee and the Board Risk Committee of the Society's operational risk and control profile, including presenting options for improving the risk and control environment.

The Committee's membership comprises the Director of Risk & Operational Resilience, Director of Retail Risk, Director of Reward and Pensions Strategy, Director of Financial Controls & Operations, Director of Shared Services and Director of Fraud.

The **Conduct & Compliance Committee** oversees the Society's progress and implementation of significant conduct and compliance activity. It supports the Executive Risk Committee and the Board Risk Committee with the creation of and challenge to the Society's conduct and compliance risk thresholds. It also oversees the review and management of the Society's conduct and compliance risk and incident exposures.

The Committee's membership comprises of the Director of Change Risk & Compliance, Director of Regulated Advice, Chief Product and Marketing Officer, Chief People Officer, Compliance Director, Director of Home Proposition, Director of Member Services & Complaints, Director of Risk & Operational Resilience, Director of Shared Services, Director of Nationwide Digital, Head of Member Vulnerability Access & Inclusion and Director of Product Operations.

## **Compensation**

For the year ended 4 April 2020 the aggregate amount of compensation that the Issuer paid to the Executive Directors on the Board as a group totalled £3.45 million. From April 2014 the Issuer has operated a performance pay plan for Directors which features deferral periods of up to 5 years on some elements and that only pays out if performance targets are met under a broad range of individual, strategic and financial corporate metrics. For performance periods commencing from April 2016 onwards, the time horizon for payments of awards has been extended in response to changing regulatory requirements, such that awards are deferred for between three and seven years. The Remuneration Committee sets the performance targets each year. For performance periods commencing April 2017, the maximum award under this scheme each year for the Chief Executive is 152% of base salary and for other executive directors is 112% of salary. Previous maximums were 160% and 120% respectively. For the financial year ending 30 April 2021, the maximum variable pay opportunities (including both the upfront and deferred elements) have been reduced to: 51% of base salary



for the Chief Executive and 37% of base salary for the executive directors. For these awards, 37% and 29% of base salary is payable for target performance for the Chief Executive and other executive directors respectively. In the event that the Society's financial performance in the financial year ended 4 April 2021 materially exceeds expectations, the Committee retains the discretion to make an award above these levels (subject to the overall limits within this policy).

In addition, executive directors receive other benefits including a car allowance, access to shared drivers when required, healthcare, and insurance benefits.

#### **Directors' Loans**

As at 4 April 2020, the Issuer had loans to directors or persons connected to directors totalling £0.56 million. All of these loans were granted in the normal course of business and were largely made up of residential mortgage loans and balances on credit cards. While Nationwide previously offered directors and other employees' discounts on residential mortgage loans, these offers have been ceased. Some such loans originated before the offer cessation date may still be extant.

The Issuer maintains a register containing the details of all loans, transactions and other arrangements made between the Issuer's directors (and persons connected with the Issuer's directors) and Nationwide or its subsidiaries. This register is available for inspection at the Issuer's annual general meetings and during normal business hours at the Issuer's principal office during the 15 days prior to the Issuer's annual general meeting.

#### **Management Employee Pension Schemes**

Executive directors (Joe Garner and Chris Rhodes) receive a cash allowance in lieu of pension.

#### **Related-Party Transactions**

For information on transactions with related parties, see note 35 to the Issuer's audited condensed consolidated financial statements incorporated by reference herein.

## COMPETITION

### **Industry Background**

The Issuer's main competitors are the five largest UK banking groups. In addition the Issuer also compete with a range of other smaller banks, with other building societies and with insurance companies. In recent years, new competitors have emerged in all areas of the UK personal financial services market where evolving technology and innovation have widened the range of competitive threats. A description of the traditional types of organisations with which the Issuer continues to compete as well as a description of certain new competitors is set forth below.

### ***Major UK Banks***

The UK financial services market is dominated by the five largest banking groups, namely Lloyds Banking Group, Royal Bank of Scotland, Barclays, HSBC and Santander UK. These are the Issuer's principal competitors in the Issuer's core mortgages, savings and personal account markets.

In the recent past, prior to the coronavirus pandemic, mortgage competition was being driven by certain ring-fenced banks as they deployed surplus liquidity in lending markets. They had a further advantage from the lower cost of their deposits which stemmed from their significant market shares in low/zero cost transactional balances associated with personal current accounts.

In personal current accounts, and their associated non-rate-sensitive deposit balances, the scale of the existing customer bases and strategic investment programs of these banks makes them prime competitors.

### ***Smaller UK Banks***

The Issuer also competes with a series of smaller UK banks that have emerged as challengers to the industry leaders (e.g. TSB, CYBG, Co-op Bank and Metro Bank). While typically relatively small, some of these banks have sought rapid expansion via aggressive pricing, low cost operating models and by use of digital and intermediary distribution aided by the absence of legacy IT and other issues. The Issuer has been unable to offset the scale advantages of the largest banks.

### ***Building Societies***

Over the past 30 years, many building societies have merged with other building societies or, in a number of cases, transferred their businesses to the subsidiary of another mutual organisation or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 137 in 1985 to 43 as at 4 April 2020. Building societies today continue to hold an important share of the UK mortgage and savings market. For further information about the UK residential mortgage market and UK retail deposit market see below.

### ***UK Insurance Companies***

The UK insurance industry is dominated by large general and life insurance companies originating a range of products, distributed through building societies, banks, direct sales forces and independent financial advisers.

### ***Other Competitors***

A number of large retailers sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. Retailing groups, namely Tesco and Sainsbury, have entered the market as manufacturers of financial service products in their own right. In addition, foreign banks, investment banks, insurance and life assurance companies have at various times been active in UK personal financial services, particularly the mortgage and retail savings markets, and a number of companies have expressed a desire to enter the market.

The growth of internet price comparison sites has enabled consumers to have access to information that has increased price competition particularly in certain insurance markets. Online automated advice is likely to have an increasing impact on investment and protection markets. Companies are using low cost telephone, internet and mobile

distribution channels to offer competitively priced retail savings accounts, mortgages and other financial products. The internet and mobile communications technology provide opportunities for further competition from organisations from outside the traditional banking sector. This includes new banks specifically providing mobile-phone based banking (e.g. Starling, Atom and Monzo) and large technology companies either already using their core businesses as a platform for financial services, particularly in the payments arena, or being in a strong position to do so in the future should they choose to (e.g. the so-called Tech Giants). The continued development of the intermediary sector also allows new entrants to gain access to the UK mortgage market and increase price based competition on larger mortgage lenders. Competition regulation has and may eventually further assist potential entrants if it enforces the breakup of some of the larger participants or the sale of those in public ownership.

### The UK Residential Mortgage Market

The table below sets out information for the last three years concerning year-end balances of UK lending secured on residential property and the proportions held by building societies, banks and us:

| Year ended December 31, | Total Balances <sup>(1)</sup> | Banks & Building Societies <sup>(1)</sup> | Others | The Issuer's share of total UK residential mortgages <sup>(1)</sup> |
|-------------------------|-------------------------------|---|--------|---|
|                         |                               | <i>(£ billion, except percentages)</i>    |        |   |
| 2019.....               | 1,453.3                       | 86.3%                                     | 13.7%  | 13.0%   |
| 2018.....               | 1,408.8                       | 85.8%                                     | 14.2%  | 13.0%   |
| 2017.....               | 1,369.5                       | 87.2%                                     | 12.8%  | 12.8%   |

Note:

(1) *Source:* Bank of England, except for information regarding the Issuer's balances which are taken from the Issuer's own data. Building society figures include the Issuer's own balances.

Although the overall size of the new mortgage market has shrunk considerably since 2007, the nature of competition is essentially unchanged, in that it involves defending the existing stock of balances and competing for the flow of new lending.

Competition for new lending remains fierce and is driven by first-time buyers or next-time buyers remortgaging, changing homes or extending their mortgages. The majority of this is for residential purposes; there has been a softening in BTL following tax reforms and in response to changes in underwriting standards. During the first period of lockdown from March 2020 to June 2020, mortgage activity across the UK fell sharply as a result of the measures imposed by the UK government in response to the Covid-19 pandemic, and had since recovered strongly, particularly for house purchases. However, during the second period of lockdown that began in October 2020, mortgage activity appears to have slowed with the Bank of England still measuring the impact of the subsequent restrictions. There has been a decline in the proportion of the UK population owning their own homes, from a peak of around 71% in 2003 to around 64% in 2019 (source: English Housing Survey). The aftermath of the global financial crisis is still evident in the mortgage market, with more limited credit availability at higher LTV ratios. This has been improving in recent years, though the pandemic has led to increased caution amongst lenders and a withdrawal of some high LTV products. For further information, see "*Risk Factors. Risks Related to The Issuer's Business—Changes to interest rates or monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer.*" Competition is driven by a combination of price, risk profile and access to funding by lenders.

The Issuer's market share of gross advances of 11.4% during the year ended 4 April 2020 was slightly below the Issuer's par share of 13.0% as at 1 January 2019.

### The UK Retail Deposit Market

The UK retail deposit market is dominated by banks, building societies and NS&I. Below is a table breaking down the total UK retail deposit market by type of financial institution compiled from details published by the Bank of England:

| <b>Year ended December 31,</b> | <b>Total UK retail deposits<sup>(1)</sup></b> | <b>Banks' &amp; Building societies' share of total UK retail deposits<sup>(1)</sup></b> | <b>Others<sup>(1)</sup></b> | <b>The Issuer's share of total UK retail deposits<sup>(1)</sup></b> |
|--------------------------------|---|---|-----------------------------|---|
|                                |   | <i>(£ billion, except percentages)</i>  |                             |   |
| 2019 .....                     | 1,581.3                                       | 88.9%   | 11.1%                       | 9.9%  |
| 2018 .....                     | 1,521.4                                       | 89.1%   | 10.9%                       | 10.1%   |
| 2017 .....                     | 1,473.0                                       | 89.6%   | 10.4%                       | 10.0%   |

Note:

(1) *Source:* Bank of England, except for information regarding the Issuer's balances which are taken from the Issuer's own data.

The UK retail deposit market has become an increasingly commoditised market driven primarily by price, particularly for the flow of new money that generally seeks the most attractive rates available. However the bank failures of 2007 and 2008 and the limits of the FSCS appear to have led some customers to spread their savings across a number of different companies. Older deposit balances have traditionally subsidised the cost of new retail deposits, primarily reflecting customer inertia.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance/life assurance companies and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing players in the market and have impacted the flow of new retail deposits.

The Issuer believes that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organisations and between different accounts within organisations. This, in turn, has resulted in a reduction in the differential between rates paid to existing and new balances as customers transfer to high rate accounts and organisations aim to retain existing balances.

In this context the Issuer's deposit balances grew by £5.7 billion in the year ended 4 April 2020.

## Competitive Outlook

Prior to the coronavirus pandemic, while some weaknesses remained, the major banks had largely completed the process of financial repair upon which they embarked following the financial crisis. The end of significant costs for PPI customer redress and the completion of costly and disruptive ring-fencing re-organisation had also left this group better able to compete and in recent years the major banks had begun to compete more aggressively.

With the onset of the coronavirus pandemic, despite the availability of cheap Bank of England funding, the sharp fall in Base Rate has compressed the net interest margins of the ring-fenced banks, which, with their cost of deposits already very low, are left with less scope than other competitors to widen deposit spreads. Additionally, the ring-fenced banks, with their large corporate and consumer finance loan exposures, face the possibility of significant credit losses in the face of economic weakness in the aftermath of the pandemic. Consequently, it remains unclear whether this mortgage pricing environment will endure, influenced as it is by the level of competitors' confidence in the economic outlook and strength of any recovery in their financial performance.

Competition for personal current accounts also looks set to remain intense as regulatory measures to allow customers to switch provider more easily are accompanied by increased appetite by providers to grow, or at least maintain, a current account base as a driver of active customer relationships. Investment in new digital capabilities will continue at high levels, as major participants look to compete digitally against their existing peers and to frustrate newer entrants and fintech innovators as they urgently seek to establish a volume base to secure their financial viability.

## SUPERVISION AND REGULATION

### EUROPEAN UNION LEGISLATION

The framework for supervision and regulation of banking and financial services in the UK has been heavily influenced by European Union legislation. Many aspects of the Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee) have been implemented in the EEA through the Capital Requirements Regulation (575/2013) (“**CRR**”) and the associated directive, the Capital Requirements Directive (2013/36/EU) (the “**CRD**”) (together, the “**CRD IV**”), which were published in the Official Journal of the European Union on 27 June 2013. The CRR established a single set of harmonised prudential rules for financial institutions and certain minimum capital and liquidity standards which apply directly to all credit institutions in the EEA, with the CRD containing less prescriptive provisions which (unlike the CRR, which applies across the EEA without the need for any implementing legislation at member-state level) are required to be transposed into national law. CRD IV reinforced capital standards and established a leverage ratio “backstop.” Full implementation began from 1 January, 2014, with particular elements being phased in over a period of time. The requirements largely became effective by 2019, although some minor transitional provisions provide for phase-in of certain requirements until 2027. As CRD IV permits the exercise of certain national discretion, the final rules and the timetable for its implementation in each jurisdiction may be subject to some level of national variation. The CRD requirements were implemented in the UK before the UK’s exit from the EU; the UK framework was then amended to reflect the UK’s exit from the EU. The CRR has been onshored in the UK by the Capital Requirements (Amendment) (EU Exit) Regulations 2018 (as amended). The Basel Committee has also published certain proposed revisions to the securitisation framework, including changes to the approaches to calculating risk weights and new risk weight floors. For completeness, CRD IV has undergone significant revisions. For further information about these amendments see “—*Revisions to the CRD IV Package*” below.

CRD IV also addressed the “passport” concept, which permits a credit institution authorised in its “home” state to establish branches in, and to provide cross-border services into, other EEA member states. Given the UK’s departure from the single market, UK authorised credit institutions no longer benefit from the passport concept.

Although credit institutions are primarily regulated in their home state by a local regulator, the CRD IV prescribes minimum criteria for regulation of the authorisation of credit institutions and the prudential supervision applicable to them. Under UK laws and regulations pertaining to the authorisation of credit institutions in the UK, the relevant regulators in the UK are the PRA and the FCA. For further information about regulation in the UK see “—*UK Regulation*” below.

CRD IV substantially reflects the Basel III capital and liquidity standards. Subject to prior regulatory approval, CRD IV also makes provision for (among other things) requirements to reduce reliance by credit institutions on external credit ratings, by requiring that their investment decisions are based not only on ratings but also on their own internal credit opinion, and that banks with a material number of exposures in a given portfolio develop internal ratings for that portfolio instead of relying on external ratings for the calculation of their capital requirements.

The CRR gives express recognition for CET1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves.

On 23 November 2016, the European Commission published a package of legislative proposals providing for reform of the prudential and resolution frameworks for EU banks and credit institutions. These proposals covered amendments to CRR, CRD IV, the BRRD and Regulation (EU) No. 806/2014 (the “**EU Single Resolution Mechanism Regulation**” or “**SRMR**”). The final legislation implementing these proposals was published in the EU Official Journal on 7 June 2019. The legislation consists of Regulation (EU) No. 2019/876, Directive (EU) No. 2019/878, Directive (EU) No. 2019/879 and Regulation (EU) No. 2019/877 and came into force on 27 June 2019 (the “**Banking Reform Package**”), with certain provisions applying from 27 June 2019, one provision relating to exemptions from deductions of equity holdings applying retrospectively from 1 January 2019 and other provisions gradually being phased in and/or being subject to national implementation.

The Banking Reform Package amends many existing provisions set out in CRD IV, the BRRD and the SRMR. It includes:

- revisions to the standardised approach for counterparty credit risk;
- changes to the market risk rules which include the introduction of a reporting requirement pending implementation of the Fundamental Review of the Trading Book at a global level;
- the introduction of a binding leverage ratio requirement as a backstop to risk-weighted capital requirements and set at 3% of an institution's Tier 1 capital; and
- a binding NSFR (which will require credit institutions and systemic investment firms to finance their long-term activities (assets and off-balance sheet items) with stable sources of funding (liabilities) in order to increase banks' resilience to funding constraints). This means that the amount of available stable funding will be calculated by multiplying an institution's liabilities and regulatory capital by appropriate factors that reflect their degree of reliability over a year. The NSFR will be expressed as a percentage and set at a minimum level of 100%, indicating that an institution holds sufficient stable funding to meet its funding needs during a one-year period under both normal and stressed conditions. The NSFR will apply at a level of 100% to credit institutions and systemic investment firms from June 28, 2021.

The Banking Reform Package allows for a phased implementation period with significant elements entering into force in 2021 (and others subject to a delay due to Covid-19). Certain elements of the package introduced under Directive 2019/878 (which amends CRD IV) will also need to be implemented into national law. The UK has implemented the majority of the provisions under the Banking Reform Package which became applicable on 28 December 2020 but not those which become applicable on or after 1 January 2021. However, the UK has indicated that it is committed to implementing international standards including those aspects of Basel III which formed part of CRR II. Please see the section entitled "Impact of Brexit" below for further information. It is not yet clear what impact the changes introduced by the Banking Reform Package and final Basel III standards will have on the Issuer's business.

### ***Revisions to the BRRD framework***

The Banking Reform Package also includes a number of significant revisions to the BRRD (known as "**BRRD2**"). The BRRD2 proposals were finalised in June 2019 and were due to be implemented in member states by 28 December 2020 with certain requirements relating to the implementation of the TLAC standard applying from January 1, 2022 and additional MREL requirements from January 2024. The UK implemented the majority of the BRRD2 provisions which became applicable on December 28, 2020 (although certain of those provisions were subject to a 'sunset' clause which disapplied them from 1 January 2021) but not those which became applicable on or after 1 January 2021. Please see the section below on "*Impact of Brexit*" for further information.

The BRRD2 package includes the integration of the Financial Stability Board's proposed minimum total loss-absorbing capacity into EU legislation and the framework requiring all relevant institutions to maintain a minimum requirements for own funds and eligible liabilities ("**MREL**"). The effects of BRRD2 (including in the form adopted in the UK) will be wide-ranging and, in particular, it will impact how institutions, such as the Society, absorb losses in certain stressed scenarios.

### ***The Society's capital requirements***

- *RWA-based capital requirements*: Under the current prudential framework, the Issuer is required to hold a minimum amount of regulatory capital equal to 8% of its risk-weighted assets (the "**Pillar 1 requirement**"), plus certain additional CET1 capital buffers (the "**buffer requirement**"). The buffer requirement as of September 2020 is equal to 3.5% of the Issuer's risk-weighted assets. In addition, the PRA may impose additional individual capital requirements on the Society, which may comprise an add-on to the Pillar 1 requirement (the "**Pillar 2A requirement**") to address risks to the Society which the PRA considers are not adequately covered by Pillar 1 requirements, and/or an add-on to the buffer requirement (the "**Pillar 2B requirement**") to provide for additional capital buffers in a financial stress scenario. The Issuer's Pillar 2A requirements must be met with at least 56.2% CET1 capital, at least 75% Tier 1 capital and not more than 25% Tier 2 capital. The Society's Pillar 2B requirements must be

met solely with CET1 capital. The Issuer may also decide to hold additional amounts of capital as part of the Society's risk and growth strategies. As at 30 September 2020, the Society's CET1 ratio was 34.5% and the Society's total capital ratio was 48.4%.

- *Buffers:* The Issuer's RWA-based buffer requirements from time to time will consist of a capital conservation buffer of 2.5% of RWAs plus any applicable counter-cyclical and systemic risk buffers. The counter-cyclical buffer is based on a weighted average of the counter-cyclical buffer rates applicable from time to time in the jurisdictions where the Issuer has significant exposures, predominantly the UK. As at the date of this Base Prospectus, the Issuer's counter-cyclical buffer requirement is 0%). The PRA introduced a systemic risk buffer for UK ring-fenced banks and large building societies, which applied from 1 August 2019 (the **Systemic Risk Buffer**). The PRA set a Systemic Risk Buffer rate of 1.0% of all RWAs for the Society, which applied to all exposures on a consolidated basis. The CRR, as retained (with certain adjustments) in UK domestic law under EUWA, also provides that an additional buffer requirement may be extended to institutions designated as 'other systemically important institutions' (**O-SIIs**). The Issuer has been designated as an O-SII. In PRA Policy Statement PS26/20 (setting out PRA's near-final policy which was subsequently confirmed in Policy Statement PS29/20 on 28 December 2020), the PRA confirmed that the O-SII buffer would take on the role previously performed by the Systemic Risk Buffer, and that while, going forwards, it has the power to use the Systemic Risk Buffer to set sectoral capital requirements for firms and approved holding companies, it did not propose to introduce such a Systemic Risk Buffer requirement at this time (but that it would consult on implementing the Systemic Risk Buffer in future if it were necessary and appropriate to apply it). Accordingly, the net effect of this change on the Society's buffers is neutral, with the Society's Systemic Risk Buffer reducing from 1.0% to nil and the Society's O-SII buffer increasing from nil to 1.0%.
- *EU leverage requirements:* The Banking Reform Package has introduced a binding leverage ratio, which is supplementary to the risk-based capital requirements. The calculation determines a ratio based on the relationship between Tier 1 capital and total exposures (i.e. non-risk-weighted assets), including off-balance sheet items. The leverage ratio does not distinguish between unsecured and secured loans, nor recognize the ratio of loan to value of secured lending. The leverage ratio has been set at 3% and will be applicable to all credit institutions. An additional leverage ratio buffer will apply to global systemically important institutions (**G-SIIs**). The Issuer is not presently designated as a G-SII.
- *UK leverage requirements:* Following recommendations from the Financial Policy Committee ("**FPC**") in 2016 the PRA introduced a UK leverage ratio framework. The UK leverage ratio framework is intended to mirror aspects of the risk-weighted capital requirement. The UK leverage ratio was originally set at 3% of risk-weighted assets and in 2017 was increased to 3.25% of exposures (excluding central bank reserve exposures), to reflect the removal of central bank deposits from the leverage exposure measure. At least three-quarters of the leverage ratio requirement must be met with CET1 capital and up to one-quarter may be met with AT1 capital. In addition, the UK leverage ratio framework includes two additional buffers that are to be met using CET1 capital only: an Additional Leverage Ratio Buffer ("**ALRB**"), applying to the largest UK banks and building societies and set at 35% of the corresponding risk-weighted systemic buffer rate, and a macro-prudential Countercyclical Leverage Buffer ("**CCLB**"), which is set at 35% of the corresponding risk-weighted countercyclical buffer (and rounded to the nearest 0.1%, with 0.05% being rounded up).

The Issuer's UK leverage ratio was 5.0% at 30 September 2020. Given the nature of the Issuer's balance sheet, which is underpinned by residential mortgage assets with a low risk profile (as demonstrated by a low level of arrears compared to the industry average), the Issuer's current binding capital constraint is based on leverage-based (rather than risk-based) capital requirements. Based on the Issuer's current understanding of the proposed changes to risk-weights, and subject to final implementation, the Issuer currently expects that the leverage ratio will continue to be its binding capital constraint in the near-term.

## ***RWA floors and IRB modelling***

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a transitional period from 2023 to 2028 (deferred by 12 months in light of Covid-19). On 2 August 2019, the EBA published its draft policy advice on (among other things) the Basel III output floor. The EBA recommended that:

- the output floor, at the 72.5% level set in the Basel agreement, should be implemented by EU institutions;
- the floored RWAs should be used as the basis across RWA-based capital requirements (including the minimum capital requirement, Pillar 2 requirements and buffer requirements) and at all levels of a banking group (including group consolidated, sub-consolidated and individual level);
- the implementation of the output floor should follow the five-year transitional path from 2022 (now delayed to 2023) as set out in the Basel III agreement, including the transitional cap of a 25% increase in RWA; and
- the legislation implementing these changes to the Basel III framework should clarify that the principal loss absorption trigger in AT1 instruments should be based on floored ratios (i.e. the CET1 ratio(s) based on the floored RWAs).

On 5 March 2020, the EBA published an additional analysis regarding the output floor. The analysis is based on a sample of 221 institutions belonging to 51 banking groups. Overall, the EBA concluded that the impact of applying the output floor at the individual level does not seem to be particularly high (with the exception of co-operative banks, for which the output floor is the main driver, but for which the overall impact of the reform is the lowest).

On 11 October 2019, the European Commission published a public consultation document regarding implementation of the December 2017 Basel III reforms in the EU, with a view to informing its preparation, if considered appropriate, of a formal proposal in due course. The consultation period expired in January 2020 but there has been a further exchange of letters between the EBA and the European Commission with the EBA publishing its final advice in March 2020. Accordingly, the EU is expected to adopt the remaining Basel III recommendations by amending its legislation.

Following the expiration of the Brexit transition period, the application of the output floor in the United Kingdom is a matter for the UK legislature and the Issuer's prudential regulators. HM Treasury and the PRA confirmed in April 2020 that they remain committed to the full, timely and consistent implementation of the Basel standards and will work together towards a UK implementation timetable that is consistent with the one year delay to the implementation of the December 2017 reforms announced by the Group of Central Bank Governors and Heads of Supervision in March 2020.

In addition, in June 2017, the PRA published a policy statement relating to residential mortgage risk-weights, including proposals to align firms' IRB modelling approaches for residential mortgage risk-weighted assets, and sets out a number of modifications to the IRB modelling methodologies for residential mortgages. The PRA has set the expectation for firms to update IRB models by the end of December 2021. On 14 May 2020, the PRA published a policy statement on probability of default and loss given default estimation for credit risk (PS11/20). In PS11/20, the PRA provides feedback to its September 2019 consultation paper (CP21/19) which consulted on proposals to implement the EBA's regulatory products that relate to the probability of default and loss given default estimation. The provisions in this policy will take effect on 1 January 2022. The PRA also published a consultation paper on 30 September 2020 (CP 14/20) which sets out proposals to introduce new expectations on the IRB approach for UK mortgage risk weights. The purpose of these proposals is to address the prudential risks stemming from inappropriately low IRB UK mortgage risk weights, to narrow differentials between the IRB and standardised approach UK mortgage risk weights, and to limit future divergence. The PRA considers that this would support competition between firms on the different approaches. This consultation closes on 30 January 2021.



These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources the Issuer holds or the risk profile of its assets. The final impacts are subject to uncertainty for future balance sheet size and mix, and the final detail of some elements of the regulatory changes remain at the PRA's discretion. However, the introduction of these RWA floors and IRB calibration changes is likely to lead to a significant increase in the Issuer's risk weights over time and it currently expects the consequential impact on its reported CET1 ratio ultimately to be a reduction of approximately 45-50% relative to its current methodology. However, organic earnings through this transitional period are expected to mitigate the impact such that the Society's reported CET1 ratio will in practice remain well in excess of the pro forma levels imposed by these changes, and the Issuer expects that leverage requirements will remain its binding capital constraint based on its latest projections. While the Issuer currently expects that the leverage ratio will continue to be its binding Tier 1 capital constraint in the near-term, it is possible that these changes will, over time, result in risk-weighted capital requirements becoming the binding constraint.

### ***MREL and resolution strategy***

At an EU level, MREL requirements are being introduced as part of a regime designed to make it easier to manage the failure of banks and building societies in an orderly way, without reliance on taxpayer bail-outs. These rules require all institutions to meet an individual MREL requirement by issuing own funds (capital instruments) and other 'eligible liabilities' which are available to be bailed-in (i.e. written down or converted to equity on the occurrence of certain trigger points), calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities.

The Bank of England has set the Society an indicative MREL requirement of 6.5% of the Society's UK leverage exposure). MREL requirements are split into two elements: firstly, a loss absorption amount, to cover losses up to and in resolution, based on a firm's minimum going concern capital requirement; and secondly, a recapitalisation amount, intended to enable the firm to continue as a going concern post-resolution and to access funds in the capital markets (and accordingly the recapitalisation amount is likely to be at least equal to the minimum going concern capital requirement). On May 7, 2020, the Bank of England announced that 2021 MREs will reflect the PRA's policy changes to Pillar 2A capital setting announced on the same date. The Bank of England released a discussion paper on December 18, 2020 regarding its approach to setting MREL as a first stage of its expected MREL review and indicated that the review will complete in 2021, not 2020 as initially planned. The Bank of England confirmed in this discussion paper that it considers it appropriate for mid-tier credit institutions to be given a longer timeframe within which to meet higher MREs, confirmed its view that for G-SIBs and D-SIBs (such as the Society) a bail-in resolution strategy remains appropriate and its commitment that such firms be resolvable by 2022.

In addition to the Issuer's MREL requirement, it must also hold applicable leverage ratio buffers of 0.35% of its UK leverage exposure. Together the MREL requirement and applicable buffers represent the Society's "loss-absorbing capacity" requirement. As at 30 September 2020, the Society's MREL resources were equal to 8.5% of the UK leverage ratio exposure.

The preferred resolution strategy for the Society has been set by the Bank of England as "bail-in", reflecting the Society's size and consequential risks of an insolvency process. 'Bail-in' would involve the write down or conversion to equity instruments (such as CCDS) of the liabilities of the Society, and would be expected to result in the write down or conversion of all or a large part of the Society's own funds and other eligible liabilities (and could in addition result in the write down or conversion of the Society's other, more senior-ranking liabilities). Notwithstanding this, the actual approach taken, should the Issuer require resolution, will depend on the circumstances at the time of a failure, and all available options would be considered by the Bank of England (as the Society's resolution authority).

### ***Stress Tests***

Since 2014, the Bank of England has conducted annual stress tests of the UK banking system. The annual cyclical scenario includes all major UK banks and building societies with total retail deposits equal to, or greater than, £50 billion on an individual or consolidated basis, at a firm's financial year-end date. This group includes the Society. The findings from the 2019 stress test (in which the FPC modelled deep simultaneous recessions in the UK and global economies that were more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct cost) showed that the Issuer would remain profitable, with capital levels well above regulatory requirements

(CET1 capital falling to 13.1% at its lowest point — 5.2% above the hurdle rate—and UK leverage ratio falling to 4.8% at its lowest point), with full distributions continuing to be made on all Tier 1 capital instruments.

On March 20, 2020, the Bank of England announced that it was cancelling the 2020 bank stress tests, in light of the Covid-19 pandemic.

### ***Impact of Covid-19***

Regulators, legislatures and central banks in the UK and globally have also taken a number of steps with respect to prudential and resolution requirements in order to facilitate lending against the backdrop of the Covid-19 related disruption, including:

- the FPC's decision to reduce the UK counter-cyclical buffer rate to 0% with immediate effect from March 2020, and guiding that it expected to maintain the rate at 0% for at least 12 months. In December 2020, the FPC updated its guidance on the path for the UK counter-cyclical buffer rate, stating that it expects this rate to remain at 0% until at least the fourth quarter of 2021, such that any subsequent increase is not expected to take effect until the fourth quarter of 2022 at the earliest. The FPC also noted that the eventual pace of return to its targeted standard of 2% will depend on banks' ability to rebuild capital while continuing to support households and businesses;
- the PRA's decision, announced on May 7, 2020, to allow firms (subject to PRA approval) to fix their Pillar 2A requirements at a nominal amount in the 2020 and 2021 Supervisory Review and Evaluation Processes (as opposed to a percentage of their risk-weighted assets), based on RWAs as at December 31, 2019, with the effect of avoiding an absolute increase in Pillar 2A capital requirements in the current stress and potentially reducing Pillar 2A and thus the threshold at which firms are subject to maximum distributable amount (MDA) restrictions;
- the Bank of England's confirmation on May 7, 2020 that 2021 MREs will reflect the above-referenced PRA policy change to Pillar 2A capital setting and a commitment to keep MREs under review and monitor market developments carefully in the third quarter of 2020 to inform its approach in the fourth quarter of 2020 to setting January 2021 MREs and indicative January 2022 MREs, as well as re-affirming the Bank of England's discretion with respect to the transition time firms are given to meet higher MREs;
- regulatory guidance, including from the PRA and via the EU Interpretative Communication published on April 28, 2020, as to the interpretation and flexibility of certain prudential and accounting requirements with respect to non-performing loans and other assets in the context of Covid-19 generally and also specifically in the context of payment holidays and other allowances and concessions afforded to borrowers, including guidance on how banks and building societies might approach key judgements as to whether and when borrowers should be treated as in default under the prudential rules, or as having suffered a significant increase in credit risk (SICR) or credit impaired for accounting purposes under the expected credit loss assessments under IFRS 9;
- the Basel Committee on Banking Supervision's ("BCBS") deferral of the introduction of certain capital requirements, including a year's deferral in the implementation of and transitional arrangements for the Basel III standards finalised in December 2017, including that the RWA output floor will now be phased in from January 2023 to January 2028;
- alleviating operational burdens in the short-term, including: the Bank of England's decision to cancel the annual banks stress tests for 2020; extensions to certain resolution planning reporting and publication deadlines under the Resolvability Assessment Framework and SS19/13; and
- exceptional temporary measures, including the European Commission's proposals published on April 28, 2020 and approved in the European Parliament plenary session on June 19, 2020 for, amongst other things: a two-year extension of the current transitional arrangements under CRR for mitigating the impact of IFRS 9 provisions on regulatory capital, allowing banks and building societies to add back to

their regulatory capital any increase in new ECL provisions incurred as of January 1, 2020 and recognised in 2020 and 2021 for financial assets which have not defaulted; a year's deferral (to January 1, 2023) of the introduction under CRR of the leverage ratio buffer requirement on G-SIIs; preferential capital treatment of certain publicly guaranteed loans and bringing forward the introduction of certain previously agreed measures to incentivize banks to finance employees, SMEs and infrastructure projects, as well as to invest in software.

### ***Resolvability Assessment Framework***

On July 30, 2019, the Bank of England and the PRA published final rules and policy in relation to the “*Resolvability Assessment Framework*” (“**RAF**”), under which the Bank of England and the PRA will assess the readiness of UK banks and building societies for resolution. The framework is set out in a Bank of England Statement of Policy (“**SoP**”) and a new Resolution Assessment part of the PRA Rulebook (together with a PRA Supervisory Statement). The Bank of England SoP only applies to UK firms with a bail-in or partial transfer resolution. The Bank of England and PRA have delayed the application of this regime due to Covid-19 and initially published a ‘modification by consent’ to give effect to this. The PRA subsequently published a consultation paper (CP19/20) on October 28, 2020 proposing to amend their rules in accordance with the changes set out in the modification by consent, thereby extending by one year the dates by which firms are first required to submit a report of their assessment of their preparations for resolution to the PRA by October 2021 and to publish a summary of this report by June 2022. The consultation closes on January 31, 2021. The SoP specifies three “resolvability outcomes” which relevant firms must meet – (i) having adequate financial resources, (ii) being able to continue to do business through resolution and restructuring, and (iii) being able to communicate and co-ordinate within the firm and with authorities and markets. The new Resolution Assessment part of the PRA Rulebook applies to UK banks and building societies with £50 billion or more in retail deposits (so-called “**Major Firms**”) and requires them to assess their preparations for resolution, submit reports of their assessment to the PRA every two years; the Issuer is subject to this requirement. In addition, the Bank of England will make public statements regarding each Major Firm’s resolvability; these may highlight perceived shortcomings where the Bank of England considers that the firm in question has more work to do to be resolvable.

### ***Impact of Brexit***

On January 31, 2020, the United Kingdom ceased to be a member of the EU and the EEA. By virtue of the EUWA and the Article 50 Withdrawal Agreement, EU law and EU-derived domestic legislation continued to apply to and in the UK during a transition period which lasted until December 31, 2020. During the transition period the UK continued to be treated as a member state under EU law unless otherwise specified. Therefore, new EU legislation that took effect before the end of the transition period also applied to the UK.

On December 24, 2020, an agreement in principle was reached in relation to the EU-UK Trade and Cooperation Agreement (the **Trade and Cooperation Agreement**), to govern the future relations between the EU and UK following the end of the transition period. The Trade and Cooperation Agreement has provisional application from 1 January 2021 until the European Parliament gives its consent by 28 February 2021. The Trade and Cooperation Agreement is accompanied by a non-binding joint declaration committing the UK and the EU to cooperation in matters of financial regulation such as requirements for reporting under MiFID II, certain MAR requirements and the UK binding technical standards on strong customer authentication among others. The nonbinding joint declaration is intended to be facilitated by a memorandum of understanding due to be agreed by March 2021.

Following the end of the transition period, the EUWA provides that certain existing EU legislation which had direct effect in the UK is retained in UK law as well as existing UK laws which implemented EU obligations. The UK government was given powers to amend this retained EU legislation so that it works effectively when the UK leaves the EU. The UK government has used this power to make numerous statutory instruments which amended retained EU financial services legislation. The UK government’s intention was that the same rules and laws apply as the point the transition period ends, as far as possible, but with the necessary amendments to reflect the UK’s position outside the EU.

The UK government has also conferred on the UK financial regulators (that is, the FCA, the Bank of England and the PRA) responsibility for amending and maintaining certain EU-binding technical standards which were retained in UK law at the end of the transition period. These technical standards specify detailed requirements for the purposes of

various EU regulations and directives. In addition, the FCA and the PRA have amended their rules and regulations to ensure that these are consistent with the changes that the UK government made to retained EU law and so that it still works effectively following the end of the transition period.

Accordingly, following the end of transition period, the rules applicable to the Society changed. To help firms, like the Society, to adapt to the new requirements, the UK government has given the UK financial regulators the power to make transitional provisions in relation to financial services legislation for a temporary period. This is known as the “Temporary Transitional Power”. The FCA and the PRA issued directions and guidance according to which the FCA and PRA are applying the Temporary Transitional Power on a broad basis from the end of the transition period until 31 March 2022. This means that firms do not generally need to prepare to meet the changes to their UK regulatory obligations. Where the Temporary Transitional Power applies, the Society will be able to continue to comply with the requirements which applied prior to the end of the transition period its existing requirements for a limited period and use the duration of the Temporary Transitional Power to prepare for full compliance with the new UK regulatory regime by 31 March 2022. However, there are certain areas where the Temporary Transitional Power does not apply. In these areas, the FCA and the PRA have stated that they expect firms to prepare to comply with the relevant changes from 31 December 2020. These areas include (but are not limited to) requirements on transaction reporting under UK MiFIR, certain requirements under UK MAR and the UK binding technical standards on strong customer authentication, as well as contractual recognition of bail-in rules, contractual stays and changes being made to the rules on depositor and policyholder protection.

Now that the transition period has ended, Nationwide’s preparations have allowed it to comply with the new rules and regulations which took effect from 1 January 2021. The Brexit Programme continues its oversight of Brexit compliance via weekly Steering Committee and operational “Heartbeat” meetings. Changes which have now been implemented as a result of Brexit are currently spread across several organisational areas with primary activity occurring within the Product teams.

In addition to this, change has also occurred in the Digital and Channels space, encompassing several platforms, with content change and implementation being co-ordinated via the Brexit Programme directly. Business readiness activities are substantially complete which ensured both colleagues and impacted business areas made the transition on 31 December 2020 and all areas remain well engaged.

Under the terms of the EUWA, EU regulations that were adopted but did not apply prior to the end of the transition period (such as provisions being phased in under the Banking Reform Package) and legislative proposals that were in negotiation but not adopted before the end of the transition period are out of scope of the EUWA. This means these legislative measures do not and apply in the UK unless these are separately implemented by the UK government.

On 21 October 2020, the UK government presented the Financial Services Bill 2019-21. The government intends to use this bill to make extensive amendments to the legislative and regulatory framework for financial services following the end of the transition period. The bill sets out reforms relating to, among other things, prudential regulation of banks and investment firms (including the implementation of a number of Basel III measures which will not be onshored at the end of the transition period because the provisions do not apply in the EU until 28 June 2021), access to financial services markets and insider dealing and money laundering. The bill had its first reading in the House of Commons on 21 October 2020 and its second reading on 9 November 2020. According to the UK Parliament webpage on the progress of the bill, the Committee stage (that is, the line-by-line examination of the bill) concluded on 3 December 2020. The bill entered the report stage on January 13, 2021 and had its third reading in the House of Commons on January 13, 2021 and its first reading in the House of Lords on 14 January 2021. The bill had its second reading in the House of Lords on January 28, 2021. It is unclear at this stage when the bill will become law.

## **UK REGULATION**

### ***The UK Building Societies Act***

The UK Building Societies Act, as amended, governs the creation, authorisation and management of building societies. The Issuer is regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. With the introduction of the FSMA, certain sections of the UK Building Societies Act were

repealed. However, a substantial part of the UK Building Societies Act, including the constitutional parts dealing with the principal purpose of building societies, nature limits and general governance, among others, still remain in force. The UK Building Societies Act has been amended and supplemented since its introduction by primary and secondary legislation.

On 6 April 2018, certain changes were made to the restrictions on building societies from trading in currencies and entering into transactions involving derivative investments. The effect of the changes is to increase the value of a permitted currency transaction which a society or a subsidiary undertaking may enter into from £100,000 to £3 million and to permit a society or a subsidiary undertaking to enter into derivative transactions (in connection with Article 37 of the EU Regulation on OTC derivatives, central counterparties and trade repositories) where required to do so by a central counterparty or a recognised clearing house and thereby permitting a society or subsidiary undertaking to be a member of a clearing house where such a requirement exists.

The UK Building Societies Act and related legislation has been amended by the Building Societies Legislation (Amendment) (EU Exit) Regulations 2018, as amended, (**Building Societies EU Exit Regulations**) to equalize the treatment of EEA countries and other third countries after the end of the Brexit transition period. The amendments made under the Building Societies EU Exit Regulations came into effect at 23:00 GMT on December 31, 2020. The amendments have impacted the Society's ability to diversify into lending secured on properties in EEA member states (as such loans no longer count towards the statutory lending limit) and the ability to merge with companies and mutuals in EEA member states. Neither of these restrictions gives rise to any concerns for the Society as they do not impact the Society's current business strategy.

### ***Nature of UK building society regulation***

The following sections describe some of the concepts for a building society that is authorised under FSMA.

#### ***Mutuality***

Building societies are mutual organisations that are managed for the benefit of their members, who are primarily current account, retail savings and residential mortgage customers. Each member is normally entitled to one vote at a building society's general meeting, regardless of the size of the member's deposit account or mortgage loan or the number of accounts the member maintains.

#### ***Purpose***

Building societies are required to be engaged primarily in the business of making loans secured on residential property, which are substantially funded by members. In addition, as long as building societies comply with specific limits on lending and funding, they may engage in additional activities such as commercial lending, unsecured personal lending, insurance and personal investment product activities, subject to compliance with regulatory requirements of the FCA, the PRA and the CMA. The general restriction which used to apply to building societies from creating floating charges was removed by the Banking Reform Act with effect from 26 March 2015.

Building societies have a statutory duty to keep accounting records as well as establish and maintain systems of control. The FCA and the PRA are empowered to request *ad hoc* reports regarding a society's compliance with these requirements.

#### ***Nature of membership***

The members of a building society fall into two categories. The first category consists of investing or "shareholding" members. Shareholding members are individuals who have made a deposit (also referred to as an "**investment**") in a share account with a building society or who hold deferred shares in the society, and bodies corporate which hold deferred shares. Deposits in these share accounts are referred to as "UK retail member deposits" and people holding UK retail member deposits are referred to as "UK retail member depositors". "**Deferred shares**" include the Society's CCDS, Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities and PIBS.

There are restrictions on building societies raising funds from individuals other than in the form of deposits in share accounts or by the issue of deferred shares (including PIBS and the CCDS (see further below)).

The second category of members are “borrowing” members, that is, individuals who have received a loan from the building society (or in certain cases, if the rules of the society allow, from another person who holds the benefit of the loan for the building society) which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

### ***Limitations on funding and lending***

The UK Building Societies Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50% of its total funding. In calculating this amount, a specified amount of deposits made by individuals with a building society’s subsidiaries in EEA member states, subject to the Building Societies EU Exit Regulations, the Channel Islands, the Isle of Man or Gibraltar is disregarded. The specified amount in each case is up to 10% of what would have been the building society’s funding but for the exclusion. Deposits with a building society or any of its subsidiaries by small businesses are also disregarded from the calculation up to a maximum of 10% of what would have been the building society’s funding but for the exclusion.

Loans made by a building society and its subsidiaries which are fully secured on residential property must account for not less than 75% of its total trading assets (that is, the total assets of a building society and its subsidiaries, plus provisions for bad or doubtful debts, less liquid assets, fixed assets and certain long-term insurance funds).

### ***Building Societies (Financial Assistance) Order 2010***

On 7 April 2010, the Building Societies (Financial Assistance) Order 2010 (the “**Financial Assistance Order**”) came into force in exercise of certain powers under the UK Banking Act 2009 for the purpose of modifying the application of the UK Building Societies Act in specified circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain ‘qualifying institutions’. Qualifying institutions for this purpose include HM Treasury, the Bank of England, another central bank of a Member State of the EEA, the European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance received from such an institution. Most significantly, the Financial Assistance Order permits any qualifying institution to provide such assistance without it counting for the purpose of the 50% limit on the building society’s non-member funding and the Financial Assistance Order also modifies the application of the purpose test and the lending limit.

### ***Nature of capital***

UK retail member deposits are classified as shares in a building society’s balance sheet. There is a fundamental distinction between a share in a building society and a share in a limited liability company. Holders of ordinary shares in a company normally do not have the right to withdraw their share capital from the company. The share capital of a company is therefore fixed. A UK retail member depositor has a right to withdraw his or her investment from a building society. The share capital of a building society therefore fluctuates each time UK retail member depositors deposit or withdraw funds from their account. As a result shares in a building society do not form a permanent capital resource.

A building society’s CET1 therefore consists primarily of its reserves (in the Society’s case, these have been built up over the years mainly from retained earnings – as the Issuer has made an annual profit for over 95 years), any deferred shares that it has issued and tier 2 subordinated debt. Prior to the development of CCDS, the deferred shares issued by the Society were mainly in the form of PIBS, which historically counted towards a society’s ‘core tier 1 capital’ (the predecessor to CET1 capital). Changes to the capital adequacy framework which were implemented in the UK at the end of 2010, toughened the requirements for tier 1 capital. PIBS, which were already in existence, retained their capital status but the extent to which such deferred shares count towards regulatory capital is being phased out over a long transitional period. CCDS meet the regulatory criteria for building society CET1 capital, while being consistent with the values of mutuality and supporting members’ interests. The CCDS are also designed to be a suitable instrument for raising new capital from external investors.

The Issuer has also issued Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities which qualify as AT1 capital under the CRR.

### ***Hedging***

The UK Building Societies Act prohibits building societies and their subsidiaries from entering into any transaction involving derivative instruments unless the transaction falls within one of the specified exceptions, including where it is entered for the purpose of limiting the extent to which the society will be affected by fluctuations in interest rates, exchange rates, any index of retail prices, any index of residential property prices, any index of the prices of securities or the ability or willingness of a borrower to repay a loan owing to the building society.

On 6 April 2018, certain changes were made to the restrictions on building societies from trading in currencies and entering into transactions involving derivative investments. The effect of the changes is to increase the value of a permitted currency transaction which a society or a subsidiary undertaking may enter into from £100,000 to £3 million and to permit a society or a subsidiary undertaking to enter into derivative transactions (in connection with Article 37 of the EU Regulation on OTC derivatives, central counterparties and trade repositories) where required to do so by a central counterparty or a recognised clearing house and thereby permitting a society or subsidiary undertaking to be a member of a clearing house where such a requirement exists.

### ***Demutualisation***

The UK Building Societies Act permits a building society to demutualise by transferring the whole of its business to an existing company (referred to as a “**takeover**”) or to a specially formed company (referred to as a “**conversion**”) so long as the process meets statutory requirements. Any such demutualisation must be approved by members and the PRA. The successor company will be a bank, which must be duly authorised to carry on its deposit-taking.

The member approval threshold required varies depending on the type of demutualisation. In order to convert into a new bank by transferring the building society’s business to a specially formed company, a minimum of 50% of shareholding members qualified to vote would have to vote on a requisite shareholders’ resolution, and a minimum of 75% of those voting would have to support the resolution to convert. In addition, more than 50% of borrowing members who vote would have to vote in favour of a borrowing members’ resolution to convert. On a demutualisation as a result of a takeover by an existing bank or other company, the requirements would be similar except that 50% of shareholding members qualified to vote (or shareholding members representing 90% by value of the society’s shares) must actually vote in favour of the requisite shareholding members’ resolution. In certain circumstances, where the PRA considers it expedient to do so in order to protect the investments of shareholders or depositors, the PRA may direct that the requisite shareholders’ resolution on a takeover may be effective if it is passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution.

### ***Mutual society transfers***

The UK Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the “**Funding and Mutual Societies Transfers Act**”). The successor subsidiary must be duly authorised to carry on its deposit-taking business. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favourable than those enjoyed by existing members of the holding mutual (or such parent undertaking, as the case may be).

A transfer of business to a subsidiary of another mutual society requires approval by members and confirmation by the PRA. The member approval thresholds require a shareholding members’ resolution to be passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution and a borrowing members’ resolution to be passed by more than 50% of borrowing members qualified to vote and voting on the resolution.

## ***Directed transfers***

The UK Building Societies Act confers power on the PRA, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The Financial Services Act 2012 also amended the UK Building Societies Act to extend this power of direction to a transfer of a building society's business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). Where any such direction is made, the PRA may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

## **The UK regulators**

The PRA is currently the prudential regulator for building societies, banks, insurance companies and other deposit takers. The general objective of the PRA is promoting the safety and soundness of PRA-authorised persons.

The PRA supervises and regulates financial institutions, including building societies, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the FSMA, the PRA has a variety of enforcement powers including:

- issuing a private warning; or
- taking disciplinary measures, such as issuing a public statement of misconduct or imposing a financial penalty.

The FCA is currently the conduct regulator for firms that are prudentially regulated by the PRA (dual-regulated firms). The FCA regulates both prudential and conduct matters for all other firms. The FCA's strategic objective is ensuring the relevant markets function well. The FCA's operational objectives are:

- the consumer protection objective;
- the integrity objective; and
- the competition objective.

The FCA also has a variety of enforcement powers under the FSMA, and from 1 April 2014, is responsible for supervision of consumer credit regulation and superintendence and enforcement of the Consumer Credit Act 1974, as amended.

As set out below, the CMA also enjoys certain enforcement powers under the UK financial services regime.

## **Operational Resilience**

In July 2018, the Bank of England, PRA and FCA published a joint discussion paper on their intended approach to improve the operational resilience of firms (supervised by the FCA/PRA) and Financial Market Infrastructures ("FMIs") (supervised by the Bank of England). The discussion paper introduces a number of important concepts which are relevant to all firms and FMIs including a concept of "impact tolerance". Firms and FMIs should set impact tolerances which quantify the amount of disruption that could be tolerated in the event of an incident. The discussion paper encourages firms to ensure key business services are sufficiently resilient to a wide range of threats and the deadline for responses to the paper was 5 October 2018.

On 5 December 2019 the Bank of England, PRA and FCA published consultation papers in line with the concepts introduced in the July 2018 discussion paper. These proposals expect firms and FMIs to identify their important business services that, if disrupted, could cause harm to consumers or market integrity, threaten the viability of firms or cause instability in the financial system. Impact tolerances should be set for each important business service and firms and FMIs should take actions to be able to remain within their impact tolerances through a range of severe but plausible disruption



scenarios. Firms and FMIs will also be expected to identify and document the people, processes, technology, facilities and information that support their important business services. The proposed policies will comprise new rules (for the FCA and PRA), principles, expectations and guidance, and will be implemented through the authorities' respective supervisory areas. On 20 March 2020 the Bank of England, PRA and FCA announced an extension to their respective consultations until 1 October 2020. It is planned that firms and FMIs will not need to meet requirements resulting from the consultations before the end of 2021.

The Financial Policy Committee (“FPC”) has also undertaken work in this area, with a particular focus on cyber risk. The FPC will ask firms to conduct cyber stress testing. At an institutional level, the Basel Committee on Banking Supervision (“BCBS”) has established the Operational Resilience Working Group and in December 2018 the BCBS published a report on cyber resilience. This report identifies areas which further policy work is likely to be undertaken. In view of Covid-19, on 16 April 2020 the Basel Committee also published a brief entitled “Covid-19 and operational resilience: addressing financial institutions’ operational challenges in a pandemic”, which states that financial institutions’ cyber resilience processes should remain vigilant in order to identify and protect vulnerable systems. These processes should also be able to detect, and respond to cyber-attacks, as well as assist with the relevant institution’s recovery from them.

### **Market Competition**

On 28 September 2018, the CMA received a super-complaint from Citizens Advice about loyalty pricing issues in the mobile, broadband, cash savings, home insurance and mortgages markets. The CMA investigated the complaint and published its response on 19 December 2018. In its response, the CMA recommended eight key reforms to address problems related to the “loyalty penalty” across all five markets together with market-specific reforms. In the case of cash savings, the CMA supports the FCA’s work around the introduction of a basic savings rate, as well as recommending that the FCA considers if collective switching can be applied. In relation to mortgages, the CMA strongly supports the FCA’s work on the mortgages market study and recommended that the FCA find out more about customers who could switch, but do not, and look at what measures can be taken to help or protect these customers where needed. The Government responded to the CMA’s recommendations on 18 June 2019 indicating that it welcomed the CMA’s recommendations for financial services and that the FCA has ongoing work in the cash savings, insurance and mortgage markets. In its 2019/2020 Business Plan, the FCA states that it will consider what action will best address the fact that those customers who shop around often get much better rates in the cash savings and insurance market and will publish proposals to address this, including exploring whether price interventions may be relevant. On 4 October 2019, the FCA also published an interim report on its Market Study MS 18/1 2 “General insurance pricing practices market study”. In the report, the FCA found that the home and motor insurance markets are not working well for all consumers and considered that regulatory intervention is required. On 22 September 2020, the FCA published the final report of its market study, proposing significant reform of these markets through measures which seek to enhance competition, ensure consumers will receive fair value, and increase trust in these markets. The reforms proposed by the FCA include that, when a customer renews their home or motor insurance policy, the relevant customer should pay no more than they would if they were new to the provider through the same sales and channels. The FCA is also considering other new measures to further boost competition and deliver fair value to all insurance customers. These include proposed new product governance rules, additional reporting requirements and rules on making it simpler to stop automatic renewals across all general insurance products. The FCA sought views on its proposals up until 25 January 2021.

On 9 January 2020 the FCA also published a Consultation Paper CP 20/1 “Introducing a Single Easy Access Rate for cash savings”. The consultation was due to close in April 2020 and was extended until 15 December 2020 due to the impact of Covid-19. Given the continuing impact of Covid-19 and the low-interest rate environment, the FCA decided to stop this consultation altogether. The FCA stated that as interest rates for new products fall, so does the gap between rates paid to new and longstanding customers, and the size of the harm falls. Accordingly, the FCA does not consider that introducing a single easy access rate for cash savings would be proportionate to the current level of harm in this market. However, the FCA will continue to monitor the market and may revisit this decision if the FCA sees significant harm to consumers in the future. See “*CMA and FCA regulation to increase competition*” below for further information in respect of regulatory action to increase competition and to protect customers.

## Authorisation under the FSMA

The FSMA prohibits any person from carrying on a “regulated activity” by way of business in the UK unless that person is authorised or exempt under the FSMA. Regulated activities include amongst other things: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), consumer credit activities (such as broking, lending, administration and collection), effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). The Issuer is authorised for, among other things, deposit-taking, mortgage and certain investment activities. The Issuer is also authorised for various consumer credit activities. The FSMA also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised person or is exempt from such requirements. The FSMA imposes criminal and civil sanctions for firms acting without appropriate authorisation as well as in relation to the communication of financial promotions which are not otherwise approved or exempt.

The FSMA (as amended by the Financial Services Act 2012) imposes an ongoing system of regulation and control on building societies. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of the FCA Handbook and the PRA Rulebook together with guidance in various policy statements and supervisory statements.

The FSMA was amended in the UK by numerous statutory instruments, including but not limited to Financial Regulators’ Powers (Technical Standards) (Amendment etc.) (EU Exit) Regulations 2018 and the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019, to reflect the UK’s exit from the EU.

## Lending

### *Consumer credit*

The regulatory framework in this area consists of the FSMA and secondary legislation and the Consumer Credit Act 1974 (as amended) (“CCA”) and secondary legislation, together with the FCA Handbook including the Consumer Credit sourcebook (“CONC”). A “regulated credit agreement” is defined as follows in the FSMA 2000 (Regulated Activities) Order 2001 (the “RAO”):

- For agreements entered into on or after 1 April 2014 article 60B of the RAO provides that a regulated credit agreement is an agreement (other than a green deal plan) between an individual or relevant recipient of credit ("A") and any other person ("B") under which B provides A with credit of any amount, and which is not an exempt agreement within the RAO.
- For agreements entered into before 1 April 2014, a credit agreement which was a regulated agreement pursuant to section 189(1) of the CCA at the time the agreement was entered into (or became such a regulated agreement after being varied or supplemented by another agreement before 1 April 2014, and would not be an exempt agreement pursuant to article 60C(2) of the RAO on March 21, 2016 if the agreement were entered into on that date).

A “regulated credit agreement” is defined as follows in section 8 CCA:

- An agreement which is a “regulated credit agreement” under article 60B of the RAO (see above); and
- For agreements entered into on or after March 21, 2016, a consumer credit agreement (within the meaning of section 8 CCA) is not an agreement the purpose of which is the acquisition or retention, by an individual acting for purposes outside those of any trade, business or profession carried on by the individual, of property rights in land or in an existing or projected building. Land in this context means (i) in the case of an agreement entered into before 31 December 2020, land or building in the UK or an EEA state, and (ii) in relation to an agreement entered into on or after 31 December 2020, land or building in the UK.

If requirements under the CCA as to entering into, documenting and servicing a regulated credit agreement are not or have not been met, then the agreement is unenforceable against the borrower without a court order or (for agreements entered into before 6 April 2007) is totally unenforceable, depending on the circumstances. Under sections 75 and 75A of the CCA, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by the CCA or treated as such, and the lender has a statutory indemnity from the supplier against liability under section 75, subject to any agreement between the lender and the supplier.

If prohibitions under FSMA as to authorisation or financial promotions are contravened (by credit brokers as well as lenders like us), then the affected regulated credit agreement is unenforceable against the borrower without a validation order from the FCA.

There are also pending legislative changes to default notices required by the CCA. On 7 October 2020 HM Treasury announced that as part of the Government's effort to support people in problem debt, it will legislate to change the language and presentation of information in debt letters (i.e. Default Notices), providing that the new rules will make debt letters less threatening by restricting the amount of information that must be made prominent and requiring the use of bold or underlined text rather than capital letters. Lenders and owners will also now be able to replace legal terms with more widely understood words and letters will clearly signpost people to the best sources of free debt advice. The Consumer Credit (Enforcement, Default and Termination Notices) (Coronavirus) (Amendment) Regulations 2020, implementing these changes, were published on 11 November 2020 and came into force on 2 December 2020. All lenders will then be required to make the changes within six months. The Society will need to ensure the relevant changes are made to its template default notices in accordance with the implementation timescale in order to ensure the default notice remains valid under section 87 and 88 CCA.

#### *Loans are subject to certain legal and regulatory risks*

Certain regulatory risks exist in relation to the Loans, including in relation to the legal and regulatory considerations relating to the Loans and their Related Security, changes in law, regulation, the possibility of complaints by Borrowers in relation to terms of the Loans and in relation to the policies and procedures of the Seller. Further detail on certain considerations in relation to the regulation of mortgages in the UK is set out in the section headed "Further Information relating to the regulation of mortgages in the UK – Certain Regulatory Considerations" below.

#### *Breathing Space Regulations*

The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020 are due to come into force in 4 May 2021 (the Breathing Space Regulations). The Breathing Space Regulations will establish a scheme which will give an eligible individual in problem debt the right to legal protections from creditor action for up to 60 days while they receive debt advice, as well as a separate scheme providing for borrowers receiving mental health crisis treatment to be protected by a similar moratorium for the duration of their mental health crisis treatment and then for a further 30 days following the end of such treatment. Protections under the scheme are not extended to mortgage payments on the principal and interest, but will extend to payments of mortgage arrears not capitalised and interest, fees or any other charges on those arrears.

### **Insurance**

The Issuer is also authorised for carrying out insurance distribution. The Insurance: Conduct of Business sourcebook, which is part of the FCA Handbook, sets out certain rules in respect of non-investment insurance.

### **Financial Services Compensation Scheme**

The FSMA established the Financial Services Compensation Scheme, or FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. The limits of compensation are, generally (i) for deposits, 100% of the first £85,000 per person per firm for claims against firms declared in default from 30 January 2017; (ii) for investments, £50,000 per person per firm for claims against firms declared in default from 1 January 2010 and £85,000 per person per firm for claims against firms in default from 1 April 2019, (iii) for home finance such as mortgage advice and arranging, 100% of the first £50,000 per person per firm

for claims against firms declared in default from 1 January 2010 and £85,000 per person per firm for claims against firms in default from 1 April 2019; and (iv) for insurance, for claims against firms declared in default from 3 July 2015, 100% where claims arise (a) in respect of a liability subject to compulsory insurance; (b) in respect of a liability subject to professional indemnity insurance; (c) from the death or in capacity of the policy holder due to injury, sickness or infirmity; and (d) in respect of long-term insurance; and 90% of the claim where claims arise under certain other types of covered policy with no upper limit (certain types of insurance are not covered at all). The FSCS only pays compensation for financial loss.

### **Financial Ombudsman Service**

The FSMA established the Financial Ombudsman Service (the “FOS”), an independent adjudicator, is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance, rather than making determinations strictly on the basis of compliance with law. In March 2019, the FCA published Policy Statement PS 19/8 entitled “*Increasing the award limit for the Financial Ombudsman Service*”. With effect from 1 April 2019 the maximum level of compensation which can be awarded by the FOS is (i) £355,000 for complaints referred to the FOS on or after 1 April 2020 about acts or omissions by firms on or after 1 April 2019; (ii) £350,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2020 about acts or omission by firms on or after 1 April 2019 and (iii) £160,000 for complaints about acts or omissions by firms before 1 April 2019 and which are referred to the FOS after that date. For claims brought before 1 April 2019 in respect of acts or omissions by firms which also took place before that date, the limit of £150,000 would apply. Additionally, the compensation limit will be automatically adjusted each year for inflation (measured by reference to the Consumer Price Index (CPI)) from 1 April 2020 onwards. Complaints properly brought before the Ombudsman for consideration must be decided on a case by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. As the Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a monetary award to a complaining borrower.

### **CMA and FCA regulation to increase competition**

Following a market investigation into competition in the personal current accounts and the small and medium-sized enterprises (“SME”) retail banking markets, the CMA published its final report on August 9, 2016 which identified features of the markets for the supply of personal current accounts, business current accounts and SME lending that are having an adverse effect on competition. The CMA decided on a comprehensive package of remedial measures which included, among other things, the introduction of requirements to prompt customers to review the services that they receive from their bank at certain trigger points and to promote public awareness of account switching. The remedial measures were to be implemented by orders, undertakings to be given by banks and further work by the FCA and HM Treasury, including further work on overdraft charges by the FCA, which remains under political scrutiny. On 2 February 2017, the CMA made the Retail Banking Market Investigation Order 2017 to implement the remedial measures. On 18 December 2018, the FCA published Consultation Paper CP18/42 entitled “*High-Cost Credit Review: Overdrafts consultation paper and policy statement*” aimed at encouraging competition as well as proposing interventionist measures in relation to the high level and complex pricing structures as well as repeated overdraft use. The FCA published PS19/16 entitled “*High-Cost Credit Review: Overdrafts policy statement*” on 7 June 2019 setting out the FCA’s final rules. The rules require (among other things) firms to align the prices of unarranged overdrafts so that they are no more expensive than arranged overdrafts and simplify their overdraft pricing structures to charge a single annual rate of interest for both arranged and unarranged overdrafts. The overdraft pricing rules came into force on 6 April 2020. On 7 June 2019, the FCA published Consultation Paper CP19/18 entitled “*Overdraft Pricing Remedies and Competition Remedies*”, which sets out proposals requiring firms to publish overdraft prices and fees to improve transparency and promote more effective competition for overdrafts. The FCA published amendments to its rules in PS19/25 on 2 October 2019. The amendments require firms to publish overdraft pricing information alongside information on current accounts. The rules came into force on 6 April 2020 along with the overdraft pricing rules.

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

On 23 April 2019 the FCA published Feedback Statement FS19/2 entitled "*A duty of care and potential alternative approaches: summary of responses and next steps*", following on from Discussion Paper DP18/5 published in July 2018. The FCA is considering introducing new duty of care requirements that could place a general obligation on firms to act in the best interests of consumers. A Financial Services (Duty of Care) Bill was introduced in the House of Lords in October 2019. The Bill would have required the FCA to make rules in relation to the duty of care financial services firms owe to consumers. The Bill was re-introduced on 9 January 2020. It is possible that changes may be made to the FCA's rules and guidance, in particular its Principles for Businesses, as a result. The FCA was due to publish a policy paper on the possibility of introducing a new duty of care for financial services firms in early 2020, which will seek detailed views on specific options for change. However, as a result of Covid-19 this work has been delayed to Q1 2021.

The aim of open banking is to create more transparency and fairness in the UK banking and financial services market through greater competition and innovation. It has the potential to disrupt traditional personal financial services models significantly and to reshape the banking landscape in the UK radically. Open banking requires financial institutions such as Nationwide to provide registered third party organisations with transactional information where the consent of the customer or member is provided, and also to make public and openly share their product information, as well as customer satisfaction scores and other service level indicators. This makes it possible for consumers to share their financial transactional data more easily with third parties online, allows third parties to initiate payments directly from a person's account as a bank transfer as an alternative to credit or debit card payments, and enables customers or such third party providers to more easily compare products offered by different institutions. This offers the prospect of an enhanced banking experience for the customer – for example, providers could offer comparison and switching services to help customers identify the best financial products for them and, over time, potentially enable customers to automate management of their finances to some degree, such as authorising service providers to transfer their finances to more competitive products on a regular and ongoing basis. On 17 December 2019, the FCA published Call for Input to explore the opportunities and risks arising from open finance. The Call for Input was open until 1 October 2020. The FCA announced that it would publish a feedback statement following the consultation in 2020, which it did not do, it is unclear when a feedback statement will be published. Open finance would extend open banking principles to give consumers and businesses more control over a wider range of their financial data, such as savings, insurance, mortgages, investments, pensions and consumer credit. It has the potential to increase competition among financial service providers and is aimed at delivering benefits for consumers and open finance participants alike.

### **Covid-19 relevant legislation and regulation**

The Issuer must also comply with FCA guidance introduced to support customers with other products including personal loans, credit cards and overdrafts. Amongst other matters, the personal loans and credit card guidance requires that where a customer with a personal loan or credit card is experiencing or reasonably expects to experience temporary payment difficulties as a result of circumstances relating to Covid-19, wishes to receive a full payment deferral and has not received such a deferral previously, the Issuer should grant the customer a three monthly payments deferral, unless the firm determines (acting reasonably) that it is obviously not in the customer's interests to do so. If the customer is unable to resume payments at the end of that payment deferral then the Issuer should consider whether it is appropriate to grant a further full or partial payment deferral for up to a further three months, or where that is not appropriate, to offer the customer alternative forbearance in accordance with the FCA rules. Where at the end of any further payment deferral period the customer is not able to resume payments, the Issuer should provide such appropriate forbearance in accordance with FCA rules and is also expected to waive the additional interest accrued during the payment deferral period as soon as reasonably practicable at the end of the deferment period. The effect of this is to ensure that a customer would not, in respect of the deferred payments, be in a worse position in terms of interest, than if they had paid those amounts in full in accordance with the agreement. Where credit card customers have been granted a payment deferral under the FCA Covid-19 guidance they should not have the use of their credit card or their credit facility suspended except where the

firm is acting in accordance with section 98A of the CCA. Where a notice is given to the customer under section 98A of the CCA the Issuer should, at the same time, ask customers to contact them urgently if their need to use their card for essential living expenses or to purchase essential items. If they do, the Issuer must consider lifting or delaying the suspension. The Issuer should not report a worsening status on any customer's credit file during any payment deferral period.

On 19 November 2020 and again on 27 January 2021 (such update coming into effect on 29 January 2021), the FCA updated the FCA Covid-19 guidance for personal loans and credit cards and published additional guidance to enhance support to consumer credit borrowers who face payment difficulties due to Covid-19 (**Credit Tailored Support Guidance**). The updated FCA Covid-19 guidance and the Credit Tailored Support Guidance came into force on 25 November 2020 and are expected to remain in force until 31 July 2021. The effect of the changes to the FCA Covid-19 guidance is that customers have until 31 March 2021 to request an initial or further payment deferral. Those who have not yet had a payment deferral will be eligible for two payment deferrals of up to six months in total. Those who currently have an initial payment deferral will be eligible for a further payment deferral of up to three months. No payment deferral offered under the updated FCA Covid-19 guidance can extend beyond 31 July 2021. Those customers who are not receiving a payment deferral under that guidance (including where they are not or are no longer eligible for such payment deferral) but who are experiencing payment difficulties as a result of Covid-19 should be offered tailored support under the Credit Tailored Support Guidance. On January 13, 2021 the FCA published updated Covid-19 guidance setting out its proposals to allow consumer credit firm to repossess goods and vehicles as a last resort and welcomed comments by January 18, 2021, following this the FCA published its final guidance on January 27, 2021.

In the insurance sector, the FCA published "Coronavirus and customers in temporary financial difficulty: guidance for insurance and premium finance firms" on 14 May 2020. It sets out the FCA's expectations for firms when considering the fair treatment of existing customers, and in particular those customers experiencing or reasonably expecting to experience temporary financial difficulties due to Covid-19. Actions which the Issuer may need to take include re-assessing the risk profile of the customer, considering whether there are other products the firm can offer which would better meet the customer's needs and revising the cover accordingly, working with customers to avoid the need for cancellation (but if cancellation does take place, considering waiving cancellation fees) of necessary cover such as by considering payment deferrals and waiving any fees associated with adjusting a customer's policy in line with these assessments. On 30 October 2020, the FCA published additional guidance setting out its expectations of how firms should continue to seek to help customers who hold insurance and premium finance products and may be facing financial difficulty, due to the COVID-19 pandemic, after 31 October 2020. The guidance outlines the tailored support firms should provide to consumers who have already had a payment deferral and those newly in financial difficulty due to changed circumstances relating to Covid-19. In addition, in June 2020, the FCA published guidance setting out its expectations for insurers and insurance intermediaries to consider the value of their products. On 30 October 2020, the FCA published a statement reminding insurance firms to review the value of their products in the light of the impact of the Covid-19 pandemic. Firms should have completed their Covid-19 related review of product lines and have decided what action to take by 3 December 2020.

Further, on 1 May 2020 the FCA published a letter to mortgage lenders and administrators asking them, if they have customers who took out mortgages with higher risk characteristics before the financial crisis, to review the interest rates charged to such customers and consider if they are consistent with the obligation to treat customers fairly in the light of Covid-19.

A Borrower may request from the Seller or the Servicer (on behalf of the Seller) a payment deferral as a result of the direct or indirect impact of the COVID-19 pandemic (as at the date of this Prospectus, limited up to a six month period, with such deferrals available in certain circumstances for payments up to 31 July 2021) (a COVID-19 Payment Deferral). Investors should note in this regard, the FCA Payment Deferral Guidance and the Tailored Support Guidance described in the section entitled "Further Information relating to the Regulation of Mortgages in the UK – Certain Regulatory Considerations – Mortgages and coronavirus: FCA guidance for firms". A COVID-19 Payment Deferral Loan is any Loan which is subject to a payment deferral or payment holiday as a result of the direct or indirect impact of the COVID-19 pandemic (a COVID-19 Payment Deferral) following a successful application by the customer. COVID-19 Payment Deferral Loans will not be classified as being "in arrears" unless arrears have accumulated outside of the COVID-19 Payment Deferral. Whether or not a COVID-19 Payment Deferral will be granted is subject to the prevailing

policies and procedures of the Seller and the Servicer which may be amended from time to time to reflect the FCA COVID-19 Guidance, applicable law, regulation and other regulatory guidance. Further, the FCA in the FCA COVID-19 Guidance requires the Seller and Servicer to act in a manner consistent with the FCA COVID-19 Guidance. The FCA makes it clear in the FCA COVID-19 Guidance that it expects lenders of both owner-occupied and buy to let mortgage loans to act in a manner consistent with the guidance. In accordance with the FCA COVID-19 Guidance, any COVID-19 Payment Deferral Loan will not, as a result of the COVID-19 Payment Deferral, be considered in arrears (or further in arrears) or be subject to a debt restructuring process.

On January 13, 2021 the FCA published updated draft Tailored Support Guidance setting out the FCA's proposed approach to repossession relating to mortgage borrowers after January 31, 2021. The FCA published its finalised guidance on January 27, 2021, which extended the prohibition on repossession (except in exceptional circumstances) to March 31, 2021.

The FCA has also provided guidance in relation to overdrafts. This requires arranged overdrafts of up to £500 to be interest-free for a period of three months and those with a limit of £500 or below having an interest-free balance for the same period. For those in excess of this amount, the first £500 will be interest-free and the remaining balance will be subject to standard pricing. Customers are entitled to request and/or receive assistance under the overdrafts guidance at any point until 31 October 2020. Where a customer has not previously had support, the assistance should last for an initial three months but a customer may be entitled to receive a further three months of support where they request it. This means that the support provided to customers under this guidance can extend beyond 31 October 2020. The Issuer offered 3 month interest holidays from 20 April 2020 on the whole arranged balance (without limit) and those holidays were automatically extended until 31 October 2020. Customers can apply for new interest holidays until the 31 October 2020 and the holiday will last for 3 months from the date the holiday is applied. The Issuer must also ensure that during this period the Society's customers are not paying more than they would have paid for their overdraft compared to the prices charged before the FCA's new rules on overdraft pricing came into force. On 30 September 2020, the FCA published further overdraft guidance setting out how firms should provide tailored support to: (i) users of arranged overdrafts who have benefited from support under its prior guidance and who continue to face financial difficulties; and (ii) those who face financial difficulties due to coronavirus after 31 October 2020. That tailored support guidance supplements the FCA guidance published on overdrafts and coronavirus in July 2020 and came into force on 2 October 2020. It remains in force until varied or revoked. In draft guidance published by the FCA on 4 November 2020 the FCA confirmed that overdrafts will continue to be subject to the tailored support for overdrafts published on 30 September 2020. Tailored support could include reducing or waiving interest, agreeing a programme of staged reductions in the overdraft limit or transferring the overdraft balance to an alternative credit product on more favourable terms.

The FCA continues to review its Covid-19 related guidance and may decide to update or amend it as the pandemic and its impact on the UK develops.

### **Other relevant legislation and regulation**

The EU anti-money laundering regime consists of: (i) a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (i.e. the "**EU Fourth Money Laundering Directive**"); and (ii) a regulation on information accompanying transfers of funds to secure "due traceability" of these transfers (the "**Fund Transfer Regulation**"). The EU Fourth Money Laundering Directive entered into force on June 25, 2015 and was implemented in the UK on June 26, 2017 by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. The EU Fourth Money Laundering Directive aims to give effect to the updated Financial Action Task Force standards. The EU Fifth Money Laundering Directive entered into force in July 2018 and aims to enhance processes to counter money laundering and terrorist financing. The EU Fifth Money Laundering Directive was transposed into UK law in January 2020 through amendments to the Money Laundering, Terrorist Financing and the Transfer of Funds (Information on the Payer) Regulations 2017. The Money Laundering, Terrorist Financing and the Transfer of Funds (Information on the Payer) Regulations 2017 was again amended by the Money Laundering and Transfer of Funds (Information) (Amendment) (EU Exit) Regulations 2019 (as amended) to reflect the UK's exit from the EU.

The Fund Transfer Regulation updates the rules regarding information on payers and payees accompanying transfers of funds, in any currency, for the purposes of preventing, detecting and investigating money laundering and

terrorist financing (the “**ML/TF**”), where at least one of the payment service providers involved in the transfer of funds is established in the EU. The overall objective of transposition is to ensure that the UK’s anti-money laundering and counter terrorist financing (the “**AML/CTF**”) regime is kept up to date, is effective and is proportionate. This will enable the UK to have a comprehensive AML/CTF regime and ensure that the UK’s financial system is an increasingly hostile environment for ML/TF.

The General Data Protection Regulation (“**GDPR**”) came into force on 25 May 2018 and applies to personal data that is processed by automated means or as part of a filing system. Personal data is broadly defined to mean any information relating to an identified or identifiable natural living person. The GDPR has been supplemented in the UK by the Data Protection Act 2018. The GDPR was onshored in the UK through EUWA, with adjustments as provided in the Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations 2019.

The Investment services regulation, Directive 2004/39/EC (“**MiFID**”), and its various implementing measures were recast as a revised directive (Directive 2014/65/EU) (“**MiFID II**”) and a regulation (Regulation 600/2014/EU, the Markets in Financial Instruments Regulation or MiFIR), which together regulate the provision of investment services and activities in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. The changes to MiFID include expanded supervisory powers that include the ability to ban specific products, services or practices. The MiFID requirements were implemented in the UK before the UK’s exit from the EU and then amended to reflect the UK’s exit from the EU. MiFIR was onshored in the UK by the Markets in Financial Instruments (Amendment) (EU Exit) Regulation 2018 (as amended).

The Issuer participates in the unclaimed assets scheme established under the Dormant Bank and Building Society Accounts Act 2008. The purpose of this scheme is to enable money in dormant bank and building society accounts (i.e. balances in accounts that have been inactive or dormant for 15 years or more) to be distributed for the benefit of the community, while protecting the rights of customers to reclaim their money.

On 1 November 2009, the FSA introduced its Banking Conduct Regime for retail banking. The main constituents of this regime are: (i) extending the FCA’s Principles for Businesses as they apply to deposit-taking, from prudential matters only, to conduct of business matters in addition; (ii) conduct of business requirements in the Payment Services Regulations 2017 (“**PSRs 2017**”), which apply to certain payment services made in euro or sterling; and (iii) the FCA’s Banking: Conduct of Business Sourcebook, which applies to deposit-taking in respects not covered by the PSRs 2017. The revised directive on payment services (“**PSD2**”) came into force on 12 January, 2016. PSD 2 was transposed into UK law with the PSRs 2017 repealing and replacing Payment Services Regulations 2009. The PSRs 2017 came into force on 13 January 2018 and were amended by the Electronic Money, Payment Services and Payment Systems (Amendment and Transitional Provisions) (EU Exit) Regulations 2018 (as amended) to reflect the UK’s exit from the EU.

Key changes from the PSRs 2017 include the requirement for account information services and payment initiation services to be regulated, new security requirements, increased reporting obligations and increased focus on consumer protection. There are also changes to the scope of the conduct of business rules and the list of exemptions. In December 2018, the FCA published a policy statement (“**PS 18/24**”) on its approach to final regulatory technical standards (“**RTS**”) for strong customer authentication and common and secure open standards of communication, as well as other related EBA guidelines. The requirements on strong customer authentication (“**SCA**”) were due to come into force in September 2019 but UK and European authorities have agreed to establish a period of non-enforcement for payment service providers to implement SCA. For online banking, SCA obligations had to be implemented in the UK by March 2020. For e-commerce, due to Covid-19, the FCA has extended the deadline from March 2021 until September 2021. PS 18/24 sets out the FCA’s approach to the RTS assessing whether bank and other online account providers are properly set up to enable Open Banking. The SCA requirements were due to come into force in September 2019, but the UK and European authorities have agreed to establish a period of non-enforcement for payment services providers to implement SCA. For online banking, SCA obligations had to be implemented in the UK by March 2020. For e-commerce, the FCA has given firms until 14 March 2021. In the exceptional circumstances of the Covid-19 crisis, the FCA gave the industry an additional six months to implement SCA for e-commerce, i.e., until 14 September 2021. Amended fraud reporting requirements also applied from 1 January 2019. PS 18/24 introduces new rules on reporting complaints about authorised



push payment fraud, which came into force on 1 July 2019. The Payment Services (Amendment) Instrument 2018 contains corresponding changes to the FCA Handbook.

On 1 November 2009, the British Bankers' Association, the Building Societies Association and The UK Cards Association launched The Lending Code ("**Lending Code**"), a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect. The Lending Code has been revised a number of times since its introduction, most recently in September 2015. While the sections of the Lending Code applicable to micro-businesses remain unchanged, in respect of personal customers the Lending Code was replaced by the Standards of Lending Practice (the "**SLP**") in July 2016. The SLP has applied to business customers from 1 July 2017. The SLP are voluntary and set the benchmark for good lending practice in the UK.

Supervisory Statement SS20/15 on supervising building societies' treasury and lending activities sets out the PRA's expectations in respect of building societies' compliance with applicable law and regulation in these areas of activity. The Supervisory Statement was updated on 24 February 2020 and describes the key lending and treasury risks to which societies are exposed, and sets out a framework describing different potential models for managing and controlling these risks and a procedure for building societies proposing business model diversification on this basis. The Supervisory Statement was further updated on December 28, 2020 with changes effective from January 1, 2021 to encompass statements from related Supervisory Statements.

In September 2016, following a consultation by the PRA earlier that year, the PRA published Policy Statement PS 28/16 and a final Supervisory Statement SS 13/16 both entitled "*Underwriting standards for buy-to-let mortgage contracts*". The Policy Statement applies to all PRA regulated firms that undertake buy-to let lending that are not already subject to FCA regulation. The Supervisory Statement does not apply to regulated mortgage contracts, consumer BTL mortgages, BTL mortgages with corporates or which has a term of 12 months or less or to an application from an existing customer for consent to let. The Supervisory Statement contains the PRA's minimum standards that firms should follow when underwriting BTL mortgages (affordability testing) (including when dealing with portfolio landlords who have four or more BTL properties), clarifies the PRA's expectation regarding the application of the small and medium sized (SME) supporting factor on BTL mortgages and details the PRA's expectations regarding adequate risk management and controls. The PRA expects that regulated firms ensure that the standards are followed by other firms undertaking buy-to-lending within their group. The standards have been implemented by 30 September 2017.

Another area of change which impacts on the UK regulatory landscape relates to banking reform. The Banking Reform Act introduced amendments to FSMA which provide for, inter alia, the ring-fencing of vital banking services from international and investment banking services, measures on loss absorbency and depositor preference and proposals for enhancing competition in the banking sector. Certain aspects of such measures entered into force on 1 January 2015 and the full ring-fencing regime applied in January 2019. Further, the Government has carved building societies out of the proposed ring-fencing legislation and, instead, reserves the power to amend the UK Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements. The PRA published its policy statement PS21/16 on Operational Continuity in July 2016. The rules applied from 1 January 2019 and support the resolvability and resilience of building societies and banks in seeking to ensure critical shared services are organised to facilitate continuity in the event of failure. On 28 October 2020, the PRA published a consultation paper (CP20/20) revising its operational continuity in resolution policy. The proposals would result in a new supervisory statement, which would supersede the existing supervisory statement entitled "Ensuring operational continuity in resolution" (SS9/16). The proposals in CP20/20 require firms, inter alia, to consider the operational arrangements supporting the viability of the firm, and its key drivers of revenue and profit, in addition to those supporting its critical functions. The consultation closed on 31 January 2020. The PRA has proposed that the changes resulting from CP20/20 will come into force on 1 January 2022. It intends to publish its final policy in H1 2021.

## **Sustainable finance**

The UK regulators have recently focused on sustainable finance. The PRA, together with the FCA, has established a Climate Financial Risk Forum ("**CFRF**") to build intellectual capacity and share best practice. The CFRF brings together senior representatives from across the financial sector, including banks, insurers, and asset managers. It established a number of working groups to develop a guide on best practice and recommendations for industry, which

was published in June 2020 (“**CFRF Guide**”). The “Disclosures” chapter of the CFRF Guide sets out guidance on different approaches for banks, asset managers and insurers, as well as gaps and barriers. It recommends that firms aim to complete high level, mainly qualitative, disclosures by mid-2021 and add quantitative disclosures by the end of 2022. The CFRF is expected to develop further recommendations on climate-related data, methodologies and metrics in the next 12-18 months.

In its 2019 supervisory statement on climate financial risk, the PRA made it clear that it expects firms to integrate climate related financial risk into their existing risk management frameworks, including requirements to identify, measure, monitor, manage and report on their exposures to such risks. Firms are expected to use both short-term and long-term time horizons to assess climate financial risks and to use scenario analysis where proportionate to inform their response to exposures. Firms will also need to include all material exposures relating to climate financial risk in their Internal Capital Adequacy Assessment Process (ICAAP). As a complement to the new expectations, the CFRF published chapters on risk management and scenario analysis setting out practical guidance on the topics for financial institutions.

The Bank of England is utilising its stress testing framework to assess the impact of climate-related risks on the UK financial system. The Bank of England announced plans to test the UK financial system’s resilience to the financial risks from climate change as part of the 2021 Biennial Exploratory Scenario (“**BES**”). In December 2019, the Bank of England published a discussion paper setting out the proposal for the 2021 BES on climate-related risks. The objective of the BES is to test the resilience of the largest banks, insurers and the financial system to different possible climate pathways and provide a comprehensive assessment of the UK financial system’s exposure to climate-related risks. The deadline for responses was 18 March 2020. In June 2020, the Network for Greening the Financial System (**NGFS**) published a set of climate scenarios that will serve as the basis for the scenarios in the 2021 BES.

On 21 December 2020 the FCA also published a policy statement on proposals intended to enhance climate-related disclosures by listed issuers and clarify existing disclosure obligations. The changes will broadly require companies to include a statement in their annual financial reports setting out whether their disclosures are consistent with the international Financial Stability Board recommendations and explain if they have not done so. The changes apply in relation to accounting periods beginning on or after 1 January 2021.

## **EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING COVERED BONDHOLDERS**

Subject to the withholding tax requirements set out under the section entitled "*United Kingdom Taxation*", there are currently no UK laws, decrees or regulations that would reduce the payment by the Issuer of interest or other payments to holders of Covered Bonds who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the section entitled "*United Kingdom Taxation*". There are also no restrictions under the Issuer's memorandum and rules or under current UK laws that limit the right of non-resident or foreign owners to hold the Covered Bonds or to vote, when entitled to do so.

## THE ISSUER

### Overview

The Issuer is the largest building society in the United Kingdom in terms of total assets, with £259.7 billion of assets as at 30 September 2020. The Issuer has approximately 663 branches and over 16 million customers. The Issuer's core business is providing personal financial services, which is mainly residential mortgage loans, retail savings and personal current accounts. In addition, the Issuer maintains a portfolio of debt securities for its own account for liquidity management purposes.

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

As a mutual organisation, the Issuer is managed for the benefit of its members, who are primarily its current account, retail savings and residential mortgage customers. The Issuer's main focus is serving its members' interests, while retaining sufficient profit to increase and further develop its business and meet regulatory requirements. The Issuer returns value to its members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by its main competitors. As a result of returning value to its members, the Issuer earns lower pre-tax profits than its main competitors, which are typically banks or other non-mutual organisations.

The Issuer benchmarks its products and performance against a group of leading retail banks operating in the UK (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander UK and TSB) and seeks to offer more consistent long-term good value on savings and prime mortgages than is offered by this peer group. In addition to returning value to members through its competitive products, the Issuer believes that it provides better service to its customers than that offered by most of its competitors and this is a key component of the Issuer's strategy.

### STRATEGY

As a mutual, owned by its members, the Issuer was founded for a social purpose – to help people save and buy homes of their own. The Issuer continues to be driven by this same social purpose – 'to build society, nationwide' - and is committed to doing business in a way that positively impacts its members, employees, communities and environment

The Issuer's focus on mortgages and savings remains as relevant today as it was when it were founded in the 19th century. Additionally, the Issuer's current account proposition remains a logical extension of its purpose by fulfilling its members' day to day financial needs and strengthening the mutual relationship. The Issuer intends to continue to offer a broad range of financial services that complement its core products of mortgages, savings and current accounts.

The Issuer's strategy remains underpinned by its five cornerstones which are defined below. These are supported by the Issuer's strategic targets and key performance indicators, that help it to deliver its strategy.

#### Built to last

Built to Last is about remaining resilient and secure, and keeping the Issuer's members' money safe. The Issuer's members need to know it is dependable, and they can trust it with their money. The Issuer does this by:

- generating a level of profit sufficient to maintain its financial strength and invest for the future;
- focusing on how it spends members' money through driving a culture of efficiency;
- maintaining a prudent approach to risk management, operating at all times within Board risk appetite; and
- supporting member expectations of 'always on' through the resilience of its operations.

As a member-owned mutual organisation, the Issuer aims to achieve the right balance between retaining a sufficient level of profit to maintain its financial strength, delivering value to its members through better rates, incentives and

propositions, and investing to meet the needs and expectations of members in the future. The Issuer's financial performance framework is focused on parameters that help it to achieve this balance.

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

The Issuer's financial performance is supported by its continued focus on efficiency. The Issuer intends to continue to put its members and their money first by making careful choices on how best to allocate its resources. The Issuer has cut its costs by £92 million to £1,033 million (30 September 2019: £1,125 million) as it continues to make the Society more efficient in serving its customers.

### **Building PRIDE**

PRIDE is the Issuer's set of values, beliefs and behaviours that define who it is and the way it conducts its business. It is about creating the right culture where all its colleagues feel supported and can thrive, and building skills and talent for the future, so it can do the best for its members. The guiding principles of PRIDE are:

- Putting its members and their money first.
- Rising to the challenge.
- Inspiring trust.
- Doing the right thing in the right way.
- Excelling at relationships.

In delivering on these values, the Issuer equips its people by:

- providing them with the capabilities and skills they need to best serve its members;
- trusting them with accountable freedom, giving them the space to be innovative and flexibility to work remotely;
- developing its leaders and high potential talent to enable a more empowered and agile workforce;
- inspiring them and invigorating its culture through its PRIDE values.

The Issuer is, and intends to remain, one of the UK's best places to work. The Issuer aims to create a distinctive experience for its colleagues that supports their performance, learning, growth and wellbeing. The Issuer also believes it is important to build an inclusive culture, and wants the Society to reflect the diversity of the wider communities it serves. This is supported by the Issuer's workforce diversity measures, as announced in 2019/20.

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

## **Building legendary service**

The Issuer's ambition is for members to experience its service as heartfelt, easy, lifelong and personal. The Issuer aims to be a leading brand for customer service, both among its peer group and across all sectors in the UK, as it:

- continues to develop a multi-skilled, flexible workforce to support the parts of the Society where member demand for services is highest;
- invest in growing its digital capabilities and expertise, as it reshapes itself for an increasingly digital world, which has been accelerated by the Covid-19 pandemic;
- provide easy and seamless access to its people and technology, improving its members' digital experiences, and being there for its members when they need it; and
- deliver on its members' expectations by getting it right first time.

The Issuer believes that delivering leading levels of member satisfaction is a key point of differentiation for it, and an important driver in helping to grow its membership. The Issuer measures its service satisfaction performance among its peer group (defined as competitors with main current account market share greater than 3.5% as of April 2020), using an independent survey conducted by market research experts, Ipsos Mori. The Issuer's strategic target for the year ending 4 April 2021 is to be the best for customer satisfaction in its peer group, with a lead of at least 4 percentage points ahead of its nearest competitor. The Issuer also has a strategic target to be among the top 5 organisations across all sectors for customer service, as measured by the Institute of Customer Service's UK Customer Satisfaction Index (UK CSI), and in the latest survey (July 2020), the Issuer ranked second.

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

## **Building thriving membership**

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

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

Growing its base of committed members allows the Issuer to bring the benefits of mutuality to a wider population. The Issuer measures its performance through the number of engaged and committed members. Engaged members are defined as those who hold a mortgage or savings account with the Issuer (with a balance greater than £5,000 or £1,000 respectively) or who hold their main personal current account with the Issuer. As at 30 September 2020 the Issuer had 9.5 million engaged members, up from 9.4 million as at 30 September 2019 and 9.1 million as at 30 September 2018. The Issuer is aiming to have 10 million engaged members by 2022, with 4 million committed members. A committed member

is one who holds an engaged membership product with the Issuer (main current account, £1,000 in savings, a mortgage with a balance greater than £5,000) plus at least one other product. As at 30 September 2020 the Issuer had 3.6 million committed members, up from 3.5 million as at 30 September 2019 and 3.3 million as at 30 September 2018.

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

### **Building a national treasure**

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

- leading by example, being an influencer and acknowledged expert in its field;
- improving awareness of the Nationwide brand and its mutual difference; and
- aligning its social investment agenda with its purpose of 'building society, nationwide', through a focus on housing initiatives.

The Issuer's brand is the sum of how its members and others perceive it. A strong brand, effective both in digital and traditional media, is essential to attract new members. Amongst non-customers, in the year ended 31 October 2020, the Society was top for prompted brand consideration (with a lead of 7.1 percentage points) and first for trust (4.4% ahead of its nearest peer)<sup>10</sup>. For the year ending 4 April 2021, the Issuer's strategic targets are to continue to lead in both measures.

### **Climate change**

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

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

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organisations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings and residential mortgage customers. The Issuer's origins date back to the Southern Co-operative Permanent Building Society (1884). Over time, this entity merged with similar organisations to create Nationwide Building Society.

Over the past 30 years, many building societies have merged with other building societies or demutualised and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen dramatically over the same period. One consequence of this decrease is that the majority of the Issuer's

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<sup>10</sup> Source: *Nationwide Brand Guidance Study – compiled by Kantar, based on responses of non-customers of each brand (12 months ending 31st October 2020)*. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB, Santander & TSB. For 'prompted brand consideration' data includes consumer responses of 'first choice' or 'seriously considered' brand.

competitors are banks. The Issuer believes that its mutual status allows it to compete successfully with banks, and it is the Issuer's strategy to remain a building society.

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

The Issuer has been involved in a number of mergers and acquisitions in recent years. The Issuer merged with Portman Building Society in August 2007 and with Cheshire Building Society and Derbyshire Building Society in December 2008. In March and June 2009, the Issuer also acquired selected assets and liabilities of Dunfermline Building Society. The Issuer believes these developments have added value, improved its distribution footprint, helped to grow the membership and is a testament to its strength and its ability to provide support to other building societies.

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

## GROUP STRUCTURE AND PRINCIPAL SUBSIDIARIES

The Issuer is the principal holding entity of the Group and the main business of the Group is conducted by the Society. The Issuer's interests in its principal subsidiary undertakings, all of which are consolidated, as at 30 September 2020 are set out below:

| <u>100% held subsidiary undertakings</u> | <u>Nature of business</u>   |
|--|-----------------------------|
| Nationwide Syndications Limited          | Syndicated lending          |
| The Mortgage Works (UK) plc              | Centralised mortgage lender |
| Derbyshire Home Loans Limited            | Centralised mortgage lender |
| E-Mex Home Funding Limited               | Centralised mortgage lender |
| UCB Home Loans Corporation Limited       | Centralised mortgage lender |

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

Nationwide Syndications Limited is a wholly owned mortgage lender specialising in syndicated commercial loans to RSL. Nationwide Syndications Limited has ceased to offer new lending.

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

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

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

The table below provides details of these entities as at 30 September 2020.

| <u>Group undertaking</u> | <u>Nature of business</u> | <u>Country of registration</u> | <u>Country of operation</u> |
|--------------------------|---------------------------|--------------------------------|-----------------------------|
|--------------------------|---------------------------|--------------------------------|-----------------------------|



|                                   |   |                   |    |
|-----------------------------------|---|-------------------|----|
| Nationwide Covered Bonds LLP      | Mortgage acquisition and guarantor of covered bonds | England and Wales | UK |
| Silverstone Master Issuer plc     | Funding vehicle                                     | England and Wales | UK |
| Silverstone Funding No. 1 Limited | Funding vehicle                                     | England and Wales | UK |

## BUSINESS OF THE SOCIETY

### Retail business

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

### Residential mortgage lending

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

As at 30 September 2020, the Issuer was the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding and calculated by the Issuer based on Bank of England data and publicly available financial information). The Issuer's residential mortgages are generally for terms of 20 to 30 years. While many customers remain with the Issuer for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although the Issuer generally retains approximately 70 to 80% of customers when they reach the end of a product.

The table below shows a breakdown of the Issuer's prime and specialist residential mortgage lending outstanding balances as at 30 September 2020.

|                            | <u>As at 30 September 2020</u> |
|----------------------------|--------------------------------|
|                            | (£ billions)                   |
| Prime .....                | 151.3                          |
| Specialist .....           | 39.3                           |
| of which:                  |                                |
| BTL .....                  | 37.2                           |
| Other <sup>(1)</sup> ..... | 2.1                            |

Note:

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

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

The Issuer offers specialist UK residential mortgage lending to individuals, comprising lending to private landlords (**BTL**) and other non-conforming lending. As at 30 September 2020, the Issuer's outstanding specialist UK residential mortgage lending to individuals was £39.3 billion. The specialist residential mortgage balance is made up of advances made through the Issuer's specialist lending brands, including TMW. The Issuer's outstanding specialist lending loans were advanced primarily in the BTL and self-certification markets. New specialist lending is restricted to BTL through TMW with the Issuer having withdrawn from the self-certified lending market in 2009.

The Issuer's specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.42% of the total mortgage book as at 30 September 2020. Arrears levels are likely to have been suppressed by the usage of payment deferrals in the period and, when combined with the current UK economic conditions, an increase in arrears from current levels is expected over the medium term.

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

The table below shows the geographical distribution of the Issuer's UK residential mortgage loans as at 30 September 2020.

|  | <b>UK residential mortgage lending to individuals as at 30 September 2020</b> |
|--|---|
|  | <i>(percentages)</i>  |
| <b>Region</b>                              |   |
| Greater London .....                       | 33%   |
| Central England.....                       | 19%   |
| Northern England.....                      | 15%   |
| South East England (excluding London)..... | 13%   |
| South West England.....                    | 10%   |
| Scotland.....                              | 6%  |
| Wales.....                                 | 3%  |
| Northern Ireland.....                      | 1%  |
| <b>Total.....</b>                          | <b>100%</b>   |

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

The Issuer offers fixed rate and tracker rate mortgages. These products establish a set rate or set methodology for determining a variable rate for a set term, after which the rate reverts to one of the Issuer's two general variable rates. The Issuer's fixed-rate products currently offer a term of two, three, four, five or ten years, but it has from time to time offered longer fixed terms, including 25 years. The Issuer's tracker rate products bear interest during the set term (currently two or three years) at a variable rate that is a fixed percentage above the Bank of England base rate. After the end of the set fixed rate or tracker period, the interest rate reverts to either the Issuer's BMR (if the mortgage was originated on or before 29 April 2009) or its SMR (if the mortgage was originated on or after 30 April 2009). Both the BMR and the SMR are variable rates set at the Issuer's discretion, except that the BMR is guaranteed not to be more than 2% above the Bank of England base rate.

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

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

At the end of the period, the maximum LTV for new prime residential borrowers was 90% (30 September 2019: 95%). The average LTV of prime new business completed in the period has reduced to 71% (30 September 2019: 74%), reflecting the withdrawal from higher LTV lending at the start of the pandemic. In the specialist (buy to let) portfolio, the average LTV of new business increased from 65% to 66% following a shift towards business on longer terms at higher

LTVs. With house price increases during the period, the average indexed LTV of total loan stock has reduced to 56% (4 April 2020: 58%).

The Issuer believes that asset quality has remained strong as a result of its continued prudent approach to lending. The proportion of mortgage accounts three months or more in arrears has increased slightly to 0.42% as at 30 September 2020, which compares favourably with the UK Finance average of 0.82% as at the same date.

The table below shows the Issuer's residential mortgage loans which are three months or more in arrears as a percentage of its total residential mortgage loans as at each of 30 September 2020 and as at 4 April 2020, 2019 and 2018 and the UK Finance average.

|                          | <b>As at 30<br/>September</b> | <b>As at 4 April</b> |             |             |
|--------------------------|-------------------------------|----------------------|-------------|-------------|
|                          | <b>2020</b>                   | <b>2020</b>          | <b>2019</b> | <b>2018</b> |
|                          | <i>(percentages)</i>          |                      |             |             |
| Prime .....              | 0.34                          | 0.33                 | 0.35        | 0.34        |
| Specialist .....         | 0.75                          | 0.74                 | 0.82        | 0.83        |
| <b>Group</b> .....       | <b>0.42</b>                   | <b>0.41</b>          | <b>0.43</b> | <b>0.43</b> |
| UK Finance average ..... | 0.82                          | 0.74                 | 0.79        | 0.81        |

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

In line with regulatory guidance, the arrears figures above do not take into account payment holidays that the Issuer has afforded to its borrowing members in the context of the Covid-19 pandemic. This approach has suppressed the impact of the pandemic on arrears data, and will continue to do so in the short term. The Issuer continues to monitor developments and updated regulatory guidance on the assessment of payment holidays and other forbearance measures in this context.

The Issuer utilises an automated credit scoring system to assist in minimising credit risk on residential mortgage lending. The Issuer's credit procedures for residential mortgage lending take into account the applicant's credit history, loan-to-value criteria, income multiples and an affordability calculation, or shock test, that tests the applicant's ability to service the loan at higher interest rates. For additional information regarding how the Issuer manages credit risk in connection with new lending, see "*Financial Risk Management—Credit risk.*"

The Issuer focuses its residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. The Issuer is particularly keen to support its existing members and have introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. The proportion of new lending to first time buyers decreased to 27% during the six months ended 30 September 2020 (six months ended 30 September 2019: 33%) with the Issuer's share representing approximately one in six first time buyers. During the period, as a result of market dislocation due to the pandemic, there has been a movement in the distribution of new business towards remortgages and specialist (buy to let) lending.

In addition to residential mortgage loans, the Issuer offered further secured advances on existing mortgaged property to customers consistent with its lending criteria for new residential mortgage loans.

### **Consumer Banking**

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

increased risk arising from Covid-19, and lower member spending during the Covid-19 pandemic. Almost all of the Issuer's consumer loans are made on an unsecured basis.

Unsecured retail banking products consists of loans that the Issuer makes to individuals that are not secured on real or personal property. The Issuer offers three different forms of unsecured consumer retail banking products: personal unsecured loans, credit card lending and current accounts with overdraft facilities.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because the Issuer has no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than the Issuer's residential mortgage products. To manage this risk, the Issuer uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, the Issuer assesses all unsecured consumer loans to ensure they remain affordable alongside any mortgage.

### ***Savings***

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

The Issuer provides 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, the Issuer determines variable interest rates at its discretion according to market conditions. Generally, the more restrictions on withdrawal of retail savings, the higher the rate of interest. Balances on all of the Issuer's notice deposit accounts are, by their terms, withdrawable on demand but, in some cases, subject to loss of interest.

The Issuer believes that the primary determinant for attracting retail savings is the interest rate offered to savers. As a mutual organisation, the Issuer typically sets higher interest rates on its retail savings products than those set by its main competitors. The Issuer gathers UK retail member deposits from a number of sources, chiefly from its 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.

The Issuer's 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 organisations. The Issuer provides 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, the Issuer determines variable interest rates at its discretion according to market conditions. Generally, the more restrictions on withdrawal of business savings, the higher the rate of interest.

### ***Personal banking***

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

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

Credit card lending had overall balances of £1.6 billion at 30 September 2020.

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

The Issuer's other retail services principally comprise insurance business and investment business.

#### *Insurance*

In conjunction with the Issuer's core business of providing residential mortgage loans and retail savings, it develops and market insurance products branded with its name that are underwritten by third-party insurers and distribute insurance products of other companies.

The insurance products that the Issuer markets are:

- buildings and contents insurance, which it markets to its residential mortgage customers and non-mortgage customers;
- landlord insurance;
- term income protection insurance, replacing up to 60% of gross income in case of unemployment; and
- personal accident insurance.

The Issuer typically uses leading insurers as third-party underwriters for these insurance products. The Issuer receives a commission and, in some cases, participate in the profits, but not the losses, from third-party underwritten insurance products that it markets. This provides the Issuer with a significant source of non-interest income and in the year ended 4 April 2020, 2019 and 2018, the Issuer earned £50 million, £65 million and £76 million, respectively, from insurance fees. The Issuer generally markets its insurance products to new and existing customers, and it is the Issuer's policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by its main competitors.

### ***Distribution network***

The Issuer's integrated and diversified distribution network allows its customers to choose how and when to undertake their transactions with it and has enabled it to expand its business while controlling costs. The distribution network helps the Issuer to achieve volume growth principally in residential mortgage lending and supports its retail funding activities. Developments in the network have focused on cost efficiency and meeting the needs of customers who are increasingly prepared to transact business by the internet, telephone and mail.

The Issuer distributes its products primarily through:

- branches;
- call centres;
- mail;
- internet and mobile banking; and
- intermediaries.

The Issuer also maintains a network of ATMs.

### *Branches*

The Issuer's branch network continues to be a major source of its mortgage lending and retail funding. As at 30 September 2020, the Issuer had approximately 663 branches of Nationwide Building Society in the United Kingdom.

The Issuer's goal is to utilise its branch network efficiently. All of the Issuer's branches market its residential mortgage, retail savings, personal lending, personal investment and insurance products. The Issuer continues to make significant investment in transforming its products and delivery channels through the implementation of new systems and organisational structures and to meet consumer expectations of digital banking.

### *Call centres*

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

### *Mail*

The Issuer offers mail-based savings accounts that provide members with higher interest rates on their deposits in return for limiting them to transactions by mail, online banking and ATMs. The Issuer also uses direct mail to market some of its products.

### *Internet and mobile banking*

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

### *Intermediaries*

A substantial amount of the Issuer's mortgage sales are introduced to it by third-party intermediaries. Intermediaries range from large UK insurance companies to small independent mortgage advisers. The Issuer remunerates intermediaries for introducing mortgage business.

### *ATMs*

The Issuer's customers have access to its own network of 1,356 ATMs (as at 30 September 2020), as well as access to ATMs in the United Kingdom through the LINK network and world-wide through the Visa network.

## **Commercial business**

The Issuer's commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, commercial real estate investors and project finance initiatives. As at 30 September 2020, this portfolio accounted for 4% of total loans and advances to customers. Following a strategic review of the commercial lending business, the Issuer concluded that the CRE and PFI lending is no longer a good fit with its core purpose. The strategy for CRE and PFI lending is now to hold and actively manage the portfolios to maturity in line with contractual terms. The RSL portfolio was reopened in September 2018.

The table below shows the amount and types of loans in the commercial lending portfolio as at 30 September 2020.

|                                  | <b>As at 30 September 2020</b> |   |
|----------------------------------|--------------------------------|---|
|                                  | <i>(£ billions)</i>            | <i>(percentage of total commercial loans)</i> |
| Registered social landlords..... | 5.1                            | 76%   |
| Commercial real estate .....     | 0.9                            | 13%   |

|                                 | <b>As at 30 September 2020</b> |   |
|---------------------------------|--------------------------------|---|
|                                 | ( <i>£ billions</i> )          | ( <i>percentage of total commercial loans</i> ) |
| Private finance initiative..... | 0.7                            | 11%   |
| <b>Total</b> .....              | <b>6.7</b>                     | <b>100%</b>                                     |

RSL loans are made to UK registered social landlords, are secured on residential property and differ significantly from other loans secured on real property. UK registered social landlords provide affordable housing supported by Government grants. This portfolio historically has carried a lower risk than the Issuer's other commercial lending activities, and there are currently no arrears of three months or more in the RSL portfolio. To date, the Issuer has not needed to raise any loss provisions against this portfolio.

CRE portfolio is well diversified by industry type and by borrower, with no significant exposure to development finance.

PFI loans are secured on cash flows from Government-backed contracts such as schools, hospitals and roads under the UK private finance initiative legislation. The Issuer has not suffered any losses on this lending and there are currently no arrears of three months or more.

### **Head office functions**

The Issuer's head office functions comprise the executive management and the treasury function together with a range of support functions such as legal and secretariat services, human resources, strategic planning and external relations, finance, risk management, property services and internal audit.

The treasury division centrally manages liquid asset portfolios as well as most of financial risk exposures and is responsible for wholesale funding activities. See the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for further details of risk management.

### **Recent developments**

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

#### *Prospects*

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

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

#### *Support for the Issuer's members*

The Issuer is seeking to support its members with a range of measures in light of Covid-19, including offering mortgage payment holidays (which, in accordance with regulatory guidance, have not been included within the forbearance

population and do not automatically have an impact on the reported staging balances). In addition to an initial offer of three-month mortgage payment holidays in the early stages of the outbreak, the Issuer has announced its Home Support Package, which includes:

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

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



## THE LLP

### Introduction

The LLP was incorporated in England and Wales on 25 June 2005 as a limited liability partnership (registered number OC313878) with limited liability under the LLPA 2000 by Nationwide Building Society and the Liquidation Member as its Members. The principal place of business of the LLP is at Nationwide House, Pipers Way, Swindon SN38 1NW (telephone number: +44(0) 1793 656363). The LLP has no subsidiaries.

### Principal Activities

The principal objects of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit and to do all such things as are incidental or conducive to the carrying on of that business and to borrow money.

The LLP has not engaged since its incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA 2000, activities contemplated under the Transaction Documents to which it is or will be a party, obtaining a standard licence under the CCA, filing a notification under the Data Protection Act 1998 and other matters that are incidental or ancillary to the foregoing.

### Members

The members of the LLP as at the date of this Base Prospectus are and their principal offices are:

| <u>Name</u>                 | <u>Principal Office</u>   |
|-----------------------------|---|
| Nationwide Building Society | Nationwide House<br>Pipers Way<br>Swindon SN38 1NW<br>United Kingdom                                    |
| Liquidation Member          | c/o Wilmington Trust SP Services (London) Limited<br>Third Floor, 1 King's Arms Yard<br>London EC2R 7AF |

The LLP has no employees.

### Directors of the Members

The following table sets out the directors of the Liquidation Member and their respective business addresses and occupations.

| <u>Name</u>                                   | <u>Business Address</u>                           | <u>Business Occupation</u> |
|---|---|----------------------------|
| Daniel Jonathan Wynne                         | Third Floor, 1 King's Arms Yard, London, EC2R 7AF | Company Director           |
| Wilmington Trust SP Services (London) Limited | Third Floor, 1 King's Arms Yard, London, EC2R 7AF |                            |

The directors of Nationwide Building Society and their respective business addresses are set out under "*Management – Directors*" above.

No potential conflicts of interest exist between any duties to the LLP of the Directors of the Members, as described above, and their private interests or other duties in respect of their management roles.

**Directors of the Corporate Director of the LLP (Wilmington Trust SP Services (London) Limited)**

| <u>Name</u>                | <u>Business Address</u>                          | <u>Business Occupation</u> |
|----------------------------|--|----------------------------|
| Alan Geraghty              | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director           |
| Alex James Rowland Pashley | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director           |
| Angela Icolaro             | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director           |
| Daniel Jonathan Wynne      | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director           |
| Nicolas Patch              | Third Floor, 1 King`s Arms Yard, London EC2R 7AF | Company Director           |

No potential conflicts of interest exist between any duties to the Corporate Director of the LLP of the Directors of the Corporate Director of the LLP, as described above, and their private interests or other duties in respect of their management roles.

The financial statements of the LLP for the years ended 4 April 2019 and 4 April 2020 have been audited by the LLP`s auditors and have been prepared in accordance with generally accepted accounting principles under IFRS.

The LLP`s audited accounts for the years ended 4 April 2019 and 4 April 2020 are incorporated by reference in this Base Prospectus.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### **Trust Deed**

The Trust Deed, made between the Issuer, the LLP, the Bond Trustee and the Security Trustee, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under Terms and Conditions of the Covered Bonds above);
- the covenants of the Issuer and the LLP;
- the terms of the Covered Bond Guarantee (as described below);
- the terms on which the Bond Trustee may or shall consent (or direct the Security Trustee to consent) to certain modifications or waivers to the Transaction Documents and the Covered Bonds and otherwise to certain Transaction Documents only for certain purposes; for further information see Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee; and
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign or retire or be removed.

### ***Covered Bond Guarantee***

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or Coupons, if any other Issuer Event of Default occurs (other than by reason of non-payment) or if an LLP Event of Default occurs, the LLP has agreed (subject as described below) to pay or procure to be paid (following service of an Issuer Acceleration Notice and Notice to Pay or, if applicable, an LLP Acceleration Notice) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the holders of the Covered Bonds), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, Extended Due for Payment Date, by the Issuer. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which an LLP Acceleration Notice is served.

Following the occurrence of an Issuer Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer, following service of an Issuer Acceleration Notice, the Bond Trustee will serve a Notice to Pay on the LLP. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day that is two Business Days following service of a Notice to Pay on the LLP or (b) the day on which the Guaranteed Amounts are otherwise Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the LLP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of the United Kingdom or any political subdivision thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the

Covered Bonds or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the holders of the Covered Bonds or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances that might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9.2 (LLP Events of Default) of the Conditions, failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

The Trust Deed provides that the Excess Proceeds shall be paid by the Bond Trustee on behalf of the holders of the Covered Bonds of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in a GIC Account or a Stand-by GIC Account, as applicable, and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of any GIC Account. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service of an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each holder of the Covered Bonds shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

The Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

### **Intercompany Loan Agreement**

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the Principal Amount Outstanding on the Issue Date of the issue of the related Covered Bonds to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms, and will be swapped into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP (a) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under "*Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*" and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit in each case to the extent required to meet the requirements of Regulations 23 and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP: (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under "*Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*"; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (iii) (subject to satisfying the Asset Coverage Test) to make a Capital Distribution to a Member; and or (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (v) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit). Each Term Advance will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each LLP Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. The Issuer may use the proceeds of the Term Advances to pay amounts due on the Covered Bonds. However, any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so

long as an Asset Coverage Test Breach Notice is outstanding and has not been revoked, the LLP may not borrow any new Term Advances (and the Issuer may not make any new Term Advances) under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by (a) any amounts paid by the LLP under the terms of the Covered Bond Guarantee to repay the Covered Bonds (the proceeds of which were originally applied to make such Term Advances) and (b) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the LLP and cancelled in accordance with Condition 6.7 (Cancellation).

The Intercompany Loan Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

## **Mortgage Sale Agreement**

### *The Seller*

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Initial Programme Date as amended and restated on 30 April 2008, 1 December 2008, 18 December 2009 and 12 February 2021 between Nationwide Building Society (in its capacity as Seller), the LLP and the Security Trustee.

### *Sale by the Seller of Loans and Related Security*

The Portfolio will consist of Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming part of the Portfolio will vary over time provided that, at the time the relevant Loans are sold to the LLP, the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include Loans with characteristics that were not being offered to Borrowers on previous Transfer Dates.

Prior to the occurrence of an Issuer Event of Default or an LLP Event of Default, the LLP will acquire Loans and their Related Security from the Seller in the three circumstances described below.

- (a) First, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied by the LLP to acquire Loans and their Related Security from the Seller. In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the True Balance of those Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:
  - (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or
  - (ii) the Seller being treated as having made a Capital Contribution in an amount equal to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP; and
  - (iii) Deferred Consideration.
- (b) Second, prior to service of an Asset Coverage Test Breach Notice on the LLP (which has not been revoked), the LLP will use the Available Principal Receipts to acquire New Loans and their Related Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets, up to the prescribed limit) on each LLP Payment Date.
- (c) Third, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any

Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable efforts to offer to sell sufficient New Loans and their Related Security to the LLP on or before the next Calculation Date in consideration of the Seller being treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and in consideration of the right to receive the Deferred Consideration.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under "*– LLP Deed – Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice*", the obligations of the Seller insofar as they relate to those Selected Loans and their Related Security will cease to apply.

The Seller will also be required to repurchase Loans and their Related Security sold to the LLP in the circumstances described below under "*– Repurchase of Loans*".

#### *Eligibility Criteria*

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Transfer Date or in respect of Additional Loan Advances, on the next Calculation Date, including:

- (a) no Issuer Event of Default or LLP Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;
- (b) the LLP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the purchase of the Loans and their Related Security would adversely affect the then current ratings of the Covered Bonds by the Relevant Rating Agencies;
- (c) the weighted average yield on the Loans in the Portfolio (including the New Loans) is at least 0.25% greater than the SONIA Spot Rate published on the date on which the amount is calculated (or, if such day is not a London Business Day, on the immediately preceding London Business Day) after taking into account (a) the average yield on the Loans (b) the margins on the Interest Rate Swaps and (c) the average yield on any Substitution Assets held by the LLP;
- (d) no Loan has a True Balance of more than £1 million;
- (e) no Loan relates to a Property that is not a residential Property; and
- (f) no Loan constitutes a New Loan Type, in respect of which no written confirmation has been received by the Security Trustee, and from each of the Relevant Rating Agencies in accordance with the terms of the Mortgage Sale Agreement, that such Loan may be sold to the LLP and that such sale of the New Loan Types would not have an adverse effect on the then current ratings by the Relevant Rating Agencies of the Covered Bonds.

On the relevant Transfer Date, the Representations and Warranties (described below in "*– Representations and warranties*") will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the LLP.

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or Additional Loan Advance, then if the Eligibility Criteria referred to in paragraphs (c), (d) and (e) above relating to the Loan subject to that Product Switch or Additional Loan Advance are not satisfied on the next following Calculation Date, the LLP will be

entitled to rectify the relevant breach of those Eligibility Criteria by (in the event of a breach of the Eligibility Criteria in paragraphs (c), (d) and (e) above) requiring the Seller to repurchase the Loans subject to any Product Switch or Additional Loan Advance or (in the event of a breach of the Eligibility Criteria in paragraph (c) above) by requiring the Seller to transfer further Loans to the LLP in an amount sufficient to ensure that the Eligibility Criteria in paragraph (c) above is met.

### *Transfer of Title to the Loans to the LLP*

The sale by the Seller to the LLP of English Loans and Northern Irish Loans and their Related Security will take effect by way of an equitable assignment. The sale by the Seller to the LLP of Scottish Loans and their Related Security will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans and their Related Security will be transferred to the LLP. In relation to Scottish Loans, references in this document to a sale of Loans or to Loans having been sold are to be read as references to the making of such Scottish Declarations of Trust. Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the Registers of Scotland. As a result, legal title to Loans and their Related Security will remain with the Seller until legal assignments or assignments (as appropriate) are delivered by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignment (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

Legal assignment or assignment (as appropriate) of the Loans and their Related Security (or, where specified, the Selected Loans and their Related Security) to the LLP will be completed on or before the 20th London Business Day after the earliest of the following:

- (a) either (A) the occurrence of an Issuer Event of Default under Conditions 9.1(a) to (g) and service on Nationwide Building Society of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay or (B) if the Bond Trustee has previously served on the Issuer an Issuer Acceleration Notice and served on the LLP a Notice to Pay in respect of an Issuer Event of Default under Condition 9.1(h), then the occurrence of any other Issuer Event of Default;
- (b) a written direction is received by Nationwide Building Society from the FCA requiring the transfer of all of the engagements or the business of the Society to another entity in circumstances where the rights of borrowing members of the Society will cease (provided that, where approval of the transfer from the members of the Society is required by either the FCA or applicable law, such approval is obtained);
- (c) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;
- (d) the Seller and/or the LLP being required: (a) by law; (b) by an order of a court of competent jurisdiction; (c) by a regulatory authority that has jurisdiction over the Seller; or (d) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans; and
- (e) the Seller requesting a transfer by way of assignment or assignment (as appropriate) by giving notice in writing to the LLP and the Security Trustee.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Mortgages will be secured by, or (in Scotland) supported by, an irrevocable power of attorney granted by the Seller in favour of the LLP and the Security Trustee.

Any Title Deeds and Loan Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or the Servicer, as the case may be, or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security. The Seller or the Servicer, as the case may be, will undertake that all the Title Deeds and Loan Files relating to the Loans in the Portfolio that are at any time in their possession or under their control or held to their order will be held to the order of the Security Trustee or as the Security Trustee may direct.

### *Representations and warranties*

None of the LLP, the Security Trustee or the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which shall be given if the Relevant Rating Agencies have confirmed it would not adversely affect the then current ratings of the Covered Bonds), amend the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Transfer Date in respect of the Loans and Related Security to be sold to the LLP only on that date and on the Calculation Date following the making of any Additional Loan Advance or Product Switch in respect of the Loan to which the Additional Loan Advance or Product Switch relates only:

- each Loan was originated or purchased by the Seller in the ordinary course of business not less than three calendar months prior to the relevant Transfer Date and was denominated in pounds Sterling upon origination or acquisition (or was denominated in euro upon origination or acquisition if the euro has been adopted as the lawful currency of the United Kingdom) and in respect of Loans purchased by the Seller (a) confirmation has been received from each of the Relevant Rating Agencies that the purchase of such Loans by the Seller would not adversely affect the then current ratings by such Relevant Rating Agency of the Covered Bonds and (b) the amount of Loans purchased by the Seller does not exceed 20% of the Portfolio;
- the first two monthly payments due in respect of each Loan have been paid by the relevant Borrower;
- no Loan has a True Balance of more than £1 million;
- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date;
- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions and waivers as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- the Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender;
- all of the Borrowers are individuals and were aged 18 years or older at the date he or she executed the relevant Mortgage;
- subject to, in relation to a Right to Buy Loan, any charge or security that may arise or be granted in favour of the relevant local authority (or in Northern Ireland, the Northern Ireland Housing Executive) and that has not been postponed, the whole of the True Balance on each Loan is secured by a Mortgage over residential property;
- subject to, in relation to a Right to Buy Loan, any charge or security that may arise or be granted in favour of the relevant local authority (or in Northern Ireland, the Northern Ireland Housing Executive) and that has not been postponed, and subject to, in certain appropriate cases, the completion of an application for registration at the Land Registry, the Registers of Scotland or the Registers of Northern Ireland, each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) first ranking standard security over the relevant Property or (in Northern Ireland) a valid and subsisting first charge (in relation to registered land) or a valid and subsisting mortgage by way of demise or sub-demise (in relation to unregistered land) except in relation to Flexible Advances linked to Loans entered into before 1 September 2002 in which case the Mortgage constitutes a valid and subsisting second ranking charge by way of legal mortgage or (in Scotland) second ranking standard security over the relevant Property or in (in Northern Ireland) a valid and subsisting second charge (in relation to registered land) or a valid and subsisting mortgage by way of demise or sub-demise (in relation to unregistered land) behind the Mortgage securing the balance of the relevant Loan;



- the True Balance on each Loan and its Related Security constitutes a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;
- none of the terms of the Loans or their Related Security are binding by virtue of their being unfair pursuant to the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the UTCCR;
- all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the LLP, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages, and such transfer or disposal shall not give rise to any claim by the Borrower against the LLP, the Security Trustee or any of their successors in title or assigns;
- all of the Properties are located in England or Wales, Scotland or Northern Ireland;
- unless the Loan is a Loan Without Independent Valuation, not more than 12 months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the granting of each Mortgage, the Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- prior to the taking of each Mortgage (other than a remortgage), the Seller instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions that the Seller issued to the relevant solicitor, licensed conveyancer or (in Scotland) qualified conveyancer as are set out, in the case of English Loans, in the CML Lenders' Handbook (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's standard form instructions to solicitors) and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or, for Mortgages taken before the CML's Lenders' Handbook for Scotland was adopted in 2000, the Seller's standard form instructions to solicitors), the CML's Lenders' Handbook for Northern Ireland (or, for Mortgages taken before the CML's Lenders' Handbook for Northern Ireland was adopted in 2003, the Seller's standard form instructions to solicitors) or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- buildings insurance cover for each Property is available under either: (a) a policy arranged by the Borrower or (b) in the case of leasehold property a policy arranged by the relevant landlord or (c) the Properties in Possession Policies;
- subject to registration or recording at the Land Registry or the Registers of Scotland or the Registers of Northern Ireland (as the case may be), the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned by the Seller to the LLP under the Mortgage Sale Agreement;
- the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan;
- there are no governmental authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale

Agreement legal, valid, binding, enforceable and admissible in evidence in a court in England and Wales which have not been obtained;

- each Loan and its Related Security will be "eligible property" for the purposes of Regulation 2 of the RCB Regulations;
- the rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto; and
- each Property is owner-occupied, or, where a Property is not owner-occupied, a Rating Agency Confirmation has been received.

If New Loan Types are to be sold to the LLP, then the Representations and Warranties in the Mortgage Sale Agreement will be modified as required to accommodate these New Loan Types. The prior consent of the holders of the Covered Bonds to the requisite amendments will not be required to be obtained. Notwithstanding the foregoing, the above representations and warranties will not apply in their entirety to Flexible Advances.

#### *Repurchase of Loans*

If the Seller receives a Repurchase Notice from the Cash Manager identifying a Loan or its Related Security in the Portfolio that does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (a) any such Loan and its Related Security and (b) any other Loans (including any Flexible Advances) of the relevant Borrower and their Related Security that are included in the Portfolio. The repurchase price payable upon the repurchase of any Loan is an amount (not less than zero) equal to the True Balance thereof and expenses as at the relevant repurchase date. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cash flows*" below).

In addition to the foregoing circumstances, the Seller will also be required to repurchase a Loan or Loans and its or their Related Security sold by the Seller to the LLP where:

- (a) an Additional Loan Advance made in respect of a Loan results in certain Eligibility Criteria being breached;
- (b) a Product Switch occurs. In these circumstances, the Seller will be able to offer to sell the affected Loan back to the LLP; or
- (c) a proposed Product Switch or Additional Loan Advance would result in the LLP being required to be regulated by the FCA by reason of it entering into a regulated mortgage contract. In these circumstances, if the Seller or the Borrower accepts an offer for the Product Switch, the Servicer or administrator (as the case may be) will notify the LLP, and the Seller will be required to repurchase the affected Loan or Additional Loan Advance before the Product Switch takes place.

#### *Defaulted Loans*

If a Seller receives a Defaulted Loans Notice identifying any Defaulted Loan, then that Defaulted Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Loan for an amount equal to its True Balance as at the date of repurchase.

### *General ability to repurchase*

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price of not less than the aggregate True Balance of the relevant Loan. The LLP may accept such offer at its discretion.

### *Right of Pre-emption*

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security.

The LLP will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Seller within ten London Business Days. If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under "*LLP Deed – Method of Sale of Selected Loans*", below).

If the Seller validly accepts the LLP's offer to sell the Selected Loans and their Related Security, the LLP will, within three London Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of the purchase of the Selected Loans and their Related Security by the Seller will take place on the LLP Payment Date after receipt of the Selected Loans Repurchase Notice(s) or such date as the LLP may direct in the Selected Loans Repurchase Notice (provided that such date is not later than the earlier to occur of the date that is (a) ten London Business Days after returning the Selected Loan Repurchase Notice to the LLP and (b) the Final Maturity Date of, as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds).

For the purposes hereof:

**Required Redemption Amount** means, in respect of a Series of Covered Bonds, the amount calculated as follows:

the Principal Amount Outstanding of the relevant Series of Covered Bonds X (1+ Negative Carry Factor X (days to maturity of the relevant Series of Covered Bonds/365))

### *Further drawings under Loans*

The Seller is solely responsible for funding all Additional Loan Advances and interest payments which would have been made by Borrowers but for Payment Holidays in respect of Loans sold by the Seller to the LLP, if any. The amount of the Seller's Capital Contribution will increase by the amount of the funded Additional Loan Advances and interest payments which would have been made by Borrowers but for Payment Holidays as set out in the LLP Deed.

### *New Sellers*

In the future, any New Seller that wishes to sell loans and their Related Security to the LLP will accede to, *inter alia*, the Mortgage Sale Agreement. The sale of New Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Loans and their Related Security to be

sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;

- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new mortgage sale agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;
- each New Seller accedes to the Programme Agreement and enters into such other documents as may be required by the Security Trustee and/or the LLP (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- any New Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the Mortgage Sale Agreement;
- either the Servicer services the New Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Loans and their Related Security would be determined on the date of the accession of the New Seller to the Programme);
- the Security Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and
- the Security Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to holders of the Covered Bonds and has received a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of holders of the Covered Bonds to the accession of a New Seller to the Programme will not be obtained.

The Mortgage Sale Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security and Northern Irish Loans and their Related Security, which are governed by Scots law and Northern Irish law respectively).

### **Servicing Agreement**

Pursuant to the terms of the Servicing Agreement entered into on the Initial Programme Date as amended and restated on 30 April 2008, 7 January 2011, 17 July 2013, 1 July 2016, 15 July 2019 and 12 February 2021 between the LLP, Nationwide Building Society (in its capacity as Servicer) and the Security Trustee, the Servicer has agreed to service on behalf of the LLP the Loans and their Related Security sold by the Seller to the LLP.

The Servicer is required to service the Loans in accordance with the Servicing Agreement and:

- (a) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and
- (b) in accordance with the Seller's administration, arrears and enforcement policies and procedures forming part of the Servicer's policy from time to time as they apply to those Loans.

The Servicer's actions in servicing the Loans in accordance with its procedures are binding on the LLP and the Secured Creditors.

The Servicer has the power to exercise the rights, powers and discretions and to perform the duties of the LLP in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the Servicing Agreement, and to do anything which it reasonably considers necessary or convenient or incidental to the administration of those Loans and their Related Security.

### **Undertakings of the Servicer**

Pursuant to the terms of the Servicing Agreement, the Servicer has undertaken in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- keep records and accounts on behalf of the LLP in relation to the Loans;
- keep the Loan Files and Title Deeds in its possession or under its control in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds and other records relating to the servicing of the Loans and their Related Security;
- maintain a register in respect of the Portfolio;
- make available to the LLP and the Security Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio;
- with effect on and from the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, provide to the FCA such information about the Loans and their Related Security contained in the Portfolio and/or such other information as the FCA may direct pursuant to the RCB Regulations;
- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;
- take all reasonable steps to recover all sums due to the LLP, including instituting proceedings and enforcing any relevant Loan or Mortgage using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy; and
- enforce any Loan that is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer has covenanted to each of the LLP and the Security Trustee in the Servicing Agreement that, upon the Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB-, or a counterparty risk assessment by Moody's of at least Baa3(cr) or a long-term unsecured, unguaranteed and unsubordinated debt obligation rating from Fitch of at least BBB- (provided that such rating by S&P, Moody's and/or Fitch shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding) (a **Back-Up Servicer Event**), it will use best endeavours to (with the assistance of the Back-Up Servicer Facilitator) identify and appoint a third party satisfactory to the LLP to act as a back-up or stand-by servicer (the **Back-Up Servicer**) to the Servicer within 60 days of such Back-Up Servicer Event.

### **Setting of Standard Variable Rate and other discretionary rates and margins**

Pursuant to the terms of the Mortgage Sale Agreement and in accordance with Mortgage Conditions applicable to certain of the Loans, the Seller has prescribed policies relating to interest rate setting, arrears management and handling of complaints which the LLP (and any subsequent purchaser thereof) will be required to adhere to following the transfer of the Loans and their Related Security. Such arrears management and handling of complaints policies are consistent with those to be applied by the Servicer under the terms of the Servicing Agreement. The interest rate setting policy specified

in the Mortgage Sale Agreement is only applicable to Loans with interest rates that may be varied from time to time in the discretion of the lender and requires that such interest rates should be set:

- (a) where the borrower has been guaranteed it will be capped by reference to a certain level at, either above or below, the Bank of England base rate (or any other rate) at the time (such rate being the **SVR Capped Rate**), at no more than the SVR Capped Rate; and
- (b) in accordance with any applicable requirements, statement of good practice or guidelines of the OFT, FCA or any other regulatory body with which it is customary to comply.

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set in relation to all the Loans in the Portfolio the Standard Variable Rate and any other discretionary rates and margins (in accordance with the policy to be adhered to by the LLP above) except in the limited circumstances described below in this subsection when the LLP will be entitled to do so. The Servicer will not at any time prior to service of a Notice to Pay on the LLP and/or the transfer of legal title to the Portfolio (or any part thereof) to the LLP, without the prior consent of the LLP, set or maintain:

- (i) the Standard Variable Rate applicable to the Loans sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Standard Variable Rate of the Seller which applies to mortgage loans beneficially owned by the Seller outside the Portfolio; and
- (ii) any other discretionary rate or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin which applies to that type of mortgage loan beneficially owned by the Seller outside the Portfolio.

In particular, the Servicer shall determine on each Calculation Date, having regard to:

- (a) the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);
- (b) the Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the Relevant LLP Payment Period; and
- (c) the other resources available to the LLP including the Interest Rate Swap Agreement, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of income during the Relevant LLP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (i) the amount of interest which would be payable (or provisioned to be paid) under the Intercompany Loan or, if a Notice to Pay has been served, the Covered Bond Guarantee on each LLP Payment Date falling prior to the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on each LLP Payment Date of each Series of Covered Bonds falling prior to the end of the relevant LLP Payment Period and (ii) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security. Any such shortfall shall be referred to herein as the **Interest Rate Shortfall**.

If the Servicer determines that there will be an Interest Rate Shortfall in the foregoing amounts, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the Interest Rate Shortfall. If the LLP or the Security Trustee notifies the Servicer and the Seller that, having regard to the obligations of the LLP and the amount of the Interest Rate Shortfall, further Loans and their Related Security should be sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, the Seller will use all reasonable efforts to offer to sell New Loans and their Related Security to the LLP on or before the next Calculation Date which have a Standard Variable Rate and/or other discretionary rates or margins sufficient to avoid such Interest Rate Shortfall on future Calculation Dates. In consideration of such sale,

the Seller will be treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and will be entitled to receive the Deferred Consideration.

In addition, the Servicer shall determine on each Calculation Date following an Issuer Event of Default, having regard to the aggregate of:

- (a) the Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant LLP Payment Period; and
- (b) the other resources available to the LLP under the Interest Rate Swap Agreement,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement during the Relevant LLP Payment Period which would give a yield on the Loans of at least the SONIA Spot Rate published on the final London Business Date in the previous Calculation Period plus 0.25%.

If the Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the shortfall and the Standard Variable Rate and the other discretionary rates or margins which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) on which the change to the Standard Variable Rate and the other discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender. If the LLP or the Security Trustee notifies the Servicer that, having regard to the obligations of the LLP, the Standard Variable Rate and/or the other discretionary rates or margins should be increased, the Servicer or replacement Servicer, as the case may be, will take all steps that are necessary to increase the Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice that is required in accordance with the Mortgage Terms.

The LLP and the Security Trustee may terminate the authority of the Servicer to determine and set the Standard Variable Rate and any other variable rates or margins on the occurrence of a Servicer Event of Default as defined under "*Removal or resignation of the Servicer*", in which case the LLP and the Security Trustee will agree to appoint the replacement Servicer to set the Standard Variable Rate and the other discretionary rates or margins itself in accordance with this subsection.

### **Remuneration**

As full remuneration for its servicing duties and activities and as reimbursement for any expense incurred by it in connection therewith, the Servicer or any substitute servicer that is a member of Nationwide is entitled to receive the fee from the LLP as set out in Servicing Agreement. If, however, a servicer is appointed from outside Nationwide, the level of this fee may be amended.

### **Removal or resignation of the Servicer**

The LLP and the Security Trustee may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately if any of the following events (each a **Servicer Termination Event** and, each of the first three events set out below, a **Servicer Event of Default**) occurs:

- the Servicer defaults in the payment of any amount due to the LLP under the Servicing Agreement and fails to remedy that default for a period of three Business Days after becoming aware of the default;
- the Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Security Trustee is materially prejudicial to holders of the Covered Bonds and does not remedy that failure within 20 Business Days after becoming aware of the failure;
- an Insolvency Event occurs in relation to the Servicer; or

- the LLP resolves that the appointment of the Servicer should be terminated.

Upon the termination of the Servicer, the LLP (with the assistance of the Back-Up Servicer Facilitator) shall use reasonable endeavours to appoint a substitute servicer in accordance with the terms of the Servicing Agreement provided that if:

- (a) an entity is acting as a Back-Up Servicer or stand-by servicer to the Servicer as a consequence of the occurrence of a Back-Up Servicer Event;
- (b) no event has occurred which would entitle the LLP to terminate the back-up or stand-by servicer's appointment under the agreement appointing the Back-Up Servicer or stand-by servicer; and
- (c) the Back-Up Servicer or stand-by servicer is contractually committed to provide the services in relation to the Portfolio if the appointment of the relevant Servicer is terminated pursuant to the Servicing Agreement,

the appointment of the Back-Up Servicer or stand-by servicer shall satisfy the obligation of the LLP to appoint a substitute servicer.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' notice to the Security Trustee, the LLP and the Back-Up Servicer Facilitator provided that a substitute servicer qualified to act as such under the FSMA 2000 and with a management team with experience of administering mortgages in the United Kingdom has been appointed (with the assistance of the Back-Up Servicer Facilitator) and enters into a servicing agreement with the LLP substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the holders of the Covered Bonds agree otherwise by Extraordinary Resolution.

In addition, the appointment of the Servicer may be terminated by the Servicer upon the expiry of not less than 60 days' written notice of termination given by the Servicer to the LLP, the Back-Up Servicer Facilitator and the Security Trustee if (i) following a Perfection Event, the Servicer has certified to the LLP and the Security Trustee in writing that it cannot operationally continue to service the relevant Loans and their Related Security and/or (ii) a Back-Up Servicer or stand-by Servicer has been appointed.

If the appointment of the Servicer is terminated, the Servicer must deliver the Title Deeds and Loan Files relating to the Loans administered by it to, or at the direction of, the LLP. The Servicing Agreement will terminate at such time as the Servicer has no further interest in any of the Loans or their Related Security sold to the LLP and serviced under the Servicing Agreement that have been comprised in the Portfolio.

The Servicer may subcontract or delegate the performance of its duties under the Servicing Agreement provided that it meets conditions as set out in the Servicing Agreement.

Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

#### *Back-up Servicer*

The Servicer has covenanted to each of the LLP and the Security Trustee that, upon the Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB-, or a counterparty risk assessment by Moody's of at least Baa3(cr) or a long-term unsecured, unguaranteed and unsubordinated debt obligation rating from Fitch of at least BBB- (in each case, provided that such rating by S&P, Fitch and/or Moody's shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding) (a **Back-Up Servicer Event**), it will use best endeavours to (with the assistance of the Back-Up Servicer Facilitator) identify and appoint a third party satisfactory to the LLP to act as a back-up or stand-by servicer (the **Back-Up Servicer**) to the Servicer within 60 days of such Back-Up Servicer Event.



Any Back-Up Servicer appointed on or after the occurrence of a Back-Up Servicer Event will be paid a fee with regard to the services it performs as agreed separately between the LLP and the Back-Up Servicer (the **Back-Up Servicer Fee**). The amount of the Back-Up Servicer Fee will be added to the fees and costs that are payable to the Servicer by the LLP in accordance with the relevant Priorities of Payment and the Servicing Agreement, and the Servicer shall promptly following receipt of such amount pay the Back-Up Servicer Fee to the Back-Up Servicer or direct the LLP to pay such amounts directly to the Back-Up Servicer.

#### *Back-Up Servicer Facilitator*

The LLP has appointed the Back-Up Servicer Facilitator as its agent to, following the earlier to occur of a Back-Up Servicer Event and a Servicer Termination and in conjunction with the Servicer or, as applicable, the LLP, use best efforts to identify, on behalf of the LLP, a suitable entity to provide, in the case of a Back-Up Servicer Event, back-up or stand-by services to the Servicer in accordance with the terms of the Servicing Agreement or, in the case of a Servicer Termination, servicing services to the LLP.

The Servicing Agreement and any non-contractual obligation arising out of or in connection with it are governed by English law and it will be made by way of deed.

#### **Asset Monitor Agreement**

Under the terms of the Asset Monitor Agreement entered into on or around 12 February 2021 between the Asset Monitor, the LLP, the Cash Manager and the Security Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to report on the arithmetic accuracy of the calculations performed by the Cash Manager on the latest Calculation Date that falls at least 30 days prior to the anniversary of the Programme Date with a view to confirmation of compliance by the LLP with the Asset Coverage Test or the Amortisation Test, as applicable, on that Calculation Date.

If the long-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the Cash Manager or the Issuer fall below BBB- by S&P or BBB- by Fitch or if the Cash Manager or the Issuer ceases to be assigned a long-term counterparty risk assessment by Moody's of at least Baa3(cr) (in each case, provided that such rating by S&P, Fitch and/or Moody's shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding), or if an Asset Coverage Test Breach Notice has been served and has not been revoked, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to report on such arithmetic accuracy following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the Asset Coverage Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding 1% of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable, (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of reporting on the arithmetic accuracy is true and correct and not misleading, and is not required to report as such or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As at 12 February 2021, the LLP will pay to the Asset Monitor a fee of up to £5,000 per report (exclusive of VAT) for the reports to be performed by the Asset Monitor.

The LLP may, at any time, only with the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 60 days' prior written notice to the Asset Monitor, and the Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice to the LLP and the Security Trustee (such replacement to be approved by the Security Trustee) (such approval to be given if the replacement is an accountancy firm of national

standing which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement).

Upon giving notice of resignation, the Asset Monitor shall immediately use its best endeavours to appoint a replacement (such replacement to be approved by the Security Trustee) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement. If a replacement is not appointed by the date that is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the LLP shall use all reasonable endeavours to appoint an accountancy firm of national standing to carry out the relevant tests on a one-off basis, provided that such appointment is approved by the Security Trustee.

The Asset Monitor has also been appointed as the "Asset Pool Monitor" (as defined in the RCB Regulations) for the purposes of the RCB Regulations, as to which see further "*Description of the UK Regulated Covered Bond Regime*".

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

The Asset Monitor Agreement and any non-contractual obligation arising out of or in connection with it are governed by English law.

### **LLP Deed**

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of a limited liability partnership deed entered into on the Initial Programme Date as amended and restated and/or supplemented on 21 February 2007, 30 November 2007, 30 April 2008, 19 June 2008, 3 July 2009, 18 December 2009, 28 June 2012, 17 July 2013 and 1 July 2016 (such limited liability partnership deed as amended and/or supplemented and/or restated from time to time, the **LLP Deed**) between the LLP, Nationwide Building Society, the Liquidation Member, the Bond Trustee and the Security Trustee.

### **Members**

As at the date of this Base Prospectus, each of Nationwide Building Society and the Liquidation Member is a member (each a **Member** and, together with any other members from time to time, the **Members**) of the LLP. Nationwide Building Society and the Liquidation Member are designated members (each a **Designated Member** and, together with any other designated members from time to time, the **Designated Members**) of the LLP. The Designated Members shall have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to Nationwide Building Society, the Seller will automatically cease to be a Member of the LLP and the outstanding balance of the Seller's Capital Contribution to the LLP will be converted into a subordinated debt obligation (the **Issuer Subordinated Loan**). In these circumstances, the Liquidation Member (with the prior written consent of the Security Trustee whilst the Covered Bonds are outstanding) may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee).

No New Member may be otherwise appointed without the consent of the Security Trustee and the receipt by the Issuer or the Security Trustee of a Rating Agency Confirmation.

### **Capital Contributions**

From time to time Nationwide Building Society (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Loans to the LLP). The Capital Contributions of the Society shall be calculated in Sterling on each Calculation Date as the difference between (a) the True Balance of the Portfolio as at the last day of the preceding Calculation Period plus Principal Receipts standing to the credit of the GIC Account plus the principal amount of Substitution Assets and Authorised Investments as at the last day

of the preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period.

The Liquidation Member will not make any Capital Contributions to the LLP.

Any Cash Capital Contributions made by Nationwide Building Society (in its capacity as a Member) from time to time shall, unless an Asset Coverage Test Breach Notice has been served and not been revoked: (a) be distributed to the Society as a Capital Distribution by way of a distribution of the Issuer's equity in the LLP; (b) be used to repay a Term Advance, if so directed by the Society (in its capacity as a Member); (c) be used to fund the Reserve Fund (together with other amounts that may be credited to such Reserve Fund, up to an aggregate amount equal to the Reserve Fund Required Amount); (d) be paid as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement; (e) be used to invest in Substitution Assets (in an amount up to but not exceeding the prescribed limit); (f) be used to pay amounts due in connection with a tender and/or redemption of Covered Bonds, if so directed by Nationwide (in its capacity as a Member); or (g) be used to pay amounts due under a Covered Bond Swap, if so directed by Nationwide (in its capacity as a Member).

### **Asset Coverage Test**

Under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) must ensure that, on each Calculation Date, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If, on any Calculation Date, the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Members (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see "*Mortgage Sale Agreement – Sale by the Seller of Loans and Related Security*") or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP and the LLP shall send notice of the same pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

- (a) the LLP will be required to sell Selected Loans (as described further under "*Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice*");
- (b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in "*Cash flows – Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*"; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and in certain circumstances may be required) to serve an Issuer Acceleration Notice. On the occurrence

of an Issuer Event of Default, the Issuer shall give notice of the same pursuant to the RCB Regulations. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the LLP.

For the purposes hereof:

**Adjusted Aggregate Loan Amount** means the amount calculated on each Calculation Date as follows:

$$A + B + C + D + E - (V + W + X + Y + Z)A + B + C + D + E - (V + W + X + Y + Z)$$

where

A = the lower of (i) and (ii), where:

(i) = the sum of the **Adjusted True Balance** of each Loan in the Portfolio, which shall be the lower of (A) the actual True Balance of the relevant Loan in the Portfolio as calculated on the relevant Calculation Date and (B) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are less than three months in arrears or not in arrears, M = 0.75, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, M = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than to 75%, M = 0.25),

*minus*

the aggregate sum of the following deemed reductions to the aggregate Adjusted True Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (i) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted True Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or
- (ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss);

AND

(ii) = the aggregate **Arrears Adjusted True Balance** of the Loans in the Portfolio as at the relevant Calculation Date which in relation to each Loan shall be the lower of (A) the actual True Balance of the relevant Loan as calculated on the relevant Calculation Date and (B) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are less than three months in arrears or not in arrears, N = 1, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, N = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75%, N = 0.25),

***minus***

the aggregate sum of the following deemed reductions to the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (i) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Arrears Adjusted True Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or
- (ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss),

***the result of the calculation in this paragraph (ii) being multiplied by the Asset Percentage*** (as defined below);

- B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;
- C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with this Deed and/or the other Transaction Documents;
- D = the aggregate outstanding principal balance of any Substitution Assets;
- E = the aggregate of (i) the amount of any Sale Proceeds standing to the credit of any GIC Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date plus (ii) any amount standing to the credit of any GIC Account and credited to the Supplemental Liquidity Reserve Ledger as at the relevant Calculation Date (in each case, without double counting);
- V = (i) for so long as Nationwide Building Society is the Account Bank with respect to the Collateralised GIC Account but does not have ratings at least equal to the Account Bank Required Ratings, an amount equal to the amounts deposited in the Collateralised GIC Account comprising the Designated Mortgages Amount or (ii) in all other cases, zero;
- W = an amount equal to the Supplemental Liquidity Reserve Amount;
- X = either:

- (a) zero, for so long as: (i) the Issuer's credit ratings from S&P are at least BBB+ long-term and A-2 short-term; and the Issuer is assigned a long-term counterparty risk assessment by Moody's of at least A2(cr); and (ii) the Issuer's credit ratings from Fitch are at least A long-term and F1 short-term (in each case, provided that such ratings by S&P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding); or
- (b) the sum of the Deposit Set-off Balance for each Loan, where the **Deposit Set-off Balance** equals, (i) in respect of each Loan where the aggregate amount of the relevant Borrower's deposit account balances exceeds the FSCS Limit but the True Balance of the relevant Loan does not exceed the FSCS Limit, the lower of: (A) the True Balance of the relevant Loan; and (B) the aggregate amount of deposit account balances of the relevant Borrower minus the FSCS Limit, each as calculated on the relevant Calculation Date and notified to the Relevant Rating Agencies, or (ii) in respect of each Loan where the aggregate amount of the relevant Borrower's deposit account balances exceeds the FSCS Limit and the True Balance of the relevant Loan also exceeds the FSCS Limit, the lower of: (a) the True Balance of the relevant Loan; and (b) the aggregate amount of deposit account balances, provided that if the aggregate amount of deposit account balances of such Borrower is not available, the Deposit Set-off Balance for that Loan shall be 4% of the True Balance of that Loan on the relevant Calculation Date;

Y = 8% multiplied by the Flexible Redraw Capacity (as defined below) multiplied by 3; and

Z = the weighted average remaining maturity of all Covered Bonds then outstanding *multiplied by* the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds on the relevant Calculation Date *multiplied by* the Negative Carry Factor where the **Negative Carry Factor** (a) 0.5% if the weighted average margin of the interest rate payable on the Covered Bonds is less or equal to 0.1% per annum or (b) 0.5% plus that margin minus 0.1%, if that margin is greater than 0.1% per annum (provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one),

and where, in all cases, the **True Balance** of a Loan is its True Balance as at the last day of the immediately preceding Calculation Period.

**Asset Percentage** means 93% or such lesser percentage figure as selected at the option of the LLP by the LLP (or the Cash Manager acting on its behalf) that is necessary to ensure that the Covered Bonds maintain the then current ratings assigned to them by Fitch and S&P (provided that such ratings by Fitch and/or S&P shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding) or such figure selected by the LLP (or the Cash Manager on its behalf) and notified to Moody's and the Security Trustee.

Save where a different adjustment would not adversely affect the then current ratings of all outstanding Covered Bonds as confirmed in writing by the Relevant Rating Agencies, the Asset Percentage will be adjusted in accordance with the various methodologies prescribed by Fitch and S&P (provided that such methodologies of Fitch and/or S&P shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding) to ensure that sufficient credit enhancement will be maintained, provided that the Asset Percentage may not, at any time, exceed 93% unless where a different adjustment would not adversely affect the then current ratings of all outstanding Covered Bonds as confirmed in writing by the Relevant Rating Agencies.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it, being the difference between 100% and the amount of credit

enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology.

**Flexible Re-draw Capacity** means the sum of: (a) the flexible cash re-draw capacity, being an amount equal to the difference between (i) the maximum amount of Cash Re-draws that Borrowers may make under Flexible Loans in the Portfolio (whether or not drawn) as at the last day of the immediately preceding Calculation Period and (ii) the aggregate True Balance of Cash Re-draws that form part of the Portfolio as at the last day of the immediately preceding Calculation Period; and (b) the further draw capacity being an amount equal to the difference between (i) the aggregate credit limit under Flexible Advances included in the Portfolio as at the last day of the immediately preceding Calculation Period and (ii) the aggregate True Balance of Flexible Advances that form part of the Portfolio as at the last date of the immediately preceding Calculation Period.

**FSCS Limit** means the current applicable limit established by the Financial Services Compensation Scheme.

**Supplemental Liquidity Reserve Amount** means: (i) prior to the service of a Notice to Pay, an amount equal to 5% of item "A" in the Asset Coverage Test; and (ii) following the service of a Notice to Pay, an amount equal to 5% of item "A" in the Asset Coverage Test immediately prior to the service of such Notice to Pay minus an amount equal to the aggregate True Balance of Loans sold to fund or replenish the Supplemental Liquidity Reserve Ledger; **provided that**, in each case, such amount shall be equal to at least 5% of the Sterling Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated on each relevant Calculation Date.

**Supplemental Liquidity Available Amount** means: (i) prior to the service of a Notice to Pay, an amount equal to the Supplemental Liquidity Reserve Amount minus, if a Supplemental Liquidity Event has occurred that is continuing, an amount equal to the aggregate True Balance of Loans sold to fund or replenish the Supplemental Liquidity Reserve Ledger, unless otherwise proposed to the Relevant Rating Agencies; and (ii) following the service of a Notice to Pay, an amount equal to the Supplemental Liquidity Reserve Amount.

#### **Amortisation Test**

The LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

Following service of Notice to Pay on the LLP, if on any Calculation Date the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test and the Bond Trustee shall be entitled to serve an LLP Acceleration Notice in accordance with the Conditions.

The **Amortisation Test Aggregate Loan Amount** will be calculated on each Calculation Date as follows:

$$A + B + C - Y - ZA + B + C - Y - Z$$

where:

A = the aggregate **Amortisation Test True Balance** of each Loan, which shall be the lower of (a) the actual True Balance of the relevant Loan as calculated on the relevant Calculation Date multiplied by M and (b) 100% of the Indexed Valuation multiplied by M.

Where for all the Loans that are less than three months in arrears or not in arrears, M = 1 or for all the Loans that are three months or more in arrears, M = 0.7;

- B = the sum of the amount of any cash standing to the credit of any GIC Account and any amount equal to the amounts deposited in the Collateralised GIC Account comprising the Designated Collateral Amount and the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the immediately preceding Calculation Period);
- C = the aggregate outstanding principal balance of any Substitution Assets;
- Y = an amount equal to the Supplemental Liquidity Reserve Amount; and
- Z = the weighted average remaining maturity of all Covered Bonds then outstanding *multiplied by* the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds *multiplied by* the Negative Carry Factor.

### **Sale of Selected Loans and their Related Security if the Pre-Maturity Test is breached**

The LLP Deed provides for sales of Selected Loans and their Related Security in certain circumstances where the Pre-Maturity Test has been breached. The Pre-Maturity Test will be breached if the ratings of the Issuer fall below a specified level and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter (see further "*Credit Structure – Pre-Maturity Liquidity*" below). The LLP will be obliged to sell the Selected Loans and their Related Security to Purchasers, subject to the rights of pre-emption enjoyed by the Sellers to buy the Selected Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement, in accordance with the procedure summarised in "*Method of Sale of Selected Loans*" below and subject to any Revenue Receipts and Principal Receipts standing to the credit of the GIC Account, any Cash Capital Contribution or Loan repurchase made by the Members or any Intercompany Loan funded by the issue of Soft Bullet Covered Bonds by the Issuer. If the Issuer and the LLP fail to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the service of a Notice to Pay on the LLP, the proceeds from any sale of Selected Loans or any amounts standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in "*Credit Structure – Pre-Maturity Liquidity*" below.

### **Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice**

After service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay and prior to service of an LLP Acceleration Notice, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement and subject to any Cash Capital Contribution made by the Members. The proceeds from any such sale or refinancing will be credited to the relevant GIC Account or the Collateralised GIC Account, as applicable and applied as set out in the Priorities of Payments (see "*Cash flows – Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below).

### **Sale of Selected Loans and their Related Security following service of a Notice to Pay**

After a Notice to Pay has been served on the LLP but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale or refinancing will be credited to the relevant GIC Account or the Collateralised GIC Account, as applicable and applied as set out in the Guarantee Priority of Payments.

### **Sale of Selected Loans and their Related Security if a Supplemental Liquidity Event has occurred**

If a Supplemental Liquidity Event has occurred that is continuing, then the LLP is permitted (but not required) to sell Selected Loans with the aim to fund or replenish the Supplemental Liquidity Reserve Ledger, provided that the aggregate True Balance of Selected Loans sold shall not exceed the Supplemental Liquidity Reserve Amount and provided further



that the balance of the Supplemental Liquidity Reserve Ledger shall not exceed the Supplemental Liquidity Available Amount. If, during any LLP Payment Period, the LLP is permitted to sell such Selected Loans, the LLP shall ensure that any Selected Loans to be sold in these circumstances are selected on a random basis.

### Method of Sale of Selected Loans

If the LLP is required or permitted to sell Selected Loans and their Related Security to Purchasers following a breach of the Pre-Maturity Test, the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will be required to ensure that before offering Selected Loans for sale:

- (a) the Selected Loans have been selected from the Portfolio on a random basis as described in the LLP Deed; and
- (b) the Selected Loans have an aggregate True Balance in an amount (the **Required True Balance Amount**) that is as close as possible to the amount calculated as follows:
  - (i) following the Service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their True Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or
  - (ii) following a breach of the Pre-Maturity Test or service of a Notice to Pay:

$$N \times \frac{\text{True Balance of all the Loans in the Portfolio less the Supplemental Liquidity Available Amount}}{\text{The Sterling Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where "N" is an amount equal to:

- in respect of Selected Loans being sold following a breach of the Pre-Maturity Test, the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds that mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds; or
- in respect of the Selected Loans being sold following the service of a Notice to Pay, the Sterling Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of any GIC Account and the Collateralised GIC Account and the principal amount of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds that mature prior to or on the same date as the relevant Series of Covered Bonds).

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the True Balance of the Selected Loans plus the Arrears of Interest and Accrued Interest thereon; and

- (b) following a breach of the Pre-Maturity Test or a service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

Following a breach of the Pre-Maturity Test or a the service of a Notice to Pay, if the Selected Loans and their Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date that is six months prior to, as applicable, (i) in respect of Covered Bonds that are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date (ii) in respect of a sale in connection with the Pre-Maturity Test, the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds or (iii) in respect of Covered Bonds that are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the LLP (subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

The LLP is also permitted to offer for sale to Purchasers a Partial Portfolio. Except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The LLP will through a tender process appoint a portfolio manager of recognised standing on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Loans (if such terms are commercially available in the market) and to advise it in relation to the sale of the Selected Loans to Purchasers (except where the Seller is buying the Selected Loans in accordance with their right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender shall be approved by the Security Trustee.

In respect of any sale or refinancing of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed.

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under "*Deed of Charge – Release of Security*", below) are satisfied.

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans shall be sold prior to the next following Final Maturity Date of the Hard Bullet Covered Bonds or, as applicable, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers. Any such sale will not include any Representations and Warranties from the LLP in respect of the Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Seller.

In addition, if during any LLP Payment Period, the LLP is permitted to sell Selected Loans where a Supplemental Liquidity Event has occurred, the LLP shall ensure that any Selected Loans to be sold are selected on a random basis.

### **Covenants of the LLP and the Members**

Each of the Members has covenanted that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP has covenanted that it will not, save with the prior written consent of the LLP Management Committee (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by the Transaction Documents:

- (a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future;
- (b) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;
- (c) have an interest in a bank account other than as set out in the Transaction Documents;
- (d) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with or transfer any of its property or assets to another person;
- (f) have any employees, premises or subsidiaries;
- (g) acquire assets other than pursuant to the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed;
- (h) engage in any activities or derive income from any activities within the United States or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;
- (i) enter into any contracts, agreements or other undertakings;
- (j) compromise, compound or release any debt due to it;
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or
- (l) be a member of any VAT Group.

The LLP and each of the Members further covenants that from and including the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations it will:

- (a) ensure that the Asset Pool will only comprise those assets set out in items (a) to (h) of Regulation 3(1) (Asset Pool) of the RCB Regulations;
- (b) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of "eligible property" in Regulation 2 (Eligible Property) of the RCB Regulations;

- (c) keep a record of those assets that form part of the Asset Pool (which, for the avoidance of doubt, shall not include any Swap Collateral) as prescribed by Regulation 3(2) of the RCB Regulations; and
- (d) at all times comply with its obligations under the RCB Regulations and/or the RCB Sourcebook.

### **Limit on Investing in Substitution Assets**

Prior to the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of LLP Accounts in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed 10% of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Depositing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the relevant GIC Account and the LLP will be permitted to invest all available moneys in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

### **Other Provisions**

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under "*Cash flows*" below.

The LLP Management Committee, comprised, as at the date of this Base Prospectus, directors, officers and/or employees of Nationwide Building Society, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Committee relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed *inter alia* not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities that they incur as a result of the relevant Member's non-payment.

Following the appointment of a liquidator to any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only.

The LLP Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

### **Cash Management Agreement**

The Cash Manager provides certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement entered into on the Initial Programme Date as amended and restated on 27 November 2006, 30 November 2007, 30 April 2008, 3 July 2009, 18 December 2009, 1 July 2016, 15 July 2019 and 12 February 2021 between the LLP, Nationwide Building Society in its capacity as the Cash Manager, the Security Trustee and the and the Back-Up Cash Manager Facilitator. However, if after using their best endeavours to identify and appoint a suitable back-up cash

manager, the Cash Manager and the LLP are unable to find a suitable third party willing to act as back-up cash manager, this shall not constitute a breach of such covenant.

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the LLP;
- (b) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable in accordance with Regulation 3(2) of the RCB Regulations;
- (c) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under "*Cash flows*", below;
- (d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under "*Credit Structure – Asset Coverage Test*", below;
- (e) determining whether the Amortisation Test is satisfied on each Calculation Date following an Issuer Event of Default in accordance with the LLP Deed, as more fully described under "*Credit Structure – Amortisation Test*", below;
- (f) on each London Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds is satisfied as more fully described under "*Credit Structure – Pre-Maturity Liquidity*";
- (g) providing information on the composition of any Substitute Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required in accordance with the RCB Regulations;
- (h) preparation of Investor Reports for, among others, the Issuer, the Relevant Rating Agencies and the Bond Trustee; and
- (i) identifying (prior to any such deposit) and recording amounts deposited in the Collateralised GIC Account as either a Designated Mortgages Amount or a Designated Collateral Amount (see "*– Collateral Posting*" below).

#### *Collateral Posting*

The Cash Manager will, if it is depositing Deposit Non-Reserved Amounts into the Collateralised GIC Account where Nationwide Building Society is the Account Bank and ceases to have the Account Bank Required Ratings, from time to time identify and record amounts deposited in the Collateralised GIC Account as either a Designated Mortgages Amount or a Designated Collateral Amount. Swap Collateral amounts relating to (i) a Covered Bond Swap Agreement and deposited in the Collateralised GIC Account shall be identified and recorded only as part of a Designated Collateral Amount and recorded on the relevant Designated Covered Bond Swap Collateral Ledger and/or (ii) an Interest Rate Swap Agreement and deposited in the Collateralised GIC Account shall be identified and recorded only as part of a Designated Collateral Amount and recorded on the relevant Designated Interest Rate Swap Collateral Ledger, and in both cases may not be recorded as part of a Designated Mortgages Amount.

The sum of the Designated Mortgages Amount and the Designated Collateral Amount shall be equal to the amount standing to the credit of the Collateralised GIC Account plus, if applicable, any amounts identified by the Cash Manager as being required to be deposited in the Collateralised GIC Account but which have not yet been so deposited. If the Cash Manager designates a Designated Mortgages Amount in an amount greater than zero, the Cash Manager shall ensure that the Designated Mortgages Amount is at all times less than or equal to the Available Mortgage Collateral Amount calculated on the immediately preceding Calculation Date.

The Cash Manager shall, before depositing any funds into the Collateralised GIC Account, identify the amounts required to be collateralised by the posting of eligible collateral under the Collateral Agreement and notify Nationwide Building Society as GIC Provider of the Designated Collateral Amount.

Any amounts representing Available Principal Receipts (for the purposes of this paragraph only, the **Principal Amount**) and Available Revenue Receipts that cannot be withdrawn from the Collateralised GIC Account whilst such amounts are collateralised (including, without limitation, in the event of a moratorium arising upon the insolvency, building society insolvency, administration or building society special administration of Nationwide Building Society or the Society being unable to pay these amounts) shall cease to constitute Available Principal Receipts or Available Revenue Receipts, respectively, and shall not be available to be applied in accordance with the applicable Priority of Payments; provided that any amounts recovered in respect of such principal amounts from realisation of the related Custody Collateral shall constitute Available Principal Receipts, save to the extent that any related Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Principal Receipts, (up to an amount equal to the Principal Amount) and thereafter shall constitute Available Revenue Receipts, and any amounts subsequently recovered in respect of such revenue amounts and amounts of interest from the realisation of the related Custody Collateral shall constitute Available Revenue Receipts, save to the extent that any related Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Revenue Receipts. For the avoidance of doubt, Swap Collateral shall be excluded from the calculations of and shall not constitute Available Principal Receipts or Available Revenue Receipts. Amounts recovered from the Collateralised GIC Account (and for the avoidance of doubt, excluding any recoveries made in respect of any Custody Collateral) shall constitute Available Revenue Receipts.

#### *Back-up Cash Manager*

The Cash Manager and the LLP each covenant that, on the Cash Manager ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least BBB- or by Fitch of at least BBB- or upon the Cash Manager ceasing to be assigned a long-term counterparty risk assessment by Moody's of at least Baa3(cr) (in each case, provided that such rating by S&P, Fitch and/or Moody's shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding) (a **Back-Up Cash Manager Event**), they will use best endeavours (with, in the case of the LLP, the assistance of the Back-Up Cash Manager Facilitator) to identify and appoint a suitable third party to act as back-up or stand-by cash manager to the Cash Manager and to undertake back-up cash management services to the LLP within 60 days of such Back-Up Cash Manager Event.

Any Back-Up Cash Manager appointed on or after a Back-Up Cash Manager Event will be paid a fee with regard to the services it performs as agreed separately between the Issuer and the Back-Up Cash Manager (the **Back-Up Cash Manager Fee**). The amount of the Back-Up Cash Manager Fee will be added to the fees and costs that are payable to the Cash Manager in accordance with the relevant Priorities of Payment and the Cash Management Agreement, and the Cash Manager shall promptly, following receipt of such amount, pay the Back-Up Cash Manager Fee to the Back-Up Cash Manager or direct the LLP to pay such amounts directly to the Back-Up Cash Manager.

#### *Back-up Cash Manager Facilitator*

The LLP has appointed the Back-Up Cash Manager Facilitator as its agent, following the earlier to occur of a Back-Up Cash Manager Event and a Cash Manager Termination, in conjunction with the Cash Manager or, as applicable, the LLP, use best endeavours to identify, on behalf of the LLP, a suitable entity to provide, in the case of a Cash Manager Termination, cash management services to the LLP or, in the case of a Back-Up Cash Manager Event, back-up or stand-by cash management services to the Cash Manager in accordance with the terms of the Cash Management Agreement.

#### *Termination*

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager in which event the LLP will appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). If the LLP or the Cash Manager (acting on its behalf) determines there is not a substitute cash manager that is willing to enter into a replacement cash management agreement with terms substantially similar to those set out in the Cash Management Agreement for a commercially reasonable fee taking into account prevailing market conditions, a replacement agreement may be entered into on reasonable commercial terms taking into account the then prevailing market conditions if the LLP or the Cash Manager certifies in writing to the Bond Trustee and the Security

Trustee that the terms upon which it is proposed the back-up, stand-by or replacement cash manager will be appointed are reasonable commercial terms taking into account the then prevailing current market conditions.

In addition, the appointment of the Cash Manager may be terminated upon the expiry of not less than 60 days' written notice of termination given by the Cash Manager to the LLP, the Back-Up Cash Manager Facilitator, the Security Trustee and the Bond Trustee provided that a third party has been appointed to provide cash management services to the LLP, either pursuant to any back-up cash management agreement as contemplated under the terms of the Cash Management Agreement or otherwise, and that such appointment is effective on and from the date of such termination.

The Cash Management Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

### **Interest Rate Swap Agreement**

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time that may be linked either to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's Standard Variable Rate, such as a rate that tracks the Bank of England base rate. Other Loans pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under the Covered Bond Swaps or the Term Advances under the Intercompany Loan Agreement are based on a compounded daily SONIA rate for the relevant calculation period. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the fixed rate loans, the BMR Loans, the SMR Loans and a certain percentage of tracker rate loans in the Portfolio; and
- (b) a compounded daily SONIA rate for the relevant calculation period,

the LLP, the Interest Rate Swap Provider and the Security Trustee have entered into the Interest Rate Swap Agreement on or about the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) and the Interest Rate Swaps (which, as per the definition of such term in the "*Glossary*" section below, means the Jumbo Interest Rate Swaps) thereunder.

#### *Jumbo Interest Rate Swaps*

Each of the Jumbo Interest Rate Swaps (which, as per the definition of such term in the "*Glossary*" section below, means the Interest Rate Swap (BMR), the Interest Rate Swap (Fixed), the Interest Rate Swap (SMR) and the Interest Rate Swap (Tracker)) has a notional amount, for each Calculation Period, equal to:

- in respect of the Interest Rate Swap (Fixed), the aggregate True Balance of all fixed rate loans in the Portfolio on the first day of such Calculation Period;
- in respect of the Interest Rate Swap (BMR), the aggregate True Balance of all BMR Loans in the Portfolio on the first day of such Calculation Period;
- in respect of the Interest Rate Swap (SMR), the aggregate True Balance of all SMR Loans in the Portfolio on the first day of such Calculation Period; and
- in respect of the Interest Rate Swap (Tracker), the excess (if any) of the aggregate True Balance of all tracker rate loans in the Portfolio over an amount equal to 10% (or such lower percentage as may be agreed between the LLP and the relevant Interest Rate Swap Provider from time to time) of the aggregate True Balance of all Loans in the Portfolio, in each case, on the first day of such Calculation Period,

each such amount being a **Jumbo Interest Rate Swap Notional Amount**.

Under each Jumbo Interest Rate Swap, for each Calculation Period, the following amounts will be calculated:

- the amount produced by applying a compounded daily SONIA rate for the relevant calculation period plus a spread (as specified in the relevant Jumbo Interest Rate Swap, or as subsequently specified as the spread applicable to the relevant Jumbo Interest Rate Swap in the most recent Final Terms of any Series of Covered Bonds issued, or as may otherwise be agreed between the LLP and relevant Interest Rate Swap Provider subject to (i) minimum yield protections, (ii) such revised spread not resulting in an Interest Rate Shortfall and (iii) Rating Agency Confirmation that such revised spread will not result in the then current ratings of the Covered Bonds being adversely affected or withdrawn) relating to that Calculation Period to the Jumbo Interest Rate Swap Notional Amount of such Jumbo Interest Rate Swap (known as the **Interest Rate Swap Provider Amount**); and
- the amount produced by applying a rate of interest equal to:
  - (i) in respect of the Interest Rate Swap (BMR):
    - (A) for so long as Nationwide Building Society is the Servicer in respect of the BMR Loans, the weighted average (by True Balance) of the rates of interest, linked to a standard variable rate charged to borrowers of such BMR Loans; and
    - (B) otherwise, the average of the standard variable mortgage rate or its equivalent charged to existing borrowers on residential mortgage loans, as at the first day of such Calculation Period, after excluding the highest and the lowest rate, of the Reference Lenders (and where those banks or building societies have more than one standard variable mortgage rate, the highest of those rates) provided that each such standard variable mortgage rate or its equivalent shall be subject to a cap of Bank of England base rate plus 2.60%;
  - (ii) in respect of the Interest Rate Swap (SMR):
    - (A) for so long as Nationwide Building Society is the Servicer in respect of the SMR Loans, the weighted average (by True Balance) of the rates of interest, linked to a standard variable rate charged to borrowers of such SMR Loans; and
    - (B) otherwise, the average of the standard variable mortgage rate or its equivalent charged to existing borrowers on residential mortgage loans, as at the first day of such Calculation Period, after excluding the highest and the lowest rate, of the Reference Lenders (and where those banks or building societies have more than one standard variable rate, the highest of those rates);
  - (iii) in respect of the Interest Rate Swap (Tracker), the weighted average (by True Balance) of the rates of interest, linked to the Bank of England base rate charged to borrowers of the tracker rate loans; and
  - (iv) in respect of the Interest Rate Swap (Fixed), the weighted average (by True Balance) of the rates of interest charged to borrowers of the fixed rate loans,

in each case, for such Calculation Period to the relevant Jumbo Interest Rate Swap Notional Amount for such Calculation Period (known as the **LLP Amount**).

On each Calculation Date preceding each LLP Payment Date, the following amounts will be calculated in respect of each Jumbo Interest Rate Swap:

- the relevant Interest Rate Swap Provider Amount for the preceding Calculation Period; and
- the relevant LLP Amount for the preceding Calculation Period.



If the amount available pursuant to the relevant Priority of Payments to make payments under all of the Jumbo Interest Rate Swaps is less than the aggregate of all LLP Amounts under the Jumbo Interest Rate Swaps, then each LLP Amount will be *pro rata* reduced by reference to such available amount (such that the aggregate of the LLP Amounts as so reduced equals the amount available pursuant to the relevant Priority of Payments to make payments under all of the Jumbo Interest Rate Swaps) and each relevant shortfall will be carried over to the next Calculation Period under each such Jumbo Interest Rate Swap. A corresponding adjustment will be made to each relevant Interest Rate Swap Provider Amount.

After these two amounts are calculated in relation to each Jumbo Interest Rate Swap for an LLP Payment Date, the following payments will be made on that LLP Payment Date under each such Jumbo Interest Rate Swap (subject to payment netting between amounts payable on the same day and in the same currency under any other Interest Rate Swap governed by the same Interest Rate Swap Agreement):

- if the first amount is greater than the second amount, then the Interest Rate Swap Provider will pay the difference to the LLP;
- if the second amount is greater than the first amount, then the LLP will pay the difference to the Interest Rate Swap Provider; and
- if the two amounts are equal, neither party will make a payment to the other.

Subject to the early termination provisions of the Interest Rate Swap Agreement as outlined below, the Jumbo Interest Rate Swaps will each terminate on the earlier of the date on which the aggregate True Balance of all Loans in the Portfolio is reduced to zero and the Principal Amount Outstanding of all outstanding Covered Bonds is reduced to zero.

In the event that the relevant ratings of the Interest Rate Swap Provider, or any guarantor, as applicable, is or are, as applicable, downgraded by a Relevant Rating Agency below the ratings specified in the Interest Rate Swap Agreement (which are in accordance with the minimum ratings specified in the relevant ratings criteria of the Relevant Rating Agencies) for the Interest Rate Swap Provider, the Interest Rate Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with ratings required by the Relevant Rating Agency, procuring another entity with rating(s) required by the Relevant Rating Agency to become co-obligor or guarantor in respect of its obligations, or taking such other action that will result in the rating of the Covered Bonds being maintained at, or restored to, the level in effect immediately prior to the downgrade. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and
- upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any guarantor and certain insolvency-related events in respect of the LLP, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement.

Upon the termination of the Interest Rate Swap Agreement pursuant to an Interest Rate Swap Early Termination Event, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Interest Rate Swap Provider shall always be obliged to gross up these payments save where such payments

are imposed pursuant to FATCA. If withholding taxes are imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the LLP shall not be obliged to gross up those payments.

In relation to the Jumbo Interest Rate Swaps, if the LLP is required or permitted to sell Selected Loans in the Portfolio (i) following service of an Asset Coverage Test Breach Notice, (ii) in order to provide liquidity in respect of any Series of Hard Bullet Covered Bonds or for the purposes of funding or replenishing the Supplemental Liquidity Reserve Ledger, in either case following breach of the Pre-Maturity Test or (iii) following service of a Notice to Pay, then, to the extent that such Selected Loans include fixed rate loans, the LLP may either:

- (a) require, by written notice to the Interest Rate Swap Provider given not more than 20 and not less than five local Business Days in advance of the date of the relevant sale that the Interest Rate Swap (Fixed) in connection with such Selected Loans will partially terminate and any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or
- (b) with the prior written consent of the Interest Rate Swap Provider partially novate the Interest Rate Swap (Fixed) to the Purchaser of such Selected Loans, such that each Purchaser of Selected Loans will thereby become party to a separate interest rate swap transaction with the Interest Rate Swap Provider.

Under the Interest Rate Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property.

The Interest Rate Swap Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

### **Covered Bond Swap Agreements**

The LLP has entered into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee. Each Covered Bond Swap will provide a hedge against certain interest rate and currency risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds. In respect of each Series or Tranche of the Covered Bonds, the LLP may enter into (a) one or more basis swap transactions (each, a **Basis Covered Bond Swap**) and/or (b) one or more interest rate swap transactions (each, an **Interest Rate Covered Bond Swap**), each with the same Covered Bond Swap Provider and in respect of the same aggregate notional amount, being the aggregate Principal Amount Outstanding on the Issue Date of the applicable Series or Tranche of Covered Bond.

Under each Basis Covered Bond Swap, the LLP will pay to the relevant Covered Bond Swap Provider on the relevant Issue Date a portion of the amount received by the LLP under the applicable Term Advance (being an amount equal to the relevant portion of the Principal Amount Outstanding on the Issue Date of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay an amount equal to the Sterling Equivalent of such amount of the applicable Term Advance.

Pursuant to the Basis Covered Bond Swap (if any) and the Interest Rate Covered Bond Swap (if any) in relation to a Series or Tranche of Covered Bonds (after giving effect to any payment netting provisions), the Covered Bond Swap Provider will pay monthly, quarterly or annually to the LLP an amount in the Specified Currency equivalent to the amounts payable on such Interest Payment Date by the LLP under either the applicable Term Advance (or the relevant portion thereof) in accordance with the terms of the Intercompany Loan Agreement, as the case may be, or the Covered Bond Guarantee in respect of interest and/or principal payable under the relevant Series or Tranche of Covered Bonds (or the relevant portion thereof). In return, the LLP will pay monthly to the Covered Bond Swap Provider an amount in Sterling calculated by reference to a compounded daily SONIA rate for the relevant calculation period (as applicable)

plus a spread and the Sterling Equivalent of any such principal due in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement or the Covered Bond Guarantee (see "*Cash flows*").

If prior to the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 (Final redemption) of the Terms and Conditions of the Covered Bonds) any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date, the LLP notifies (pursuant to the terms of the Basis Covered Bond Swap) the relevant Covered Bond Swap Provider of the amount in the Specified Currency to be paid by the Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date (such amount being equal to the relevant portion of the Final Redemption Amount payable by the LLP on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of Covered Bonds), the Covered Bond Swap Provider will pay the LLP such amount and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 9.2 (LLP Events of Default), the Covered Bond Swap Provider will pay the LLP such amount (or the relevant portion thereof) and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent thereof, following which the notional amount of the relevant Covered Bond Swaps will reduce accordingly.

Subject to the early termination provisions of the relevant Covered Bond Swap Agreement as outlined below, each Basis Covered Bond Swap will terminate on the earlier of: (i) the date on which the relevant Series of the Covered Bonds is redeemed pursuant to Condition 9.2 (LLP Events of Default); (ii) the relevant Final Maturity Date; (iii) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9.3 (Enforcement); or (iv) (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1 (Final redemption) of the Covered Bonds) the earlier of (a) the relevant Extended Due for Payment Date and (b) the Interest Payment Date on which the relevant Series or Tranche of Covered Bonds is redeemed in full.

Each Interest Rate Covered Bond Swap will terminate in accordance with the termination provisions of the relevant Covered Bond Swap Agreement.

In respect of a Series or Tranche of Covered Bonds, the LLP may enter into a single Covered Bond Swap with provisions and cash flows that reflect the Basis Covered Bond Swap and Interest Rate Covered Bond Swap described above.

In respect of certain Covered Bond Swap Agreements, the Covered Bond Swap Provider may be required to provide collateral (in addition to the Relevant Rating Agency collateral posting requirements detailed below) in an amount equal to the mark-to-market value of the relevant Covered Bond Swap.

Under the terms of each Covered Bond Swap Agreement, in the event that the relevant rating of the Covered Bond Swap Provider is downgraded by a Relevant Rating Agency below the rating(s) specified in the relevant Covered Bond Swap Agreement (which generally are in accordance with the minimum ratings specified in the relevant ratings criteria of the Relevant Rating Agencies at the time of entry into such Covered Bond Swap Agreement) for the Covered Bond Swap Provider, and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap Agreement to be transferred to an entity with the ratings required by the Relevant Rating Agency, procuring another entity with the ratings required by the Relevant Rating Agency to become co-obligor in respect of its obligations under the Covered Bond Swap Agreement, or taking such other action as will result in the rating of the Covered Bonds being maintained at, or restored to, the level in effect immediately prior to the downgrade. A failure to take such steps will allow the LLP to terminate the Covered Bond Swaps entered into under that Covered Bond Swap Agreement (provided in certain circumstances that a replacement Swap Provider has been found).

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the relevant Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and
- upon the occurrence of the insolvency of the relevant Covered Bond Swap Provider or any guarantor, and certain insolvency-related events in respect of the LLP or the merger of the Covered Bond Swap Provider without an assumption of the obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap Agreement, the LLP or the relevant Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made either in Sterling or, in respect of some Covered Bond Swap Agreements, in the same currency as the Series or Tranche of Covered Bonds to which such Covered Bond Swap Agreement relates.

Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap Agreement will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider (or replacement Covered Bond Swap Providers) to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap Agreement (or replacement Covered Bond Swap Agreements) has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap Agreement, unless such termination payment has already been made on behalf of the LLP.

If withholding taxes are imposed on payments made by any Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, such Covered Bond Swap Provider shall always be obliged to gross up those payments save where such payments are imposed pursuant to FATCA. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap Agreement, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds may terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

- (a) the Adjustment Required Redemption Amount for the Sale of Selected Loans; and
- (b) the purchase price to be paid for the relevant Covered Bonds purchased by the LLP in accordance with Condition 6.5 (Early Redemption Amounts).

Under each Covered Bond Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property. To the extent that the LLP is unable to make any payment in full under any Covered Bond Swap due to its assets being insufficient to make such payment in full, the relevant Covered Bond Swap Provider's payment obligations will rateably reduce.

The Covered Bond Swap Agreements and any non-contractual obligations arising out of or in connection with them are (or, as applicable, will be) governed by English law.

## Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement entered into on the Initial Programme Date between the LLP, the Account Bank, the Cash Manager and the Security Trustee, the LLP will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge:

- (a) the GIC Account into which amounts may be deposited by the LLP (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from Borrowers in respect of Loans in the Portfolio). On each LLP Payment Date, as applicable, amounts required to meet the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred to the Transaction Account (to the extent maintained);
- (b) the Transaction Account (if such account is maintained) into which moneys standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under "*Cash flows*"; and
- (c) the Collateralised GIC Account (if such account is maintained) into which Deposit Non-Reserved Amounts may be deposited, if Nationwide Building Society, as the entity which maintains the GIC Account, is rated below the Account Bank Required Rating and provided that such amounts are collateralised by mortgages (the **Designated Mortgages Amount**) or securities (the **Designated Collateral Amount**) in accordance with the provisions of the Cash Management Agreement and, in the case of any Designated Collateral Amount, the Collateral Agreement. On any date upon which payment is due, amounts required to meet the Issuer's obligations to its various creditors are transferred to the Transaction Account.

If the unsecured, unsubordinated and unguaranteed debt obligation ratings of the Account Bank fall below A-1 short-term or A long-term (or, if not rated at least A-1 short-term, at least A+ long-term) by S&P or the deposit rating of the Account Bank falls below P-1 short-term or A2 long-term by Moody's or F1 short-term or A long-term by Fitch (in each case, provided that such ratings by S&P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding) (collectively, the **Account Bank Required Ratings**), then either:

- the GIC Account and the Transaction Account (to the extent maintained) will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a satisfactorily rated bank; or
- the Account Bank will obtain an unconditional and unlimited guarantee of its obligations under the Bank Account Agreement from a satisfactorily rated financial institution.

Notwithstanding the foregoing, in the event that Nationwide Building Society as Account Bank with respect to the Collateralised GIC Account does not have ratings at least equal to the Account Bank Required Ratings, the Society may continue to act as Account Bank in respect of the Collateralised GIC Account only and shall not be terminated on the basis of its ratings and it shall continue to operate and receive deposits of Deposit Non-Reserved Amounts and Swap Collateral cash amounts into the Collateralised GIC Account, provided that the conditions set forth in the Cash Management Agreement are met. For so long as the Society's "Issuer Default Ratings" remain below BBB- by Fitch (to the extent Fitch maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding), no moneys shall be credited to the Collateralised GIC Account.

The LLP may open additional or replacement bank accounts and custody accounts with Additional Account Banks, the Stand-by Account Bank, the Stand-by GIC Provider, any Additional Stand-by Account Bank or any Additional Stand-by GIC Account Bank subject to the terms set out in the Deed of Charge. Each Additional Account Bank shall enter into an account bank agreement with the LLP, the Cash Manager and the Security Trustee on terms substantially similar to the Bank Account Agreement or, in the case of Swap Collateral posted in the form of securities, in such other form as the

Issuer, the Cash Manager, the relevant Account Bank and any applicable Swap Provider may agree, provided that the entry into such agreement will not result in any downgrade of the then current rating of the Covered Bonds.

The Bank Account Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

### **GIC Collateral Custody Account**

Prior to any collateral being posted by the Society pursuant to the Collateral Agreement, the LLP shall instruct the Cash Manager to open a custody account in the name of the LLP with a third party custodian pursuant to an Eligible Custody Arrangement for the purposes of holding such collateral (any such account, a **GIC Collateral Custody Account**). In the event that any such GIC Collateral Custody Account is opened, the LLP, the Cash Manager, Nationwide Building Society and the Security Trustee will enter into an agreement in respect of such GIC Collateral Custody Account with the LLP on customary market standard terms that will not result in a downgrade, withdrawal or qualification of the then current ratings of the Covered Bonds.

Eligible collateral that is posted to the GIC Collateral Custody Account will be ring-fenced from other Custody Collateral held by the Eligible GIC Custodian.

### **Collateral Agreement**

Prior to the Cash Manager initially depositing amounts into the Collateralised GIC Account which it designates as the Designated Collateral Amount, the LLP and Nationwide Building Society as the entity at which the Collateralised GIC Account is maintained shall have entered into a Collateral Agreement. Prior to the LLP entering into a Collateral Agreement, the Cash Manager shall (on behalf of the LLP) procure an Eligible Custody Arrangement in connection with opening the relevant GIC Collateral Custody Account.

### **Stand-by Bank Account Agreement**

Pursuant to the terms of a stand-by bank account agreement entered into on the Initial Programme Date between the LLP, Citibank, N.A. (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (the **Stand-by Bank Account Agreement**), the LLP will open with the Stand-by Account Bank a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) if the LLP cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the Account Bank cannot obtain an unconditional and unlimited guarantee of its obligations or if the Account Bank ceases to maintain the Account Bank Required Ratings, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for other reasons. The Stand-by GIC Account and the Stand-by Transaction Account will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

If the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Stand-by Account Bank fall below A-1 by S&P, P-1 by Moody's or F1 by Fitch (in each case, provided that such rating by S&P, Moody's and/or Fitch shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding), there will be a requirement that the Stand-by Account Bank either be replaced by, or have its obligations guaranteed by, a satisfactorily rated financial institution.

References in this Base Prospectus to the GIC Account or the Transaction Account include references to the Stand-by GIC Account or the Stand-by Transaction Account when the Stand-by GIC Account and the Stand-by Transaction Account become operative.

The Stand-by Bank Account Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

## **Guaranteed Investment Contract**

The LLP has entered into a Guaranteed Investment Contract (or **GIC**) with the GIC Provider, the Cash Manager and the Security Trustee on the Initial Programme Date, pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit thereof at specified rates determined in accordance with the GIC.

The Guaranteed Investment Contract and any non-contractual obligations arising out of or in connection with it are governed by English law.

## **Stand-by Guaranteed Investment Contract**

The LLP has entered into a stand-by guaranteed investment contract with Citibank, N.A. (the **Stand-by GIC Provider**) on the Initial Programme Date (the **Stand-by Guaranteed Investment Contract**), pursuant to which the Stand-by GIC Provider has agreed to pay interest on the Stand-by GIC Account at specified rates determined in accordance with the Stand-by Guaranteed Investment Contract.

The Stand-by Guaranteed Investment Contract and any non-contractual obligations arising out of or in connection with it are governed by English law.

## **Corporate Services Agreement**

The Liquidation Member and Holdings have entered into a Corporate Services Agreement with, *inter alios*, Wilmington Trust SP Services (London) Limited (as Corporate Services Provider) on the Initial Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member and Holdings, respectively.

The Corporate Services Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

## **Deed of Charge**

Pursuant to the terms of the Deed of Charge entered into by the LLP, the Security Trustee and the other Secured Creditors, the secured obligations of the LLP and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans, Northern Irish Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignment by way of first fixed charge over the rights of the LLP in and to the Insurance Policies;
- (c) a Scottish supplemental charge constituting an assignation in security of the LLP's interest in the Scottish Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);
- (d) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party (other than the Deed of Charge and any Scottish Declaration of Trust) (and, in respect of the Interest Rate Swap Agreement and Covered Bond Swap Agreement, after giving effect to all applicable netting provisions therein);
- (e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, the GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC

Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger) (including any Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, the GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger) and such other accounts;

- (f) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, any GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger);
- (g) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in each Covered Bond Swap Collateral Account, Stand-by Covered Bond Swap Collateral Account, Interest Rate Swap Collateral Account and Stand-by Interest Rate Swap Collateral Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger and in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the Covered Bond Swap Collateral Accounts, Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts, the GIC Collateral Custody Account and any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger, provided that any amounts standing to the credit of a Covered Bond Swap Collateral Account, Stand-by Covered Bond Swap Collateral Account, Interest Rate Swap Collateral Account or Stand-by Interest Rate Swap Collateral Account or any amounts standing to the credit of the Collateralised GIC Account that are recorded as a credit on the applicable Designated Covered Bond Swap Collateral Ledger or applicable Designated Interest Rate Swap Collateral Ledger shall be held solely for the benefit of the relevant Swap Provider and the LLP until required to be applied pursuant to the relevant Swap Agreement;
- (h) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in and to all moneys or, if applicable, securities standing to the credit of the applicable GIC Collateral Custody Account and the debts represented by them together with all rights relating or attached thereto (including the right to interest) and (ii) any custody agreement relating to a GIC Collateral Custody Account shall be held solely for the benefit of the GIC Provider and the LLP until required to be applied pursuant to the relevant Collateral Agreement; and
- (i) a first floating charge over all the assets and undertaking of the LLP (including the assets and undertaking of the LLP located in Scotland or governed by Scots law and the assets and undertaking of the LLP located in Northern Ireland or governed by the law of Northern Ireland).

In respect of the property, rights and assets referred to in paragraph (c) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge.

#### **Release of Security**

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP) release



those Loans from the Security created by and pursuant to the Deed of Charge on or prior to the date of such sale but only if:

- (a) the Security Trustee provides its prior written consent to the terms of such sale as described under "*LLP Deed – Method of Sale of Selected Loans*" above; and
- (b) in the case of the Sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Security Trustee will release that Loan from the Security created by and pursuant to the Deed of Charge on the date of the repurchase.

### **Enforcement**

If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Security Trustee from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cash flows*".

The Deed of Charge and any non-contractual obligations arising out of or in connection with it are governed by English law (other than the Scottish Supplemental Charge referred to in paragraph (c) above and any further Scottish Supplemental Charge granted after the Programme Date pursuant and supplemental to the Deed of Charge which will be governed by Scots law and the first fixed charge over the Northern Irish Loans and their Related Security and the floating charge over the assets and undertaking of the LLP located in or governed by the law of Northern Ireland which will be governed by Northern Irish law).

## CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme that enhance the likelihood of timely and, as applicable, ultimate payments to holders of the Covered Bonds, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Pre-Maturity Test is intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP;
- a Reserve Fund (unless the Society's short-term unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P and F1+ by Fitch and the Society is assigned a counterparty risk assessment by Moody's of at least P-1(cr)) (in each case, provided that such rating by S&P, Fitch and/or Moody's shall only apply to the extent such agency maintains ratings or outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding) will be established in the GIC Account to trap Available Revenue Receipts; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of (i) the SONIA Spot Rate published on the date on which the amount is calculated (or, if such day is not a London Business Date, on the immediately preceding London Business Day) less 0.15% per annum or (ii) such greater amount as the LLP and the GIC Provider may agree from time to time, provided that the applicable rate of interest will not be less than zero.

Certain of these factors are considered more fully in the remainder of this section.

In addition, the Issuer is required to comply with the terms of the Regulated Covered Bonds Regulations, as to which see further "*Description of the UK Regulated Covered Bond Regime*" below.

### **Guarantee**

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 9 (Events of Default and Enforcement) following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment.

See further "*Summary of the Principal Documents – Trust Deed*" as regards the terms of the Covered Bond Guarantee. See further "*Cash flows – Guarantee Priority of Payments*" as regards the payment of amounts payable by the LLP to holders of the Covered Bonds and other Secured Creditors following the occurrence of an Issuer Event of Default.

## **Pre-Maturity Liquidity**

Certain Series of Covered Bonds are scheduled to be redeemed in full on the Final Maturity Date therefore without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings fall to a certain level. On each London Business Day (each a **Pre-Maturity Test Date**) prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached and, if so, it shall immediately notify the Members and the Security Trustee thereof.

The Issuer will fail and be in breach of the **Pre-Maturity Test** on a Pre-Maturity Test Date if:

- (a) the Issuer's short-term credit rating from S&P falls to below A-1 and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date; or
- (b) (i) the Issuer is assigned a long-term counterparty risk assessment by Moody's below A2(cr); or (ii) the Issuer is assigned a short-term counterparty risk assessment by Moody's of below P-1(cr) and in either case the Final Maturity Date of any Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date; or
- (c) the Issuer's short-term credit rating from Fitch falls to below F1+ and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date,

(in each case provided that such ratings by S&P, Moody's and/or Fitch shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding),

(each a **Supplemental Liquidity Event**).

Following a breach of the Pre-Maturity Test in respect of a Series of Covered Bonds:

- (a) any Revenue Receipts and Principal Receipts standing to the credit of any GIC Account on the date of such breach shall be credited to the Pre-Maturity Liquidity Ledger up to an amount not exceeding the Required Redemption Amount for each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached; and
- (b) no further issuance of Covered Bonds shall be permissible under the Programme Agreement, except as described below,

provided that the restriction on the issuance of Covered Bonds set out in paragraph (b) above shall cease to be applicable following either (i) the exercise by any Member (other than the Liquidation Member) of its option (whether or not directed to do so by the Management Committee) to either (a) make a Cash Capital Contribution to the LLP in accordance with the LLP Deed or (b) repurchase Loans, or (ii) the making of an Intercompany Loan to the LLP funded by the issue of Soft Bullet Covered Bonds by the Issuer, in each case, in an amount at least equal to the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds less any amounts then standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to repay any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds. The proceeds from any Intercompany Loan from any such issue of Soft Bullet Covered Bonds will be first applied to make up any shortfall to the Pre-Maturity Liquidity Ledger.

The restriction on Covered Bond issuances set out above following the breach of the Pre-Maturity Test shall cease to be applicable following: (a) the exercise of any of the options in (i) and (ii) in the preceding paragraph; or (b) the balance

standing to the credit of the Pre-Maturity Ledger reaching an amount equal to the Required Redemption Amount for all the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test is breached.

Any issuance of Hard Bullet Covered Bonds that takes place whilst the Issuer is in breach of the Pre-Maturity Test but following the balance standing to the credit of the Pre-Maturity Ledger having reached an amount equal to the Required Redemption Amount for all the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test has been breached, must have a Final Maturity Date that is more than 12 months after the relevant Issue Date.

Amounts may not be withdrawn from any GIC Account to the extent that the Pre-Maturity Liquidity Ledger is debited, other than to redeem the relevant series of Hard Bullet Bonds, except where such withdrawal would still result in a credit balance at least equal to the Required Redemption Amount for all relevant Series of Hard Bullet Covered Bonds.

In certain circumstances, Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in "*Cash flows – Pre-Acceleration Revenue Priority of Payments*" below.

Failure by the Issuer and/or the LLP to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof will constitute an Issuer Event of Default. Following service of a Notice to Pay on the LLP, the LLP shall apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds. If the Issuer and/or the LLP fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the relevant GIC Account shall be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

- (a) the Issuer is failing the Pre-Maturity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds but only to the extent required to maintain an amount equal to the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Test is breached; or
- (b) the Issuer is not failing the Pre-Maturity Test, but the Management Committee elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the Management Committee has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the corresponding Term Advance and distribute any excess Available Principal Receipts back to the Members on dates other than LLP Payment Dates, subject to the LLP making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

### **Asset Coverage Test**

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of set-off on a Borrower's current or deposit accounts held with the Seller, set-off associated with drawings made by Borrowers under Flexible Loans and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Transfer Date.

See further "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*" above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

The Issuer is additionally required to ensure that the principal amount of the eligible property in the Asset Pool is greater than 108% of the Principal Amount Outstanding of the Covered Bonds in accordance with the terms of the RCB Regulations. See further "*Description of the UK Regulated Covered Bond Regime*" below.

### **Amortisation Test**

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where holders of the Covered Bonds may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula that adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*" above.

### **Reserve Fund**

The LLP will be required (unless the Society's short-term unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P and F1+ by Fitch and the Society is assigned a counterparty risk assessment by Moody's of at least P-1(cr)) (in each case, provided that such ratings by S&P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding) to establish the Reserve Fund on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default.

The Reserve Fund will be funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

## CASH FLOWS

As described above under "*Credit Structure*", until a Notice to Pay or LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts) and their order of priority:

- (a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);
- (c) following service of a Notice to Pay; and
- (d) following service of an LLP Acceleration Notice but prior to the realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

If the Transaction Account is closed in accordance with the terms of the Bank Account Agreement, any payment to be made to or from the Transaction Account shall, as applicable, be made to or from any GIC Account or, if applicable, the Collateralised GIC Account, or no payment shall be made at all if such payment is expressed to be from any GIC Account to the Transaction Account.

### **Allocation and distribution of Available Revenue Receipts prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice.**

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf shall calculate:

- (a) the amount of Available Principal Receipts and Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and the Reserve Fund Required Amount (if applicable);
- (b) where the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling on the later to occur of the Calculation Date following the breach of the Pre-Maturity Test and the first Calculation Date falling in the 11 months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (together with the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds); and
- (c) the Reserve Fund Required Amount if applicable.

### **Pre-Acceleration Revenue Priority of Payments**

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts from any GIC Account or, if applicable, the Collateralised GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of Available Revenue Receipts.

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or service of an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts will be applied by or on behalf of the LLP on each LLP Payment Date (except for amounts due to third parties by the LLP under paragraph (a) below of the definition of Third Party Amounts, which shall be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction of any amounts due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay and discharge any liability of the LLP for taxes;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer (including, without limitation, any amounts payable by the Servicer to any Back-Up Servicer appointed pursuant to the terms of the Servicing Agreement) under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager (including, without limitation, any amounts payable by the Cash Manager to any Back-Up Cash Manager appointed pursuant to the terms of the Cash Management Agreement) under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable to an Account Bank (or, as applicable, any Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iv) amounts due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;
  - (v) amounts (if any) due and payable to the FCA in respect of fees owed to the FCA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon;
  - (vi) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (d)(i) below), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (vii) any remuneration then due and payable to the Back-Up Servicer Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
  - (viii) any remuneration then due and payable to the Back-Up Cash Manager Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Cash Manager Facilitator under the provisions of the Cash Management Agreement in the immediately succeeding

LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

- (c) *third*, in or towards payment *pro rata* and *pari passu* of any amount due to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the Interest Rate Swap Agreement;
- (d) *fourth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts (excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal or in respect of Swap Collateral which does not constitute Swap Collateral Available Amounts) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of:
  - (i) any amounts due or to become due and payable to the Covered Bond Swap Providers (other than in respect of principal under the Covered Bond Swaps) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (other than in relation to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreements; and
  - (ii) if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger, towards a credit to any GIC Account with a corresponding credit to that Ledger of an amount up to but not exceeding the difference between:
    - (A) the Required Redemption Amount as calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
    - (B) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;
- (e) *fifth*, in or towards any amounts due or to become due and payable (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance to the Issuer pursuant to the terms of the Intercompany Loan;
- (f) *sixth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to any GIC Account or the Collateralised GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied by the Servicer or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (g) *seventh*, in or towards a credit to the Reserve Ledger on any GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;



- (h) *eighth*, payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, and any indemnity amount due to the Members and, if Nationwide Building Society is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan pursuant to the LLP Deed;
- (j) *tenth*, in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP, to pay all remaining Available Revenue Receipts (except for an amount equal to the fee payable to the Liquidation Member in accordance with (j) and an amount equal to the profit to be paid to the Members in accordance with (l) below) to the Seller;
- (k) *eleventh*, in or towards payment of the fee due to the Liquidation Member; and
- (l) *twelfth*, towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) as their profit for their respective interests as Members in the LLP,

*provided that* if an LLP Payment Date is not the same as an Interest Payment Date, Available Revenue Receipts will be applied initially on the Interest Payment Date in payment of any amount due to the Covered Bond Swap Providers under paragraph (d)(i) above but only to the extent that adequate provision is made for any payments of a higher priority to be made in full on the immediately succeeding LLP Payment Date.

Any amounts (excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap under the Covered Bond Swap Agreements or, as the case may be, in respect of each relevant Term Advance under the Intercompany Loan Agreement unless an Asset Coverage Test Breach Notice has been served and not been revoked or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine.

Any amounts (other than in respect of principal but excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable *pro rata* and *pari passu* in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and not been revoked.

Any amounts (excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received under the Interest Rate Swap Agreement and any amounts (other than in respect of principal but excluding Swap Collateral which does not constitute Swap Collateral Available Amounts) received under the Covered Bond Swap Agreements on the LLP Payment Date or on any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) above or the preceding two paragraphs will be credited to the Revenue Ledger on the relevant GIC Account or the Collateralised GIC Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such amounts shall be applied by the LLP (or by the Cash Manager on its behalf) on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

If any Excess Hedge Collateral is held or received by the LLP at any time, such amounts will be paid on their due date to the applicable Swap Provider in accordance with the terms of the applicable Swap Agreement.

#### **Allocation and Distribution of Principal Receipts prior to service of a Notice to Pay**

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP or the Cash Manager on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from any GIC Account or, if applicable, the Collateralised GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below and (b) the amount of all Available Principal Receipts standing to the credit of the relevant GIC Account.

If an LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments on that Interest Payment Date unless payment is made by the LLP directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

#### **Pre-Acceleration Principal Priority of Payments**

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (including any Cash Capital Contributions made from time to time by the Seller in its capacity as a Member) which have not otherwise been applied by or on behalf of the LLP on each LLP Payment Date will be applied in making the following payments and provisions (the **Pre-Acceleration Principal Priority of Payments**):

- (a) *first*, if the Pre-Maturity Test has been failed by the Issuer in respect of any Series of Hard Bullet Covered Bonds, to credit all Principal Receipts to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:
  - (i) the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amount of all other Hard Bullet Covered Bonds, as calculated on that Calculation Date, which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;
- (b) *second*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test and thereafter to acquire Substitution Assets;
- (c) *third*, to deposit the remaining Principal Receipts in the relevant GIC Account or, if applicable, the Collateralised GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test;
- (d) *fourth*, in or towards repayment on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably

determine) of the corresponding Term Advance related to such Series of Covered Bonds by making the following payments:

- (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Basis Covered Bond Swap (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) (where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine) the amounts (in respect of principal) due or to become due and payable to the Issuer *pro rata* and *pari passu* in respect of each relevant Term Advance; and
- (e) *fifth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution to each Member (other than the Liquidation Member) or, if Nationwide Building Society is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan by way of distribution of its equity in the LLP in accordance with the LLP Deed.

Unless an Asset Coverage Test Breach Notice has been served and not been revoked, any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling in the future as the Cash Manager may reasonably determine.

Any amounts of principal received under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) above or the preceding paragraph will be credited to the Principal Ledger on the relevant GIC Account or, if applicable, the Collateralised GIC Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

#### **Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice**

At any time after service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to service of a Notice to Pay or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered Bonds remain outstanding, no moneys will be applied under paragraphs (e), (i) (to the extent only that such amounts are payable to the Members), (j) or (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (d)(ii) or (e) of the Pre-Acceleration Principal Priority of Payments.

#### **Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay**

At any time after service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts) will be applied as described below under "*Guarantee Priority of Payments*".

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger on the relevant GIC Account or, if applicable, the Collateralised GIC Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the relevant GIC Account or, if applicable, the Collateralised GIC Account.

The LLP created and maintains ledgers for each Series of Covered Bonds and records amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) of the Guarantee Priority of Payments below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment dates thereof.

### **Guarantee Priority of Payments**

If a Notice to Pay is served on the LLP in connection with the Pre-Maturity Test (as set out in the LLP Deed), the LLP shall on the relevant Final Maturity Date apply all moneys standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant LLP Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed (as described in "*Credit Structure – Pre-Maturity Liquidity*"). Subject thereto, on each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default), the LLP or the Cash Manager on its behalf will apply Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable VAT (or other similar taxes) thereon as provided therein; and
  - (ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement (including, without limitation, any amounts payable by the Servicer to any stand-by servicer or Back-Up Servicer appointed pursuant to the terms of the Servicing Agreement) together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

- (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement (including, without limitation, any amounts payable by the Cash Manager to any stand-by cash manager or Back-Up Cash Manager appointed pursuant to the terms of the Cash Management Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable to an Account Bank (or, as applicable, any Stand-by Bank Account) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iv) amounts due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or similar taxes) thereon as provided therein;
  - (v) amounts (if any) due and payable to the FCA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon;
  - (vi) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (j) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon as provided therein;
  - (vii) any remuneration then due and payable to the Back-Up Servicer Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
  - (viii) any remuneration then due and payable to the Back-Up Cash Manager Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Cash Manager Facilitator in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreements;
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof:
- (i) the amounts due and payable to the relevant Covered Bond Swap Provider (other than in respect of principal under the Covered Bond Swaps) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (other than in respect of principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled

Interest that is Due for Payment in respect of each Series of Covered Bonds under paragraph (ii) above, the shortfall shall be divided among all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under paragraph (e)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof:
- (i) the amounts (in respect of principal under the Covered Bond Swaps) due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) in respect of the amounts referred to in paragraph (f)(i) above would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant Series of Covered Bonds under paragraph (f)(ii) above, the shortfall shall be divided among all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under paragraph (f)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, to deposit the remaining moneys in any GIC Account or, if applicable, the Collateralised GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (f) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;
- (i) *ninth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (j) *tenth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members (and, if Nationwide Building Society is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (k) *eleventh*, thereafter any remaining moneys will be applied in accordance with the LLP Deed.

#### **Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps**

If the LLP receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a

replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) with the LLP, unless a replacement Swap Agreement(s) has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap Agreement(s), unless such termination payment has already been made on behalf of the LLP.

**Application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default and enforcement of the Security, realisation of the Security and/or the commencement of winding-up proceedings against the LLP**

Under the terms of the Deed of Charge, subject to Regulations 28 and 29 of the RCB Regulations, all moneys received or recovered by the Security Trustee (or a Receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any Third Party Amounts and excluding (i) any amounts standing to the credit of the Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts or the Collateralised GIC Account (where such amounts are recorded as a credit on a Designated Covered Bond Swap Collateral Ledger or a Designated Interest Rate Swap Collateral Ledger as the case may be) comprising Excess Hedge Collateral and (ii) any amounts standing to the credit of any GIC Collateral Custody Account comprising Excess Collateral) following the enforcement of the Security, the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP will be applied in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to:
    - (A) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and
    - (B) the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts in respect of:
    - (A) any remuneration then due and payable to the Servicer, Back-Up Servicer and/or Back-Up Servicer Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer, Back-Up Servicer and/or Back-Up Servicer Facilitator under the provisions of the Servicing Agreement and Back-Up Servicing Agreement, as applicable, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
    - (B) any remuneration then due and payable to the Cash Manager, Back-Up Cash Manager and/or Back-Up Cash Manager Facilitator and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager, Back-Up Cash Manager and/or Back-Up Cash Manager Facilitator under the provisions of the Cash Management Agreement and Back-Up Cash Management Agreement, as applicable, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
    - (C) amounts due to an Account Bank or, as applicable, any Stand-by Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or, as applicable, the Stand-by

Bank Account Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and

- (D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;
- (v) all amounts due and payable:
  - (A) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (B) under the Covered Bond Guarantee, to the Bond Trustee on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (v) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in paragraph (A) above) would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under paragraph (B) above, the shortfall shall be divided among all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;
- (c) *third*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (d) *fourth*, towards payment of any indemnity amount due to the Members (and, if Nationwide Building Society is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed; and
- (e) *fifth*, thereafter any remaining moneys shall be applied in or towards payment to the Members (and, if Nationwide Building Society is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed.

The above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 27, 28 and 29 of the RCB Regulations. In particular, costs properly incurred by a receiver, liquidator, provisional liquidator, administrator, administrative receiver or manager of the LLP in relation to:

- (i) persons providing services for the benefit of Covered Bondholders (which is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));



- (ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and
- (iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in paragraphs (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding-up or provisional liquidation), and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further "*Risk Factors – Legal and Regulatory Risks – Expenses of insolvency officeholders*".

## FURTHER INFORMATION RELATING TO THE REGULATION OF MORTGAGES IN THE UK – CERTAIN REGULATORY CONSIDERATIONS

### *Regulated Mortgage Contracts*

In the UK, regulation of residential mortgage business under the Financial Services and Markets Act 2000 (**FSMA**) came into force on 31 October 2004 (the date known as the **Regulation Effective Date**). Entering into as a lender, arranging or advising in respect of, and administering regulated mortgage contracts and agreeing to do any of those activities are (subject to applicable exemptions) regulated activities under the FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (the **RAO**) requiring authorisation and permission from the FCA.

There have been incremental changes to the definition of Regulated Mortgage Contract over time, including the removal of the requirement for the security to be first ranking.

The original definition of a regulated mortgage contract was such that if a mortgage contract was entered into on or after the Regulation Effective Date but prior to 21 March 2016, it will be a Regulated Mortgage Contract under the RAO if: (i) the lender provides credit to an individual or to trustees; (ii) the obligation of the Borrower to repay was secured by a first legal mortgage (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the UK; and (iii) at least 40% of it was used, or was intended to be used, as or in connection with a dwelling by the Borrower or (in the case of credit provided to trustees) by an individual who was a beneficiary of the trust, or by a related person. A related person is: (1) that person's spouse or civil partner; (2) a person (whether or not of the opposite sex) whose relationship with that person has the characteristics of the relationship between husband and wife; or (3) that person's parent, brother, sister, child, grandparent or grandchild (a **Related Person**).

The current definition of a Regulated Mortgage Contract is such that if a mortgage contract was entered into on or after 21 March 2016, the contract will be a Regulated Mortgage Contract if, at the time it is entered into, the following conditions are met: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by a mortgage on land; (c) at least 40% of that land is used, or is intended to be used: (i) in the case of credit provided to an individual, as or in connection with a dwelling; or (ii) in the case of credit provided to a trustee which is not an individual as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a Related Person. In relation to a contract entered into before 23:00 on 31 December 2020, 'land' means land in the United Kingdom or within the territory of an EEA State and in relation to a contract entered into on or after 23:00 on 31 December 2020, 'land' means land in the United Kingdom.

Credit agreements that were originated before 21 March 2016, were regulated by the CCA, and that would have been Regulated Mortgage Contracts had they been entered into on or after 21 March 2016 are "consumer credit back book mortgage contracts" and are also therefore Regulated Mortgage Contracts (see below "*Regulation of residential secured lending (other than Regulated Mortgage Contracts)*").

On and from the Regulation Effective Date, subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (a) entering into a Regulated Mortgage Contract as lender; (b) "administering" a Regulated Mortgage Contract (administering in this context broadly means notifying borrowers of changes in mortgage payments and/or taking any necessary steps for the purposes of collecting payments due under the mortgage loan); (c) advising in respect of Regulated Mortgage Contracts; and (d) arranging Regulated Mortgage Contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to the authorisation of lenders and brokers are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a Regulated Mortgage Contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. The regime under the FSMA regulating financial promotions covers the content and manner of the promotion of agreements relating to qualifying credit and who can issue or approve financial promotions. In this respect, the FSMA regime not only covers financial promotions of Regulated Mortgage Contracts but also promotions of certain other types of secured credit agreements under which the lender is a

person (such as an Originator) who carries on the regulated activity of entering into a Regulated Mortgage Contract. Failure to comply with the financial promotion regime (as regards who can issue or approve financial promotions) is a criminal offence and will render the Regulated Mortgage Contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

The Servicer is required to hold and does hold authorisation and permission to enter into and to administer Regulated Mortgage Contracts. Brokers are in certain circumstances required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts. The LLP is not, and does not propose to be, an authorised person under the FSMA. Under the RAO, the LLP does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The LLP does not carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to a servicing agreement by an entity having the required authorisation and permission under the FSMA. If such a servicing agreement terminates, the LLP will have a period of not more than one month (beginning with the day on which such arrangement terminates) in which to arrange for mortgage administration to be carried out by a replacement servicer having the required FSMA authorisation and permission.

The LLP will only hold beneficial title to the Loans and their Related Security. In the event that legal title is transferred to the LLP upon the occurrence of a Perfection Event, the LLP will have arranged for a servicer to administer these Loans and is not expected to enter into any new Regulated Mortgage Contracts as lender under article 61(1) of the RAO. However, in the event that a mortgage is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity.

The FCA's Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**), which sets out the FCA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, among other things, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. Further rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of the FCA rules, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken with that authorised person (or exercise analogous rights in Scotland).

### ***Regulation of residential secured lending (other than Regulated Mortgage Contracts)***

The UK government had a policy commitment to move second charge lending into the regulatory regime for mortgage lending rather than the regime for consumer credit under which second charge lending previously fell. The UK government concluded there was a strong case for regulating lending secured on a Borrower's home consistently, regardless of whether it is secured by a first or subsequent charge. The UK government also proposed to move the regulation of second (and subsequent) charge loans already in existence before 21 March 2016 to the Regulated Mortgage Contract regime rather than keeping them within the consumer credit regime. The policy of regulating lending secured on a Borrower's home consistently also meant that the UK government decided to change the regulatory regime for pre-2004 first charge loans regulated by the CCA. Mortgage regulation under the FSMA began on 31 October 2004. Mortgages entered into before that date were regulated by the CCA, provided they did not exceed the financial threshold in place when they were entered into and were not otherwise exempt. Consequently, in November 2015, the UK government made legislation the effect of which was that the administration of and other activities relating to pre-October 2004 first charge mortgages which at that time were regulated by the CCA became regulated mortgage activities from 21 March 2017. The transfer of CCA regulated mortgages to the FSMA regime was implemented by the Mortgage Credit Directive Order 2015 on 21 March 2016 (the **MCDO**). The government put in place transitional provisions for existing loans so that some of the CCA protections in place when the loans were originally taken out were not removed retrospectively. Unregulated mortgages which were originated before 31 October 2004, remain unregulated and are not regulated by virtue of the implementation of the Mortgage Credit Directive Order.

Credit agreements that were originated before 21 March 2016, that were regulated by the CCA and that would have been Regulated Mortgage Contracts had they been entered into on or after 21 March 2016, are defined by the Mortgage Credit Directive Order as "consumer credit back book mortgage contracts" and would also therefore be Regulated Mortgage Contracts. The main CCA consumer protection retained in respect of consumer credit back book mortgage contracts is the continuing unenforceability of the agreement if it was rendered unenforceable by the CCA prior to 21 March 2016. Unless the agreement was irredeemably unenforceable, the lender may enforce the agreement by seeking a court order or bringing any relevant period of non-compliance with the CCA to an end in the same manner as would have applied if the agreement was still regulated by the CCA. If a consumer credit back book mortgage contract was void as a result of section 56(3) of the CCA, that agreement or the relevant part of it will remain void. Restrictions on early settlement fees were also retained. If interest was not chargeable under a consumer credit back book mortgage contract due to non-compliance with section 77A of the CCA (duty to serve an annual statement) or section 86B of the CCA (duty to serve a notice of sums in arrears), once the consumer credit back book mortgage contract became regulated by the FSMA under the Mortgage Credit Directive Order as of 21 March 2016, the sanction of interest not being chargeable under section 77A of the CCA and section 86D of the CCA ceases to apply, but only for interest payable under those loans after 21 March 2016. A consumer credit back book mortgage contract will also be subject to unfair relationship provisions described below. Certain provisions of MCOB are applicable to these consumer credit back book mortgage contracts. These include the rules relating to disclosure at the start of a contract and post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and repossessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in the FCA's CONC Sourcebook and the CCA that are not contained within MCOB.

Buy-to-let mortgages are excluded from the definition of "consumer credit back book mortgage contract". This means that if a buy-to-let mortgage was regulated by the CCA (because the amount of credit fell below the relevant financial limit in place at the time of origination and was not otherwise exempt), it will continue to be regulated by the CCA as it is not a "consumer credit back book mortgage contract".

### *Changes to mortgage regulation and to the regulatory structure in the UK*

The final rules in relation to the FCA Mortgage Market Review (MMR) generally came into force on 26 April 2014. These rules have, for example, imposed more stringent requirements on lenders to assess the affordability of a loan made to a borrower and to verify the income of a borrower.

In relation to interest-only loans that are not buy to let loans, the mortgage market review introduced rules that require relevant institutions, with effect from 26 April 2014, to obtain evidence (with permitted exceptions) that a borrower will have in place a clearly understood and credible payment strategy and that the payment strategy has the potential to repay the principal at the end of the term of an interest-only loan. The FCA has since conducted a further Mortgages Market Study, the final report (MS16/2.3) was published on March 26, 2019 in which the FCA proposed measures to improve innovation in the industry and identify barriers to customers switching mortgages. It is possible that further changes may be made to the FCA's MCOB rules as a result of the FCA's ongoing reviews and other related future regulatory reforms. To the extent that any new rules do apply to any of the Loans, 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 the amount owing under the loan.

### *Regulation of buy-to-let mortgages*

Buy-to-let mortgage loans can fall under several different regulatory regimes. They can be:

- unregulated;
- regulated by the CCA as a regulated credit agreement – as defined under article 60B of the RAO (a **Regulated Credit Agreement**);
- regulated by FSMA as a Regulated Mortgage Contract; or

- regulated as a consumer buy-to-let mortgage contract under the consumer buy-to-let regime - as defined by the Mortgage Credit Directive Order 2015 (a **Consumer Buy-to-let Loan**).

As at the date of this Base Prospectus there are no buy-to-let loans in the Cover Pool.

#### *Unregulated buy to let mortgage loans*

Many buy to let mortgage loans will be unregulated because they do not meet the criteria for a Regulated Credit Agreement, Regulated Mortgage Contract or Consumer Buy to Let Loan. There are, however, still a number of regulated activities that apply to some unregulated buy to let mortgage loans. These activities are debt administration and debt collection but the LLP does not have to be authorised to carry out these activities.

#### *Buy-to-let loans which are Regulated Credit Agreements*

Certain buy-to-let mortgages are regulated by the CCA because buy-to-let loans only became exempt from CCA regulation on 31 October 2008. Buy-to-let loans originated prior to 31 October 2008, will be regulated by the CCA if the amount of credit was less than the relevant financial limit in place at the time and no other relevant CCA exemption applied. The financial limit for CCA regulation was abolished on 6 April 2008 in respect of all loans except buy-to-let loans. The financial limit of £25,000 in place at the time for CCA regulated loans was not removed for buy-to-let loans until 31 October 2008. Those buy-to-let mortgages are not caught by the definition of a “consumer credit back book mortgage contract” and so any buy-to-let loans that were regulated by the CCA will continue to be regulated by the CCA notwithstanding the implementation of the Mortgage Credit Directive Order. Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable or unenforceable, without a court order or an order of the appropriate regulator, or may render the borrower not liable to pay interest or charges in relation to the period of non-compliance.

#### *Buy-to-let loans which are Regulated Mortgage Contracts*

A buy-to-let loan secured on the property to be let is potentially a Regulated Mortgage Contract. A Regulated Mortgage Contract would arise if such buy-to-let loan is not excluded from being a Regulated Mortgage Contract as a loan to a commercial borrower or is not excluded from being a Regulated Mortgage Contract as a Consumer Buy-to-Let Loan. For example, a buy-to-let loan could be Regulated Mortgage Contract if the property upon which the buy-to-let loan was secured was to be occupied by the borrower’s relatives as their home. If requirements as to the authorisation of lenders and brokers involved in the origination of a Regulated Mortgage Contract are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a Regulated Mortgage Contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower.

#### *Consumer buy-to-let loans*

The “Consumer buy-to-let” (CBTL) framework was implemented on 21 March 2016 and is only applicable to consumer borrowers, the majority of buy-to-let lending in the UK being to non-consumers (based on the Treasury's estimate that only 11 per cent. of buy-to-let mortgages as at the date of implementation of the CBTL framework would fall into this category).

The legislative framework is set out in the Mortgage Credit Directive Order 2015. The Mortgage Credit Directive Order 2015 defines a CBTL mortgage contract as: "a buy-to-let mortgage contract which is not entered into by the borrower wholly or predominantly for the purposes of business carried on, or intended to be carried on, by the borrower". It provides that a firm that advises on, arranges, lends or administers CBTL mortgages must be registered to do so. Lendco is registered as a Consumer buy-to-let lender, a Consumer buy-to-let administrator and a Consumer buy-to-let arranger. The Mortgage Credit Directive Order sets out a number of conduct standards for firms carrying on CBTL business, which cover, amongst other things, requirements for pre-contractual illustrations, assessing creditworthiness, adequate

explanations and arrears and repossessions. The FCA has amended the FCA Handbook to provide it with supervisory and enforcement powers in respect of such conduct standards.

The Servicer has debt collection and debt administration permissions. The LLP is excluded as lender from the regulated activities of debt administration and debt collection in respect of any unregulated CBTL loans or CCA regulated loans. The Servicer is authorised to exercise or have the right to exercise a lender's rights and duties under a regulated credit agreement which is a necessary permission in respect of a CCA regulated agreement. The LLP is exempt from the regulated activity of exercising or having the right to exercise a lender's rights and duties under a regulated credit agreement because it has arranged administration by an authorised person pursuant to article 60I of the RAO.

### *Matters relating to buy-to-let Loans*

To the extent the Loans in the Portfolio did include buy-to-let Loans, the Borrowers' ability to make payments in respect of the Loans is likely to depend on the Borrowers' ability to let the relevant Properties on appropriate terms. It is intended that the Properties that secure such Loans will be let by the relevant Borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy at the point any such loan may be acquired by the LLP or that any tenancy which is granted will subsist throughout the life of the Loan and/or that the rental income achievable from tenancies of the relevant Property over time will be sufficient to provide the Borrower with sufficient income to meet the Borrower's obligations in respect of the Loan.

Consequently, to the extent that buy-to-let loans are included in the Portfolio, the Security for the Covered Bonds may be affected by the condition of the private residential rental market in the United Kingdom. The condition of the market will influence both the ability of the Borrowers to find tenants and the level of rental income which may be achieved in letting. The obligations of a Borrower to make payment under the Loan are unconditional without regard to whether the Property is let or the amount of rent received by the Borrower from the relevant tenant.

Upon enforcement of a Loan in respect of a Property which is the subject of an existing tenancy, the Servicer may not be able to obtain vacant possession of that Property until the end of the tenancy. If the Servicer enforces whilst the tenancy is continuing and sells the Property as an investment property with one or more tenants in situ, this may affect the amount which may be realised in the sale, although the existence of any such tenant paying rent in full on a timely basis may not have an adverse effect on the amount of such realisation. However, in the UK it is common for tenancies to be only for six or 12 months, so a tenanted property will often be vacated sooner than an owner-occupied property. Additionally, enforcement procedures in relation to such Loans include the ability to appoint a receiver of rent, in which case such a receiver would collect any rents payable in respect of such property and apply them in payment of any arrears of principal and interest under the Loan.

The Coronavirus Act 2020 put measures in place in England for the period from 26 March 2020 until 30 September 2020 that provide that where landlords issued notices seeking possession, in the period from 26 March 2020 to 28 August 2020, the notice period had to be for three months. The Coronavirus Act 2020 (Residential Tenancies: Protection from Eviction) (Amendment) (England) Regulations 2020, made in exercise of powers conferred by the Coronavirus Act 2020, came into force on 29 August 2020 (the **English Regulations**). The English Regulations apply in England only. The English Regulations modify certain provisions of the Coronavirus Act 2020 to give tenants in England greater protection from eviction over the winter by requiring landlords to provide tenants with six months' notice in all bar those cases raising other serious issues such as, but not limited to, those involving, (in certain circumstances): anti-social behaviour (including rioting), domestic abuse, fraud and rent arrears to the value of over six months' rent.' The English Regulations provide that this six month notice period will be required starting from 29 August 2020 until 31 March 2021.

CPR Practice Direction 55C (PD 55C) is in force from 20 September 2020 until 28 March 2021. PD 55C sets out the steps required to reactivate stayed possession claims, as well as procedural changes applying both to existing possession claims and the issue of new claims. Different requirements apply under PD 55C depending on when the relevant possession claim was first issued.

In Wales, new regulations have been made under Schedule 29 to the Coronavirus Act 2020, that temporarily extend the minimum notice periods landlords must give to tenants with assured and assured shorthold tenancies. A six month notice

period applied to notices issued between 24 July 2020 and 28 September 2020 under section 8 of the Housing Act 1988, except those that specified grounds 7A or 14 (relating to anti-social behaviour). A three month notice period continued to apply to notices that specified grounds 7A or 14. A six month notice period applied to notices issued on or after 24 July 2020 under section 21 of the Housing Act 1988. Schedule 29 is temporarily amended so that a landlord serving a notice on or after 24 July 2020 will be required to provide extended notice during the remainder of relevant period, which, in accordance with the Coronavirus Act 2020 (Residential Tenancies: Protection from Eviction) (Wales) Regulations 2020, currently ends on 31 March 2021.

The Coronavirus (Scotland) Act 2020 put measures in place until 30 September 2020 (now extended to 31 March 2021) to extend notice periods for evictions in Scotland to three or six months, depending on the grounds for eviction and, further, to provide that repossession cases are to be considered on a discretionary basis.

The UK Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. Such restriction is being introduced gradually with the first stage of changes applying from 6 April 2017 and the restriction have been fully in place since April 2020.

From 1 April 2016, a higher rate of stamp duty land tax (**SDLT**) (and, from 1 April 2018, **WLTT**) applies to the purchase of additional residential properties (such as buy-to-let properties). The current additional rate is 3% above the current **SDLT** and **WLTT** rates. The Scottish government has implemented a similar additional dwelling supplement tax with effect from 1 April 2016 in respect of land and buildings transaction tax (**LBTT**) (broadly speaking, the equivalent in Scotland to **SDLT**). The current additional rate in Scotland is 4 per cent. above the current **LBTT** rates. The UK government has announced that that from 1 April 2021 an additional **SDLT** surcharge of 2% will apply to purchases of residential property in England and Northern Ireland by non-UK resident buyers.

#### *Energy Efficiency Regulations 2015*

From 1 April 2018, landlords of relevant domestic properties in England and Wales may not grant a tenancy to new or existing tenants if their property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property) and, from 1 April 2020, landlords must not continue letting a relevant domestic property which is already let if that property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property). In both cases described above this is referred to in the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the **Energy Efficiency Regulations 2015**) as the prohibition on letting sub-standard property. Where a landlord wishes to continue letting property which is currently sub-standard, they will need to ensure that energy efficiency improvements are made which raise the EPC rating to a minimum of E. In certain circumstances landlords may be able to claim an exemption from this prohibition on letting sub-standard property; this includes situations where the landlord is unable to obtain funding to cover the cost of making improvements, or where all improvements which can be made have been made, and the property remains below an EPC rating of E. Local authorities will enforce compliance with the domestic minimum level of energy efficiency. They may check whether a property meets the minimum level of energy efficiency, and may issue a compliance notice requesting information where it appears to them that a property has been let in breach of the Energy Efficiency Regulations 2015 (or an invalid exemption has been registered in respect of it). Where a local authority is satisfied that a property has been let in breach of the Energy Efficiency Regulations 2015 it may serve a notice on the landlord imposing financial penalties.

#### *Assured Shorthold Tenancy (AST)*

Depending on the level of ground rent payable at any one time it is possible that a long leasehold in England and Wales may also be an Assured Tenancy ("AT") or Assured Shorthold Tenancy ("AST") under the HA 1988. If it is, this could have the consequences set out below.

A tenancy or lease will be an AT if granted after 15 January 1989 and:

1. the tenant or, as the case may be, each of the joint tenants is an individual;

2. the tenant or, as the case may be, at least one of the joint tenants occupies the dwelling-house as their only or principal home; and
3. if granted before 1 April 1990:
  - a. the property had a rateable value at 31 March 1990 lower than £1,500 in Greater London or £750 elsewhere; and
  - b. the rent payable for the time being is greater than 2/3rds of the rateable value at 31 March 1990;
4. if granted on or after 1 April 1990 the rent payable for the time being is between £251 and £100,000 inclusive (or between £1,001 and £100,000 inclusive in Greater London).

There is no maximum term for an AT and therefore any lease can constitute an AT if it satisfies the relevant criteria.

Since 28 February 1997 all ATs will automatically be ASTs (unless the landlord serves notice to the contrary) which gives landlords the right to recover the property at the end of the term of the tenancy. The HA 1988 also entitles a landlord to obtain an order for possession and terminate an AT/AST during its fixed term on proving one of the grounds for possession specified in section 7(6) of the HA 1988. The ground for possession of most concern in relation to long leaseholds is Ground 8 – namely that if the rent is payable yearly (as most ground rents are), at least three months' rent is more than three months in arrears both at the date of service of the landlord's notice and the date of the hearing.

Most leases in England and Wales give the landlord a right to forfeit the lease if rent is unpaid for a certain period of time but the courts normally have power to grant relief, cancelling the forfeiture as long as the arrears are paid off. There are also statutory protections in place to protect long leaseholders from unjustified forfeiture action. However, an action for possession under Ground 8 is not the same as a forfeiture action and the court's power to grant relief does not apply to Ground 8. In order to obtain possession, the landlord will have to follow the notice procedure in section 8 of the HA 1988 and, if the tenant does not leave on expiry of the notice, apply for a court order. However, as ground 8 is a mandatory ground, the court will have no discretion and will be obliged to grant the order if the relevant conditions are satisfied. There is government consultation underway to review residential leasehold law in England and Wales generally and it is anticipated that this issue will be addressed as part of any resulting reforms.

Currently, however, there is a risk that where:

1. a long lease is also an AT/AST due to the level of the ground rent;
2. the tenant is in arrears of ground rent for more than 3 months;
3. the landlord chooses to use the HA 1988 route to seek possession under Ground 8; and
4. the tenant does not manage to reduce the arrears to below 3 months' ground rent by the date of the court hearing,

the long lease will come to an end and the landlord will be able to re-enter the relevant property.

In Scotland, the corresponding provisions of the Housing (Scotland) Act 1988 that govern assured tenancies and short assured tenancies (being broadly the Scottish equivalent of ATs and ASTs in England and Wales) do not apply to long leases in respect of residential property in Scotland that are capable of being registered in the Registers of Scotland and secured by a standard security.

#### *The Renting Homes (Wales) Act 2016*

The Renting Homes (Wales) Act 2016 (the Renting Homes Act) received royal assent on 18 January 2016 but has not yet been brought fully into force. This Act will convert the majority of residential tenancies in Wales into a 'standard contract' with retrospective effect when it has been brought fully into force, however some tenancies will not be converted with retrospective effect (including those which have Rent Act protection and tenancies for more than 21 years).



The Renting Homes Act (which only has effect in Wales) does not contain an equivalent mandatory ground for possession that a lender had under the HA 1988 where a property was subject to a mortgage granted before the beginning of the tenancy and the lender required possession in order to dispose of the property with vacant possession.

The Renting Homes Act may result in lower recoveries in relation to buy to let mortgage loans over Properties in Wales and may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

#### *Private Housing (Tenancies) (Scotland) Act 2016*

The Private Housing (Tenancies) (Scotland) Act 2016 came into force on 1 December 2017. Existing assured tenancies and short assured tenancies in place before 1 December 2017 will continue until brought to an end or converted. Each qualifying tenancy agreement from 1 December 2017 will be a "private residential tenancy" which will (except in a limited number of exceptions) provide tenants with security of tenure by restricting a landlord's ability to regain possession of the property to a number of specific eviction grounds.

Accordingly, a lender or security holder may not be able to obtain vacant possession if it wishes to enforce its security unless one of the specific eviction grounds under the legislation applies. It should be noted though that one of the mandatory grounds on which an eviction order can be sought is that a lender or security holder intends to sell the property and requires the tenant to leave the property in order to dispose of it with vacant possession. The effect of this legislative change will primarily be restricted to any Buy to Let Loans secured over a property in Scotland.

#### *Private Tenancies (Northern Ireland) Order 2006*

The Private Tenancies (Northern Ireland) Order 2006 and the Rent (Northern Ireland) Order 1978 make provisions for protected and controlled tenancies. Protected tenants have greater rights to stay on in a property than other tenants and may only be evicted on certain grounds. In addition, when a protected tenant dies, a family member who lived in the property with the tenant may be able to inherit the tenancy.

Accordingly, a lender or security holder may not be able to gain vacant possession if it wishes to enforce its security unless one of the specific eviction grounds under the legislation applies. The mandatory grounds for possession are as follows:

- The property was originally the landlord's home and s/he gave you or the original tenant notice before the tenancy was granted that s/he intended returning to live there in the future.
- The landlord was a member of the armed forces at the time the tenancy was granted and gave you or the original tenant notice that s/he may in the future seek possession of the property in order to live there.
- Before granting the tenancy the landlord gave you or the original tenant notice that s/he intended to seek possession of the property on retirement (the landlord must be retired from employment to seek possession under this ground).
- The property was originally intended for occupation by a minister of religion or a missionary and is now required for this purpose.
- The property was let under a protected shorthold tenancy which has now expired.

The discretionary grounds for possession will only be granted by a court if it believes that possession is reasonable in the circumstances and the landlord may need to show that there is alternative, suitable, affordable accommodation available for the tenant's use. Discretionary grounds do include arrears or breach of the tenancy agreement.

The introduction of these measures may adversely affect the private residential rental market in England, Wales, Scotland and Northern Ireland in general and (in the case of the restriction of income tax relief) the ability of individual Borrowers of buy-to-let loans to meet their obligations under those Loans.

## *Unfair relationships*

Under the CCA, the earlier "extortionate credit" regime was replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except Regulated Mortgage Contracts and also applies to (as described above) "consumer credit back book mortgage contracts". If the court makes a determination that the relationship between a lender and a borrower is unfair, then it may make an order, among other things, requiring the relevant Originator, or any assignee such as the LLP, to repay amounts received from such borrower. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the conduct of the creditor (or anyone acting on behalf of the creditor) before and after making the agreement or in relation to any related agreement. There is no statutory definition of the word "unfair" in the CCA as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict whether a court would find a relationship "unfair". However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR (and the CRA (each as defined below)). The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the FSA and, subsequently, the FCA on that principle and by the OFT on the unfair relationship test, may also be relevant. Under the CCA, once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

*Plevin v Paragon Personal Finance Limited* [2014] UKSC 61 (**Plevin**), a Supreme Court judgment, has clarified that compliance with the relevant regulatory rules by the creditor (or a person acting on behalf of the creditor) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules. Where add on products such as insurance are sold and are subject to significant commission payments, it is possible that the non-disclosure of commission by the lender is a factor that could form part of a finding of unfair relationship.

## *Mortgages and coronavirus: FCA guidance for firms*

On 20 March 2020, the FCA published new guidance for, inter alia, mortgage lenders and administrators entitled 'Mortgages and coronavirus: our guidance for firms', in connection with the ongoing outbreak of COVID-19 in the UK. This guidance was updated on 4 June 2020, on 16 June 2020 and again on 17 November 2020, such update coming into effect on 20 November 2020 (the FCA Payment Deferral Guidance). Amongst other things, this guidance provides that mortgage lenders are required, where an eligible borrower is experiencing or reasonably expects to experience payment difficulties as a result of circumstances relating to COVID-19, and wishes to receive a payment deferral, to grant a borrower a payment deferral unless the mortgage lender agrees with the borrower a different option that the lender reasonably considers to be in the best interests of the borrower. A request for a full or partial payment deferral for three monthly payments may be made by a borrower at any time until 31 March 2021 in respect of payments up to and including 31 July 2021. The FCA Payment Deferral Guidance provides that (i) borrowers who have not yet had a payment deferral will be eligible for payment deferrals of 6 months in total (ii) those borrowers who currently have a payment deferral will be eligible to top up to 6 months in total (iii) those borrowers who have previously had payment deferrals of less than 6 months will be able to top up, as long as total deferrals do not exceed 6 months. This includes those borrowers receiving tailored support and those who are behind on payments (iv) borrowers who have already had 6 months of payment deferrals will not be eligible for a further payment deferral. Lenders should provide tailored support to those borrowers who are in financial difficulty and not eligible for a payment deferral under the FCA Payment Deferral Guidance appropriate to their circumstances. Borrowers will have until 31 March 2021 to apply for an initial or a further payment deferral. After that date, they will be able to extend existing deferrals to 31 July 2021, provided these extensions cover consecutive payments, and subject to the maximum 6 months allowed. The FCA advise that borrowers who have not yet taken a deferral, and who think they need the full 6 months should apply in good time before their February 2021 payment is due.

Interest will continue to accrue on the sum temporarily unpaid as the result of a payment deferral, however no fee or charge may be levied in connection with the grant of a payment deferral. Any missed payments arising under such payment deferrals will not constitute arrears and will not be reported as such to Covered Bondholders (for the avoidance of doubt, except in relation to Loans that were in arrears when the payment deferral was granted, for which the arrears accrued before the start of the payment deferral period will continue to be reported as arrears, but the missed payments during the payment deferral period will not be treated as an increase in arrears).

In addition, the FCA's guidance provides that, except in exceptional circumstances, firms should not commence or continue repossession proceedings against borrowers before 1 April 2021, irrespective of the stage that repossession proceedings have reached and of any step taken in pursuit of repossession. Where a possession order has already been obtained, the FCA state that, except in exceptional circumstances, firms should refrain from enforcing it.

On 16 September 2020, additional guidance for firms entitled: "Mortgages and coronavirus: additional guidance for firms" came into force (the Tailored Support Guidance) to supplement the FCA Payment Deferral Guidance. The Tailored Support Guidance was updated on 17 November 2020, such update coming into effect on 20 November 2020 and again on 27 January 2021, such update coming into effect on 29 January 2021. The Tailored Support Guidance applies to firms dealing with borrowers facing payment difficulties due to circumstances related to coronavirus who are not receiving payment deferrals under the FCA Payment Deferral Guidance, including where they are not or are no longer eligible for payment deferral. The Tailored Support Guidance is designed to enable firms to continue to deliver short and long-term support to borrowers affected by the evolving coronavirus pandemic and the Government's response to it. It is intended to support firms to treat borrowers affected by coronavirus fairly and to help borrowers to bridge the crisis to get back to a more stable financial position. If the borrower indicates that they continue or reasonably expect to continue, to face payment difficulties after receiving payment deferrals under the FCA Payment Deferral Guidance, then the Tailored Support Guidance applies and unless the borrower objects, the lender may capitalise the deferred amounts.

The Tailored Support Guidance provides that at the end of the payment deferral period, no payment shortfall for the purposes of MCOB 13 will arise, where the accrued amounts are repaid (this includes where sums are capitalised or repaid in a lump sum) before the next payment is due. In all other cases, mortgage lenders should regard those accrued amounts as a payment shortfall under MCOB 13 once the next payment falls due.

The FCA expects mortgage lenders to be flexible and employ a full range of short and long-term forbearance options to support their borrowers and minimise avoidable financial distress and anxiety experienced by customers in financial difficulty as a result of coronavirus. This may include short term arrangements under which the lender permits the customer to make no or reduced payments for a specified period. However it should be noted that where after the end of a payment deferral period under the FCA Payment Deferral Guidance, a mortgage lender agrees to the customer making no or reduced payments for a further period (without changing the sums due under the contract) this will cause a payment shortfall that will be subject to MCOB 13.

The Tailored Support Guidance provides that firms should be mindful that for some second charge mortgages there is a particular risk of harm from the total debt escalating significantly when a customer defers payments or enters payment shortfall, particularly compared with what they would have otherwise have paid. The Tailored Support Guidance provides that in such cases it is particularly important that firms consider using a range of forbearance options, including options beyond those listed in MCOB. These could include applying simple interest rather than compound to any payment shortfall, or reducing the interest rate charged on these sums (in some cases to 0%).

The Tailored Support Guidance further provides in respect of deferral shortfalls (amount added to the shortfall because of any payment deferrals) that unless the borrower is unreasonably refusing to engage with the mortgage lender in relation to addressing the shortfall, a mortgage lender should not repossess the property without the borrower's consent solely because of a deferral shortfall. Further, in considering whether and when steps to repossess the property should be taken and whether all other reasonable attempts to resolve the position have failed, mortgage lenders should take into account that the shortfall arose by agreement with the mortgage lender and in exceptional circumstances and the borrower was not expected to address the shortfall during the payment deferral period and so may have had less time to address it.

The FCA makes clear in the FCA Payment Deferral Guidance and the Tailored Support Guidance that it expects lenders of both owner-occupied and buy-to-let mortgage loans to act in a manner consistent with the guidance.

## **PPI**

The FCA set a deadline of 29 August 2019 by which consumers needed to make any payment protection insurance complaints or lose their right to have them assessed by firms or the FOS (although consumers continue to be able to bring claims in court). There is still a possibility that such deadline could be challenged in court or be subject to judicial review.

A consumer may be able to also still submit a complaint if they were sold the PPI policy after 29 August 2017, the complaint is about a claim being turned down by an insurer or the consumer can clearly show that there were exceptional circumstances that prevented them from making a complaint by the deadline.

### ***Distance Marketing***

In the UK, the Financial Services (Distance Marketing) Regulations 2004 (the **DM Regulations**) apply to, among other things, credit agreements entered into on or after 31 October 2004 by a "consumer" within the meaning of these regulations by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower).

The DM Regulations (and MCOB in respect of activities related to Regulated Mortgage Contracts) require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for the supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service, contractual terms and conditions, and whether or not there is a right of cancellation.

A Regulated Mortgage Contract under the FSMA, if originated by a UK lender (who is authorised by the FCA) from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Where the credit agreement is cancellable under these regulations, the Borrower may send notice of cancellation at any time before the end of the 14th day beginning with the day after the day on which the cancellable agreement is made, where all the prescribed information has been received or, if later, the Borrower receives the last of the prescribed information.

Compliance with the DM Regulations may be secured by way of injunction (interdict in Scotland), granted on such terms as the court thinks fit to ensure such compliance, and certain breaches of the DM Regulations may render the supplier or intermediaries (and their respective relevant officers) liable to a fine. Failure to comply with MCOB rules could result in, *inter alia*, disciplinary action by the FCA and possible claims under Section 138D of the FSMA for breach of FCA rules.

If the borrower cancels the credit agreement under these regulations, then:

- (i) the borrower is liable to repay the principal, and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;
- (ii) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- (iii) any security provided in relation to the contract is to be treated as never having had effect.

### ***Financial Ombudsman Service***

Under the FSMA, the Financial Ombudsman Service (the FOS), an independent adjudicator, is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the FOS's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance, rather than making determinations strictly on the basis of compliance with law.

Complaints properly brought before the FOS for consideration must be decided on a case by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the FOS. The FOS is required to make decisions on the basis of, among other things, the principles of fairness, and may order a monetary award to a complaining borrower.

## ***Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and the Consumer Rights Act 2015***

In the UK, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**), and (in so far as applicable) the Unfair Terms in Consumer Contracts Regulation 1994 (together with the 1999 Regulations, the **UTCCR**), apply to business-to-consumer agreements made on or after 1 July 1995 and before 1 October 2015 where the terms have not been individually negotiated (and the "consumer" for these purposes falls within the definition provided in the UTCCR). In respect of relevant contracts that (a) were entered into on or after 1 October 2015; or (b) were, since 1 October 2015, subject to a material variation such that they are treated as new contracts falling within the scope of the Consumer Rights Act 2015 (the CRA), the CRA applies. The CRA is also applicable on or after 1 October 2015, to notices of variation, such as variation of the interest rate under contracts.

### **(i) UTCCR**

The UTCCR and the CRA provide that a consumer (which would include a borrower under all or almost all of the Loans) may challenge a term in an agreement on the basis that it is "unfair" within the UTCCR or the CRA as applicable and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term) and provide that a regulator may take action to stop the use of terms that are considered to be unfair. The FCA have stated that the finalised FCA guidance "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" applies equally to factors that firms should consider to achieve fairness under the UTCCR.

The UTCCR will not generally affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention. The UTCCR may affect terms that are not considered to be terms which define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. For example, if a term permitting the lender to vary the interest rate (as the originator is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the LLP, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement that the borrower has taken with the lender (or exercise analogous rights in Scotland).

### **(ii) CRA**

The main provisions of the CRA came into force on 1 October 2015 and applies to agreements made on or after that date. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR for contracts entered into on or after 1 October 2015. The CRA has revoked the UTCCR in respect of contracts made on or after 1 October 2015 and introduced a new regime for dealing with unfair contractual terms as follows:

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). Additionally, an unfair notice is not binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends.

Schedule 2 of the CRA contains an indicative and non-exhaustive "grey list" of terms of consumer contracts that may be regarded as unfair. Notably, paragraph 11 lists "a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract" although paragraph 22 of Schedule 2 provides that this does not include a term by which a supplier of financial services reserves the right to alter

the rate of interest payable by or due to the consumer, or the amount of other charges for financial services, without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A term of a consumer contract which is not on the "grey list" may nevertheless be regarded unfair.

Where a term of a consumer contract is "unfair" it will not bind the consumer. However, the remainder of the contract will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible of multiple different meanings, the meaning most favourable to the consumer will prevail. It is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings have explicitly raised the issue of fairness.

### (iii) Regulatory Developments

In July 2019, the FCA and the Competition and Markets Authority (the **CMA**) entered into a memorandum of understanding in relation to consumer protection (the **MoU**) which replaced the original memorandum of understanding entered into between the FCA and the CMA on 12 January 2016. The MoU states that the FCA will consider fairness within the meaning of the CRA and the UTCCR, of standard terms, and within the meaning of the CRA of negotiated terms, in financial services contracts entered into by authorised firms or appointed representatives and within the meaning of the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), of commercial practices in financial services and claims management services of an authorised firm or appointed representative. In the MoU 'authorised' includes having an interim permission and a 'relevant permission' includes an interim permission. The FCA's consideration of fairness under the CRA, UTCCR and CPUTR will include contracts for mortgages and the selling of mortgages, consumer credit and other credit-related activities.:

MCOB rules for Regulated Mortgage Contracts require that (a) charges for a payment shortfall can be objectively justified as equal to or lower than a reasonable calculation of the cost of the additional administration required as a result of the customer having a payment shortfall, and (b) from 15 December 2016, when a payment is made which is not sufficient to cover a payment shortfall and the firm is deciding how to allocate the payment between (i) the current month's periodic instalment of capital or interest (or both), (ii) the payment shortfall and (iii) interest or charges resulting from the payment shortfall, the firm must set the order of priority in a way that will minimise the amount of the payment shortfall once the payment has been allocated. In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR, provided that they are written in plain and intelligible language and are adequately drawn to the borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR (such statement has since been withdrawn).

In July 2012, the Law Commission and the Scottish Law Commission launched a consultation in order to review and update the recommendations set out in their 2005 Report on Unfair Terms in Contracts. In March 2013, the Law Commission and the Scottish Law Commission published its advice, in a paper entitled "Unfair Terms in Consumer Contracts: Advice to the Department for Business, Innovation and Skills". This advice paper repeated the recommendation from the 2005 Report on Unfair Terms in Contracts that the Unfair Contract Terms Act 1977 and the UTCCR should be consolidated, as well as providing new recommendations, including extending the protections of unfair terms legislation to notices and some additions to the "grey list" of terms (as included in Schedule 2 of the CRA) which are indicatively unfair. The Law Commission and the Scottish Law Commission also recommended that the relevant legislation should expressly provide that, in proceedings brought by consumers, the court is required to consider the fairness of the term, even if the consumer has not raised the issue, where the court has available to it the legal and factual elements necessary for that task. Such reforms are included in the CRA.

Historically the OFT, FSA and FCA (as appropriate) have issued guidance on the UTCCR. This has included: (i) OFT guidance on fair terms for interest variation in mortgage contracts dated February 2000; (ii) an FSA statement of good practice on fairness of terms in consumer contracts dated May 2005; (iii) an FSA statement of good practice on mortgage exit administration fees dated January 2007; and (iv) FSA finalised guidance on unfair contract terms and improving standards in consumer contracts dated January 2012.

On 2 March 2015, the FCA updated its online unfair contract terms library by removing some of its material (including the abovementioned guidance) relating to unfair contract terms. The FCA stated that such material "no longer reflects the FCA's views on unfair contract terms" and that firms should no longer rely on the content of the documents that have been removed.

On 19 December 2018, the FCA published finalised guidance: "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (FG 18/7), outlining factors the FCA considers firms should have regard to when drafting and reviewing variation terms in consumer contracts. This follows developments in case law, including at the Court of Justice of the EU. The finalised guidance relates to all financial services consumer contracts entered into since 1 July 1995. The FCA stated that firms should consider both this guidance and other rules that apply when they draft and use variation terms in their consumer contracts. The FCA stated that the finalised guidance will apply to FCA authorised persons and their appointed representatives in relation to any consumer contracts which contain variation terms.

The Unfair Contract Terms and Consumer Notices Regulation Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its powers under the CRA and the CMA published guidance on the unfair terms provisions in the CRA on 31 July 2015 (the **CMA Guidance**). The CMA indicated in the CMA Guidance that the fairness and transparency provisions of the CRA are regarded to be "effectively the same as those of the UTCCR". The document further notes that "the extent of continuity in unfair terms legislation means that existing case law generally, and that of the Court of Justice of the European Union particularly, is for the most part as relevant to the Act as it was the UTCCRs".

In general, the interpretation of the UTCCR and/or the CRA is open to some doubt, particularly in the light of sometimes conflicting reported case law between English courts and the CJEU. The broad and general wording of the UTCCR and CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans that have been made to Borrowers covered by the UTCCR and/or CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans.

### ***Consumer Protection from Unfair Trading Regulations***

The Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**) came into force on 26 May 2008. The CPUTR prohibit certain practices that are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but is a criminal offence punishable by a fine and/or imprisonment.

The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreements may result in irrecoverable losses on amounts to which such agreements apply. The CPUTR did not originally provide consumers with a private act of redress. Instead, consumers had to rely on existing private law remedies based on the law of misrepresentation and duress. The Consumer Protection (Amendment) Regulations 2014 (SI No.870/2014) were laid before Parliament on 1 April 2014 and came into force on 1 October 2014. In certain circumstances, these amendments to the CPUTR give consumers a right to redress for misleading or aggressive commercial practices (as defined in the CPUTR), including a right to unwind agreements.

The effect (if any) of the CPUTRs on the Loans, the Servicer, the Seller and the LLP and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment.

### ***Mortgage repossession***

The protocol for mortgage repossession cases in England and Wales (the **Pre-Action Protocol**) sets out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders have confirmed that they will

delay the initiation of repossession action for at least three months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium is subject to the wishes of the relevant borrower and may not apply in cases of fraud. In addition, the Mortgage Repossessions (Protection of Tenants etc) Act 2010 came into force on 1 October 2010. The Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. In addition, under the protocol the lender must consider whether to postpone the start of a possession claim where the borrower has made a genuine complaint to the FOS about the potential possession claim.

In addition, MCOB rules for Regulated Mortgage Contracts from 25 June 2010 prevent the lender from: (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of the term, change in product type; and (b) automatically capitalising a payment shortfall.

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010 and imposes additional requirements on heritable creditors (the Scottish equivalent of a mortgagee) in relation to the enforcement of standard securities over residential property in Scotland. Under Part I of the Act, the heritable creditor, which may be the Seller or, in the event of it taking legal title to the Scottish Loans and their Related Security, the LLP, has to obtain a court order to exercise its power of sale (in addition to initiating the enforcement process by the service of a two-month "calling up" notice), unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor also has to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, and comply with further procedural requirements.

The protocol expressly states that it does not apply to "buy to let mortgages" (although the protocol has not been updated to expressly confirm that it does not apply to CBTL mortgages).

Investors should note, as at the date of this Prospectus, the Tailored Support Guidance, as described in the section entitled "Mortgages and coronavirus: FCA guidance for firms" in response to the COVID-19 outbreak in the UK states that firms should not commence or continue repossession proceedings against customers before 1 April 2021. This applies irrespective of the stage that repossession proceedings have reached and to any step taken in pursuit of repossession. Where a possession order has already been obtained, firms should refrain from enforcing it. The FCA makes clear in the guidance that it expects lenders of both owner-occupied and buy-to-let mortgage loans to act in a manner consistent with these requirements.

### ***Right to Buy Loans***

1.18 per cent of the Loans by current balance in the Cover Pool as at the date of this Prospectus are Right to Buy Loans. Properties sold under the Right to Buy scheme of the Housing Act 1985 or Housing (Scotland) Act 1987 (as amended), as applicable, are sold by the landlord at a discount to market value calculated in accordance with the Housing Act 1985 or Housing (Scotland) Act 1987 (as amended) (as applicable). A purchaser under the scheme of the Housing Act 1985 must repay the whole of the discount if he or she disposes of the property within one year of acquiring it from the landlord, four-fifths if he or she does so within two years, three-fifths if within three years, two-fifths if within four years and one-fifth if within five years. A purchaser under the scheme of the Housing (Scotland) Act 1987 (as amended), must repay the whole of the discount if he or she sells the property within one year, two-thirds if he or she does so within two years and one third if within three years. The landlord obtains a statutory charge (in England and Wales) or standard security (in Scotland) in respect of the contingent liability of the purchaser under the scheme to repay the discount. Under the Housing Act 1985 or Housing (Scotland) Act 1987 (as amended) (as applicable) such statutory charge ranks in priority to other charges including that of any mortgage lenders except in certain circumstances. Such statutory charge shall automatically rank behind any charge on the related property in relation to monies advanced by an approved lending institution to the extent they are advanced for the purpose of enabling the purchaser to exercise his or her right to buy and (in Scotland) monies advanced for the purchase or improvement of the property. In England and Wales, the purchaser is required, before a sale or disposal of the property within 10 years of the date of purchase, to offer the property to the landlord or another social landlord at full market value and to allow up to eight weeks for acceptance of the offer. A



mortgage lender selling the property as a mortgagee in possession in such circumstances will also be obliged to grant such right of first refusal to the landlord or other social landlord.

The right to buy scheme in Scotland ended for all council and housing association tenants in Scotland on 1 August 2016. Tenants with a right to buy could submit their application up to 31 July 2016 with their application then being considered in the normal way. Any applications made after 31 July 2016 will not be accepted.

### ***Mortgage Prisoners***

The FCA is aware that there are some consumers who cannot switch to a more affordable mortgage despite being up to date with their mortgage payments. This includes those who cannot switch because of changes to lending practices during and after the 2008 financial crisis and subsequent regulation that tightened lending standards – often called 'mortgage prisoners'.

Under Policy Statement PS19/27 which came into effect on 28 October 2019, the FCA have amended their responsible lending rules and guidance to help remove potential barriers to consumers switching to a more affordable mortgage and to reduce the time and costs of switching for all relevant consumers. The changes will mean that mortgage lenders can choose to carry out a modified affordability assessment where a consumer has a current mortgage, is up to date with their mortgage payments (and has been for the last 12 months), does not want to borrow more, other than to finance any relevant product, arrangement or intermediary fee for that mortgage, and is looking to switch to a new mortgage deal on their current property. Further, inactive lenders and administrators acting for unregulated entities (such as the LLP) must review their customer books and develop and implement a communication strategy for contacting relevant consumers to tell them it could be simpler for them to remortgage. The communication exercise must be completed by 15 January 2021.

The modification of the responsible lending rules should make it easier for a borrower who is a mortgage prisoner to switch to a new lender and this, together with the proposed notification obligations, could increase redemption rates where there are a significant number of mortgage prisoners held by a lender.

### ***The 1 May 2020 FCA COVID-19 letter***

On 1 May 2020, the FCA published a letter to mortgage lenders and administrators managing closed mortgage books. In view of the financial challenges facing some mortgage borrowers as a result of coronavirus (COVID-19), the FCA are asking firms with customers who took out mortgages with higher risk characteristics before the financial crisis to review the interest rates charged to such customers as a matter of urgency. This is to ensure that, in line with the FCA Handbook requirements such as PRIN 6 and MCOB 12.5, customers on variable rates of interest are being treated fairly. The FCA states that firms should review their rates to consider whether they are consistent with the obligation to treat customers fairly in the light of the exceptional circumstances arising out of coronavirus. Firms should also ensure that they do not pose unjustifiable burdens, especially on customers who may be experiencing temporary payment difficulties or may not be able to switch to another lender. If applicable, as a result of receiving this letter the FCA expects lenders to critically review their variable rates of interest against their funding costs, contracts terms and any other factors that may apply and take any necessary action.

Variable interest rates administered by the Servicer were reduced following Bank of England base rate cuts in March 2020 and the Servicer subsequently reviewed their variable interest rates in accordance with the FCA letter.

### ***FCA Policy on mortgages: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages***

In October 2020, the FCA published the policy statement PS20/11 entitled 'Mortgages: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages'. This policy statement contains guidance which applies to mortgage lenders and mortgage administrators in relation to the exceptional circumstances arising out of Covid-19 and its impact on the financial situation of borrowers with interest-only and part-and-part mortgages (the October Guidance). The October Guidance came into force on 31 October 2020 (and was updated on 17 November 2020) and expires on 31 October 2021 and applies in respect of interest-only and part-and-part mortgages with

maturity dates between 20 March 2020 and 31 October 2021 where the capital repayment is still outstanding. The October Guidance only applies to Regulated Mortgage Contracts (but does not apply to bridging loans). The October Guidance provides that where a borrower has a relevant mortgage and is up-to-date with their mortgage payments (which includes borrowers which have made use of a payment deferral granted under the FCA Payment Deferral Guidance both before and after the relevant loan's maturity date), firms should allow that borrower the flexibility to choose to delay the repayment of any capital on their mortgage until no later than 31 October 2021 provided the borrower continues to make interest payments. Firms are not to charge any additional fees as a condition of offering a delay to the capital repayment and interest may continue to be charged at the rate charged pre-maturity, at the rate charged at maturity, or lower, in accordance with the relevant contractual terms (and where the rate is the standard variable rate, payments may be varied in accordance with changes to this rate). If the customer fails to make interest payments after agreeing a delay to the capital repayment (except in accordance with a payment deferral agreed under the FCA Payment Deferral Guidance), the October Guidance will no longer apply.

The FCA expect lenders and administrators to begin telling eligible borrowers about the option to delay capital repayment promptly and firms should make the risk of delaying capital repayment clear to borrowers, for example that property prices may drop between now and 31 October 2021. To take advantage of the October Guidance the borrower will have to make an active choice to delay the repayment and borrowers could still choose to proceed with repayment.

As at December 2020 there were 342,669 Loans (£24,985,021,777) with a maturity date between December 2020 and December 2060. 23,706 of those (£1,904,098,235) are interest only or part & part Loans.

### ***Land Registration Reform in Scotland***

One of the policy aims of the Land Registration etc. (Scotland) Act 2012 (the **2012 Act**) is to encourage the transfer of property titles recorded in the historic General Register of Sasines to the more recently established Land Register of Scotland with the aim of eventually closing the General Register of Sasines.

Previously, title to a residential property that was recorded in the General Register of Sasines would usually only require to be moved to the Land Register of Scotland (a process known as 'first registration') when that property was sold or if the owner decided voluntarily to commence first registration. The 2012 Act provides additional circumstances which will trigger first registration of properties recorded in the General Register of Sasines, including (i) the recording of a standard security (which will extend to any standard security granted by the Issuer in favour of the Security Trustee over Scottish Mortgages in the Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Deed of Charge following a Perfection Event (a **Scottish Sasine Sub-Security**)) or (ii) the recording of an assignation of a standard security ((which would extend to any assignation granted by the Seller in favour of the LLP in respect of Scottish Mortgages in the Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Mortgage Sale Agreement (a **Scottish Sasine Transfer**)).

Accordingly, since 1 April 2016 the General Register of Sasines is closed to the recording of securities. Despite the provisions of the 2012 Act mentioned above, for the time being, other deeds such as assignations of standard securities (including Scottish Sasine Transfers) will continue to be accepted in the General Register of Sasines indefinitely; although the Registers of Scotland have reserved the right to consult further on this issue in the future.

In addition, the 2012 Act introduced provision for the Keeper of the Land Register of Scotland to transfer a property title currently registered in the General Register of Sasines to the Land Register of Scotland without an application from the borrower (**Keeper Induced Registrations**). Registers of Scotland have now introduced Keeper Induced Registrations in certain counties for both publicly and privately owned properties and have published a list of affected postcodes on its website.

If a Perfection Event occurs then an application to record a Scottish Sasine Sub-Security in relation to Scottish Mortgages in the Portfolio (following the transfer of legal title to such Scottish Mortgages by way of a Scottish Sasine Transfer) could trigger a first registration in the Land Register of Scotland of the underlying Scottish Properties secured by the relevant Scottish Mortgages.

The relevant provisions of the 2012 Act relating to the recording of standard securities came into force on 1 April 2016. As of this date, the General Register of Sasines is now closed to the recording of standard securities. As a result of this, if a Scottish Sasine Sub-Security is granted by the LLP this may lead to higher legal costs and a longer period being required to complete registration than would previously have been the case.

Notwithstanding the provisions of the 2012 Act mentioned above, for the time being other deeds such as assignations of standard securities (including Scottish Sasine Transfers) will continue to be accepted in the General Register of Sasines indefinitely (although Registers of Scotland have reserved the right to consult further on this issue in the future).

Given that the proportion of residential properties in Scotland which remain recorded in the General Register of Sasines continues to decline (Registers of Scotland estimated that in April 2020 around 68 per cent. of property titles in Scotland were registered in the Land Register of Scotland), it is likely that, in relation to the current Portfolio where 11.84 per cent. by aggregate current balance of the Loans are Scottish Loans, only a minority of the Scottish Mortgages will be recorded in the General Register of Sasines.

#### ***Potential effects of any additional regulatory changes***

In the United Kingdom and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular, retail banking. In the United Kingdom, regulators such as the CMA, the PRA and the FCA (and their predecessors for example the OFT) have recently carried out, or are currently conducting, several enquiries. In recent years there have been several issues in the UK financial services industry in which these local bodies have intervened directly, including the sale of card and identity protection policies, interest rate hedging products, payment protection insurance, personal pensions and mortgage-related endowments.

No assurance can be given that additional regulatory changes by the CMA, the FCA, the Ombudsman or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally or specifically in relation to the Servicer or the Seller.

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consist (or will consist) of Loans and their Related Security originated by the Seller (which includes building societies subsumed into the Seller, including Portman Building Society, Staffordshire Building Society and Anglia Building Society) and sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement*".

For the purposes hereof:

**Initial Portfolio** means the portfolio of Loans and their Related Security referred to in the Mortgage Sale Agreement as at the Initial Programme Date (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date), and all right, title, interest and benefit of the Seller in and to:

- (a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;
- (b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent, Deeds of Postponement, MHA Documentation or any collateral security for the repayment of the relevant Loans;
- (c) the right to exercise all the powers of the Seller in relation thereto;
- (d) all the estate and interest in the Properties vested in the Seller;
- (e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof;
- (f) all rights, title and interests of the Seller (including, without limitation, the proceeds of all claims) to which the Seller is entitled under the Buildings Insurance Policies and the Properties in Possession Policies; and
- (g) the Insurance Policies, so far as they relate to the Loans comprised in that portfolio of Loans and their Related Security, including the right to receive the proceeds of any claim.

**New Portfolio** means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (g) above.

### Characteristics of the loans

#### Repayment terms

Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product including free valuations and payment of legal fees. Additional features such as the ability to make overpayments or underpayments and, prior to 4 March 2010, payment holidays (temporary suspension of monthly payments) were also

available to most borrowers and under certain circumstances. See "*Overpayments and underpayments (or flexible payments or payment holidays)*" below.

Loans are typically repayable on one or a combination of both of the following bases:

- **repayment:** the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid; and
- **interest-only:** the borrower makes monthly payments of interest but not of principal; when the loan matures, the entire principal amount of the loan is still outstanding and is payable typically but not necessarily in one lump sum.

In the case of either repayment loans or interest-only loans, the required monthly payment may alter from month to month for various reasons, including changes in interest rates.

For interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is recommended to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term.

Principal prepayments may be made in whole or in part at any time during the term of a loan, subject to the payment of any early repayment charges (as described in "*Early repayment charges*" below). A prepayment of the entire outstanding balance of a loan discharges the mortgage. Any prepayment in full must be made together with all accrued interest, arrears of interest, any unpaid expenses and applicable repayment fee(s).

Various methods are available to borrowers for making payments on the loans, including:

- direct debit instruction from a bank or building society account;
- standing order from a bank or building society account;
- payments made at the Seller's branches; and
- internal transfer if the borrower has a current account with the Seller.

### **Interest payments and interest rate setting**

The Seller has responded to the competitive mortgage market by developing a range of products with special features that are used to attract new borrowers and retain existing borrowers. Interest on the loans is charged on one or a combination of the following bases:

- **Standard variable mortgage rate loans** are loans subject to the Seller's Standard Variable Mortgage Rate (the **SVMR**). The Seller has two SVMRs: (i) the Base Mortgage Rate (the **BMR**) which is capped at 2% above the Bank of England base rate; and (ii) the Standard Mortgage Rate (the **SMR**) which was introduced for loans offered with effect from April 2009 and does not have an interest rate cap.
- **Fixed rate loans** means those loans to the extent that and for such time that the interest rate payable by the borrower on all or part of the outstanding principal balance does not vary and is fixed for a certain period of time by the Seller.
- **Tracker rate loans** means those loans to the extent that and for such time that the interest rate payable by the borrower is linked to a variable rate other than the SMR or the BMR (and shall, for the avoidance of doubt, exclude loans during the period that they are fixed rate loans or standard variable rate loans). The interest rate on tracker rate loans is currently set at a margin by reference to rates set by the Bank of England.

The SVMR and some tracker rates may apply for the life of the loan. Otherwise, each of the above rates is offered for a predetermined period, usually between two and five years, at the commencement of the loan (the **product period**). At the end of the product period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to, or remain at, the BMR or the SMR. All loans the offers for which were made since April 2009 and loans the offers for which were made before that date which have since switched product will revert to the SMR. Loans the offers for which were made before April 2009 and have not switched product will revert to the BMR. In certain instances, early repayment charges are payable by the borrower if the loan is redeemed within a specified period. See "*Early repayment charges*" below.

Since 1 May 2001 all loans originated by the Seller have had their interest calculated on a daily basis rather than on an annual basis. Any payment of principal by the borrower will immediately reduce the principal balance on which interest will be calculated the following day. Prior to this date, all loans had carried interest calculated on an annual basis.

The following is a summary of the provisions relating to interest rate variations contained in the various Mortgage Conditions:

- **Nationwide** – under the Nationwide mortgage conditions prior to 1999, the Seller may change the interest rate at any time and for any reason. Under the 1999, 2001 and 2008 Nationwide mortgage conditions (the latter of which have superseded all other mortgage conditions in relation to the Seller's mortgage origination business), the Seller can only change the interest rate for a number of specified reasons. These reasons include, by way of example, to reflect (a) a change in the cost of funds used in the Seller's mortgage lending business, (b) a change in the law or regulatory requirements or a decision by a court, (c) a change in the way the property is used or occupied, or (d) a change in the credit risk relating to the loan. The 2008 Nationwide mortgage conditions incorporate additional reasons including to reflect changes in general interest rates, to respond to changes in the rates applying to the Seller's savings business and to maintain the Seller's financial strength for the benefit of its members. It should be noted that the mortgage conditions referred to in this section do not apply in Scotland but that similar conditions apply separately in Scotland.

If the Seller wishes to increase the interest rate, it must first give notice to the borrower of the increase, either by advertisement or personal notice. Under all of the Nationwide mortgage conditions (but not the 1986 Anglia mortgage conditions) the borrower may then repay the loan without paying interest at the increased rate if the borrower gives notice of its intention to repay within one month of the notice of increase and repays the loan (or the part of it which is affected by the increase) together with any early repayment charge and any unpaid interest and expenses within three months of the notice of increase.

- **Portman** – under the 1994 Portman mortgage conditions the Seller may vary the interest rate at any time and for any reason. Any increase in the interest rate is required to be publicised in accordance with the requirements of the Portman Building Society Rules. However, following a transfer of the mortgage, the Rules cease to apply and an increase in the interest rate will not come into effect until notice of the increase is served on the borrower in writing or given to the borrower by such alternative method as may have been notified to the borrower prior to the transfer.

Under the post-1995 Portman mortgage conditions the Seller can vary the interest rate for a number of specified reasons. These reasons include, for example, to reflect changes in law or in regulatory requirements or where there has been or it is reasonably expected that there will be a change in the cost of the funds the Seller uses in its secured lending business (or alternatively in the case of the 1995 to 1997 Portman mortgage conditions if there has been or it is reasonably expected that there will be a general change in the rates of interest applicable to secured loans or if the Seller intends at the same time or shortly afterwards to increase the rate of interest paid to its investors or depositors to attract or retain funds). The post-1995 Portman mortgage conditions also contain a separate right for the Seller to vary the interest rate for any other valid reason if (a) under the terms and conditions then applicable to the mortgage the borrower can repay the mortgage debt without paying a repayment fee, or (b) the Seller allows the borrower to repay the debt within two months of the variation without charging the borrower any repayment fee or other costs of repayment which would ordinarily be payable. Under the post-1997 Portman mortgage conditions the borrower is required to be given notice of any change in the interest rate.

The current policy of the Seller is to rely upon the reasons specified in the 2008 Nationwide mortgage conditions in order to change the interest rate applicable to all mortgage loans of the Seller, regardless of the date of origination.

If applicable, the Servicer will also be responsible for setting any variable margins in respect of new tracker rate loans that are sold to the LLP in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in the Servicing Agreement, the Servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the Seller's policy from time to time. The Seller has a variable base rate cap whereby it has capped its BMR at no more than 2% above the Bank of England base rate at any time. The Seller currently cannot increase the cap.

### **Early repayment charges**

The borrower may be required to pay an early repayment charge if certain events occur during the predetermined product period and the loan agreement states that the borrower is liable for early repayment charges and the Seller has not waived or revised its policy with regard to the payment of early repayment charges. These events include a full or partial unscheduled repayment of principal, or an agreement between the Seller and the borrower to switch to a different mortgage product. If all or part of the principal owed by the borrower, other than the scheduled monthly payments, is repaid before the end of the product period, the borrower will be liable to pay to the Seller a repayment fee based on a percentage of the amount repaid or switched to another product. If the borrower has more than one product attached to the mortgage, the borrower may choose under which product the principal should be allocated.

Borrowers whose mortgage offers were made before 29 May 2013 are currently permitted to make an overpayment of up to £500 each month (or in some cases, up to 10% of the loan within a 12 month period) and Borrowers whose mortgage offers were made on or after 29 May 2013 are permitted to make an overpayment of up to 10% of the loan within a 12 month period, without being required to pay any early repayment charge. This figure may be reviewed from time to time to reflect market conditions. In certain circumstances such as the death of a borrower where a life policy is used to redeem the mortgage and where a critical illness claim redeems or reduces the balance on the mortgage, early repayment charges are usually waived.

If the borrower repays its mortgage during an early redemption charge period to move house, the borrower may not have to pay the charge if the borrower takes out a new loan for the new home and transfers both the balance and the terms of the existing loan to the new home.

Some mortgage products do not include any provisions for the payment of an early repayment charge by the borrower. Early repayment charges will not be included in Revenue Receipts.

### **Overpayments and underpayments (or flexible payments or payment holidays)**

Most loans other than formerly CCA regulated loans (which are now consumer credit back book mortgage contracts) (including flexible advances) are subject to a range of options, selected by the borrower, that give the borrower greater flexibility in the timing and amount of payments under each loan. Most loans other than formerly CCA regulated ones (which are now consumer credit back book mortgage contracts) (including flexible advances) offer one or more of the features described below, subject to certain conditions and financial limits:

Overpayments – borrowers may either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments at any time subject to payment of early repayment charges where appropriate.

Underpayments – where borrowers have previously overpaid, they may reduce their monthly payments below the amount of the applicable monthly payment or make an irregular underpayment. Borrowers are not permitted to make underpayments that exceed the total of previous overpayments less the total of previous underpayments.

Payment holidays – borrowers whose loans were reserved prior to 4 March 2010 may apply for a break from making monthly payments, normally up to 12 months subject to, among other things, maximum LTV criteria taking into account the revised outstanding principal balance of the loan after such break in instalments, payments under the mortgage being

fully up to date and the borrower having made at least the last 12 monthly payments prior to the date of application for the payment holiday. An approval of such application and the determination of such period are at the discretion of the Seller. Payment holidays are not permitted in respect of flexible advances.

Cash re-draws or borrow backs – where borrowers have previously overpaid on loans reserved prior to 4 March 2010, they may re-draw or borrow back an amount up to the value of those overpayments.

### **Flexible Loans and Flexible Advances**

Flexible loans are a type of loan product that typically incorporates features that give the borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month and/or take a payment holiday.

Flexible advances are loans for unrestricted purposes (which may have been CCA regulated and would now be consumer credit back book mortgage contracts) offered to borrowers with existing loans (other than a flexible advance) from the Seller which is secured on the same property that secures the borrower's existing loan. Some flexible advances permit the borrower to make further draws up to the fixed credit limit extended under the mortgage conditions at the inception of the flexible advance. Flexible advances ceased to be made available after 1 December 2008.

### **Further advances**

If a borrower wishes to take out a further loan secured by the same mortgage, and provided not less than six months have passed since the date of completion of the initial loan, the borrower will need to make a further advance application and the Seller will use the Lending Criteria applicable to further advances at that time which include, among other things, payments under the mortgage being fully up to date and the borrower not having missed any of the last six monthly payments prior to the date of application for the further advance. Approval of such application is at the discretion of the Seller. All further advances require the postponement of any second charge or standard security.

Some Loans in the Portfolio may have Further Advances made on them prior to their being sold to the LLP and Loans added to the Portfolio in the future may have had Further Advances made on them prior to that time.

If a Loan is subject to a Further Advance after being sold to the LLP, the Seller will be entitled to repurchase the Loan and its Related Security from the LLP or be deemed to have made a Capital Contribution in Kind in consideration of such Further Advance. See further "*Summary of the Principal Documents – Mortgage Sale Agreement*" and "*Summary of the Principal Documents – LLP Deed*".

### **Product switches**

From time to time, borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the borrower's loan. In limited circumstances, if a Loan is subject to a Product Switch as a result of a variation, then the Seller will be required to repurchase the Loan or Loans and their related security from the LLP. Those limited circumstances are that, as at the relevant date, any of the Representations and Warranties in relation to that Loan, as described in "*Summary of the Principal Documents – Mortgage Sale Agreement*", would be breached upon the making of that Product Switch. See further "*Summary of the Principal Documents – Mortgage Sale Agreement*".

### **Origination channels**

The Seller currently derives its mortgage-lending business from its branch network throughout the United Kingdom, through intermediaries and from internet and telephone sales.

The policies and procedures relevant to the origination of the mortgage loan advances are substantially similar to those set out below. It should, however, be noted that the policies and procedures have changed over time and not all of the included mortgage loan advances will have been originated under these policies and procedures.



All loans are prime mortgage loans secured over owner occupied residential property that were originated by the Seller or another member of Nationwide. A small proportion of historic prime lending (which may be for the purchase of part-residential/part-commercial property to be occupied by the borrower) is ineligible for sale to the LLP. Specialist mortgages including buy-to-let and self-certification mortgage loans secured against residential properties were originated by two wholly owned subsidiaries of the Seller, UCB Home Loans Corporation Limited (**UCBHL**) and The Mortgage Works (UK) plc (**TMW**) but are now only originated by TMW. The mortgages originated by UCBHL and TMW are ineligible for sale to the LLP.

### **Right-to-buy loans**

The Portfolio may include Right to Buy Loans, each being a loan entered into by the relevant borrower as a means to purchase, refinance or improve a residential property from a local authority or other social landlord (each a **landlord**) under the "right to buy schemes" governed by the **right to buy legislation** (being the Housing Act 1985 and the Housing Act 1996 (each as amended and updated from time to time) (in the case of English Mortgages) and the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001 (in the case of Scottish mortgages) or governed by the Housing (Northern Ireland) Order 1983 (as amended) (in the case of Northern Irish mortgages)).

Properties sold under the right to buy legislation are sold by the relevant landlord at a discount to market value calculated in accordance with the right to buy legislation. A purchaser must repay a proportion of the discount received or the resale price (the **resale share**) if he or she sells the property within three years (or in the cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, five years) (the **RTB disposal period**). Under the right to buy legislation, the landlord as Seller obtains a statutory charge (or, in the case of a property in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the scheme to repay the resale share.

In Scotland, under the provisions of the Housing (Scotland) Act 1987 (the **1987 Act**), a standard security granted in respect of the resale share ranks immediately after (1) a standard security granted in security of a loan for the purchase of the property or sums advanced for the purpose of improvements to that property and (2) a standard security over the property granted in security of any other loan where the local authority/social landlord has consented. The 1987 Act does not contain specific provisions obliging the local authority/social landlord to agree to the postponement of the discount security granted in respect of the resale share, but the point is specifically addressed and ranking established by the legislation which as noted specifically ranks any standard security granted in respect of the resale share behind security which is given in respect of a loan for the purchase or improvement of the property. In respect of loans given for any other purpose(s), it is necessary to approach the local authority/social landlord for consent to the security ranking prior to the discount security granted in respect of the resale share, although it should be noted that the 1987 Act does not oblige the local authority/social landlord to grant such consent.

In England the statutory charge ranks senior to other charges including that of any mortgage lender unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 and the Housing Act 1996 or (ii) the relevant local authority issues a letter or Deed Of Postponement postponing its statutory charge to that of a mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant landlord agrees to the postponement but the relevant legislation obliges the landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant landlord as to whether the loan was made for approved purposes.

The Seller is an approved lending institution under the Housing Act 1985 and the Housing Act 1996. The Seller as a matter of policy does not lend during the RTB disposal period above the amount required to purchase such properties (plus legal costs up to £500) unless wholly for an approved purpose under the applicable right to buy legislation. The Seller insists that the relevant landlord's approval for loans for "approved purposes" is in place before making the loan since, until that approval is given, the relevant advance ranks behind the statutory charge. In the case of remortgages, borrowers may in the future be offered the option of paying for insurance cover to benefit the Seller in relation to the risk

that a remortgage loan does not have full priority to the statutory charge rather than paying the administrative costs of obtaining the relevant landlord's approval for the postponement of the statutory charge to the remortgage.

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant landlord a right of first refusal should the relevant property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant landlord is the value of the property determined, in the absence of agreement between the landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a property where the Seller enforces its security, and the district valuer may determine that the value of the property is lower than that the Seller believes is available in the market.

In Northern Ireland, a similar scheme operates through the Northern Ireland Housing Executive (the **NIHE**), although certain differences apply regarding repayment of discount. The discount covenant charge which is created under the standard terms of the NIHE scheme takes priority immediately after any mortgage securing any amount left outstanding by the purchaser and advanced to him by a lending institution for the purpose of buying his house (and for some other purposes).

In relation to any subsequent charge granted to any lending institution other than the institution which provided the initial loan to buy a house, the NIHE has discretion to postpone its charge to this subsequent charge. Such a subsequent charge would include a charge in favour of a new or subsequent lender if the purchaser were to transfer his initial mortgage to a new or subsequent lender within a period of three years after the purchase of the house or, in those cases where the right to buy was exercised after 18 May 2004, five years (being the period during which the NIHE may recoup discount pursuant to the discount covenant charge). The discretion is rarely exercised by the NIHE. Considerations in respect of application of the money for approved purposes do not apply in Northern Ireland.

### **Underwriting**

The Seller's underwriting approach is continually developed and enhanced. The Seller currently adopts a system based approach to lending assessment. This assessment is made with reference to three independent components:

- (a) Credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data;
- (b) Affordability: calculation of an individualised lending amount that reflects the applicant's income net of tax, credit commitments and assumed living expenses, which vary according to income, number of applicants and dependants; and
- (c) Policy rules: a range of automated and manually applied rules to decline applications outside Lending Criteria or to set limits on loans which fall within lending criteria.

The underwriting approach returns a decision categorised into "accept", "refer" and "decline". For each decision type, the system also specifies the level of status required. Prior to December 2011, certain low risk applications were eligible to have income verification and payment history requirements waived.

Mortgage applications are either approved by an approvals officer, or under a task-based approvals process. Mandates for approvals officers are split between those that operate from regional service centres where the approver can mandate all loans that meet "accept" and certain "refer" credit score criteria, and the central risk management underwriting unit. For these applications, the approvals officer satisfies themselves as to the plausibility of any material information for which no independent proof was required under policy rules. The task-based approval process combines comprehensive case level management information and exception reporting to enable optimal tracking and control. Under the task-based approvals process some aspects will require independent proof of certain information to be provided. Approved employees are allocated roles appropriate to their competence to complete the relevant tasks. Once all tasks have been satisfactorily completed, a mortgage offer may be generated by the task-based system.

In all cases, the central risk management underwriting unit reviews and where appropriate approves credit score overrides classified as a Head Office "refer" and can also override declines if they are appealed. A senior risk management committee assesses the credit score levels for "accept", "refer" and "decline" and may adjust the "accept" and "refer" decisions to a "decline" to reflect changing market conditions.

Mortgage underwriting decisions and lending mandates are subject to internal monitoring by the Seller to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

### **Lending Criteria**

Each loan was originated in accordance with the Seller's (or other member of Nationwide, as applicable) Lending Criteria which were applicable at the time the loan was offered. The Lending Criteria in the case of each loan originated by the Seller (or other member of Nationwide) and included in the Portfolio as at the date of this Base Prospectus (or, in the case of Loans originated by a member of Nationwide other than the Seller, anticipated to be included in the Portfolio in the future) are the same as, or substantially similar to, the criteria described in this section. New Loans may only be included in the Portfolio if they are originated in accordance with the Lending Criteria and are compliant with the Eligibility Criteria as set out in the Mortgage Sale Agreement and summaries above under "*Summary of the Principal Documents – Mortgage Sale Agreement*". However, the Seller retains the right to revise its Lending Criteria from time to time; therefore, the criteria applicable to new loans may not be exactly the same as those currently included.

To obtain a loan, each prospective borrower completes an application form (or submits an application online) which includes information about the applicant's income, current employment details, bank account information, current mortgage information, if any, and certain other personal information. The Seller completes a credit reference agency search in all cases against each applicant at their current address and, if necessary, former addresses, which gives details of public information including any county court judgments (or the Scottish or Northern Irish equivalent) and bankruptcy details. Some of the factors currently used in making a lending decision are as follows:

### **Employment Details**

The Seller generally operates the following policy in respect of the verification of a prospective borrower's income details. Under this policy, the Seller categorises prospective borrowers as either "employed" or "self-employed". Proof of income for employed prospective borrowers applying for loans may typically be established by the borrower's most recent monthly payslip and P60. If at the end of the financial year the P60 is not available, the year to date gross income figure from the March payslip may be utilised.

Proof of income for self-employed prospective borrowers may typically be established by:

- A signed accountant's certificate where the applicant has at least two full years' accounts. For loans over £500,000, final accounts are required in addition to the accountant's certificate. The latest financial period must not be more than 18 months ago, at the time the case is approved.
- Two years' final accounts are acceptable in the case of sole traders instead of an accountant's certificate.
- Inland revenue tax calculations for the last two years, the most recent of which must cover a tax year ended no more than 18 months ago, at the time the case is approved.

Prior to December 2011, the Seller operated a process for certain high quality applicants identified by the lending assessment described under "*Underwriting*" above whereby income was accepted as stated by the prospective borrower without further proof, once positive identification of the borrower was provided and the borrower had passed the Seller's credit scoring and other eligibility criteria. The Seller reserved the right to require proof of income where deemed appropriate.

## **1. Valuation**

The Seller requires that a valuation of the property be obtained either from a valuer employed by the Seller, an independent firm of professional valuers or an automatic valuation model (AVM) supplied by an approved AVM provider. The valuer will provide a mortgage valuation report based on a full inspection or an external inspection report which does not involve entering the property. Any valuation of the property is checked against a series of policy rules which will indicate whether the valuation is acceptable, or whether a referral is required.

An AVM is used subject to business rules related to the property type, the LTV ratio, maximum and minimum property values and the AVM achieving an acceptable confidence level. Where a prospective borrower's loan application fails to meet the business rules for AVMs, the property will be valued by an independent valuer.

In addition to the valuation of new house purchase, properties for remortgage and further advance loan applications by a valuer employed by the Seller, an independent valuer or AVMs, in some cases, valuations for further advances are conducted using an indexed valuation of the original valuation based upon the Nationwide House Price Index or, in some cases, the Halifax House Price Index (each, an **HPI**), subject to maximum advance and property type business rules and a maximum LTV limit.

Loans valued using borrowers' estimate of value (which were only available prior to June 2008) and HPI are referred to as **loans without independent valuation**.

All aspects of valuation policy and the business rules applied are reviewed periodically.

## **2. Property types**

The Seller applies business rules related to property type, location, purpose/use of property and tenure to determine the eligibility of properties to serve as security for loans. The Eligibility Criteria for Loans to be included in the Portfolio is restricted to properties used as residential property for owner occupiers located throughout the United Kingdom, except the Isle of Man, the Isles of Scilly and more remote Scottish Islands.

The following tenures are eligible: freehold (in Scotland, heritable) and leasehold houses, leasehold flats, commonhold and Scottish Ownership. In the case of a loan secured by a leasehold property, the Seller requires that the unexpired term of the lease be at least 30 years (in England) or 50 years (in Scotland and Northern Ireland) from the end of the agreed loan term. Since December 2007 these requirements have included an absolute minimum unexpired lease term of 55 years at the inception of the loan.

## **3. Loan amount**

The Seller's product maximum loan amount is £5,000,000 and a scale of mortgage mandate approval levels is applied. However, loans exceeding £1,000,000 are subject to the approval of the risk manager of the central risk management underwriting unit of the Seller. The Seller has represented and warranted in the Mortgage Sale Agreement that all Loans have a True Balance of less than £1,000,000. Where the True Balance of a Loan in the Portfolio exceeds £1,000,000, the Loan will be repurchased by the Seller.

## **4. Term**

The maximum initial mortgage term is 40 years.

## **5. Age of applicant**

All borrowers in respect of all loans must be aged 18 or over. Since July 2008, all new loans have been restricted to terms that do not extend beyond the eldest applicant's 75th birthday, with some exceptions for existing borrowers already outside this limit.

## **6. Status of applicant(s)**

The maximum loan amount of the loan(s) under the mortgage account is determined by a number of factors, including the applicant's income. In determining income, the Seller includes basic salary along with performance or profit-related pay allowances, mortgage subsidies, pensions, annuities, overtime, bonus, commission, rental income and selected investment income.

Prior to December 2011, the criterion for limited income verification for certain high quality applicants as identified by the lending assessment described under "*Underwriting*" above was determined by a risk-based approach adopted to set the most appropriate levels for limited income verification, together with other policy rules. The criterion for limited income verification was weighted towards lower loan-to-value loans. A senior risk management committee reviewed performance of such loans and determined adjustments to the criterion from time to time to reflect market conditions. The performance of full and limited income verification is monitored by category of origination with limited income verification loans to date performing better than full income verification.

The affordability calculation, used in all cases, takes the applicants' gross incomes, including prescribed elements of additional and secondary incomes, credit commitments with more than six months remaining, other non-standard outgoings and an allowance for household costs to derive an affordable loan amount.

Where there are two applicants, the Seller adds joint incomes together for the purpose of calculating the applicants' total income.

The Seller, through its central underwriting unit, may exercise discretion within its Lending Criteria in applying those factors that are used to determine the maximum amount an applicant can borrow. Accordingly, these parameters may vary for some mortgage loans. The Seller may take the following into account when applying discretion: credit score result, existing customer relationship, LTV, known changes in circumstances and total income needed to support the loan.

## **7. Credit history**

### **(a) Credit Search**

A credit search is carried out on the first two applicants. Applications may be declined where an adverse credit history (for example, county court judgment (or the Scottish or Northern Irish equivalent), default or bankruptcy notice) is revealed.

### **(b) Payment History**

Subject to the credit score result in some cases the Seller may seek to see the borrower's bank statements and a reference from any existing and/or previous lender. Any reference must satisfy the Seller that the account has been properly conducted and that no history of material arrears exists. The Seller may substitute the reference with the bureau record obtained as a result of the credit search.

## **8. Scorecard**

The Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a quantitative measure of the risk of advancing the loan. The scorecard has been developed using the Seller's own data and experience of its own mortgage accounts. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Credit scoring applies statistical analysis to publicly available data, closed user group data obtained from credit reference agencies, the Seller's own cross holding data and customer-provided data to assess the likelihood of a mortgage account going into arrears.

The Seller reserves the right to decline an application that has achieved a passing score. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard. The Seller does have an appeals process if an applicant believes that his/her application has been unfairly declined.

On a case-by-case basis, and within approved limits as detailed in the Seller's Lending Criteria, the Seller acting as a Reasonable, Prudent Mortgage Lender may have determined that, based upon compensating factors, a prospective borrower that did not strictly qualify under its Lending Criteria at that time warranted an underwriting exception. The Seller may take into account compensating factors including, but not limited to, a low LTV ratio, stable employment and time in residence at the applicant's current residence. New Loans and Further Advances (made prior to their assignment to the LLP or, if the Seller decides at a later date to retain such Loans subject to such Further Advances within the Portfolio, after their assignment to the LLP) that the Seller has originated under Lending Criteria that are different from the Lending Criteria set out here may be assigned to the LLP.

### **Changes to the underwriting policies and the Lending Criteria**

The Seller's underwriting policies and Lending Criteria are subject to change within the Seller's sole discretion. Loans and Further Advances that are originated under Lending Criteria that are different from the Lending Criteria set out here may be sold to the LLP.

### **Selected statistical information on the Portfolio for each Series**

In respect of each Series of Covered Bonds, statistical information regarding the Loans as of the relevant measurement/testing date in the Portfolio will be set out in the applicable Final Terms. Please note, however, that the information provided is historical and, given that New Loans may be added to the Portfolio at any time, accordingly the statistical information provided at the time of issue may be different to the actual composition of the Portfolio at any given time.

### **Regulation of the UK Residential Mortgage Market**

The Seller is subject to the FSMA 2000, MCOB (and other FCA rules) and the Ombudsman (which is a statutory scheme under the FSMA 2000) and certain other regulatory regimes as described in "*Supervision and Regulation—UK Regulation*" above.

See also the following risk factors under "*Risk Factors – Risks relating to the Cover Pool – Maintenance of Portfolio*" and "*Risk Factors – Risks relating to the Cover Pool – Changes to the Lending Criteria of the Seller*".

## DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

*This section is only a summary of the UK Covered Bond Regime. Prospective purchasers of Covered Bonds should consider carefully all the information contained in this document, including the information set out below, before making any investment decision.*

The Regulated Covered Bonds Regulations 2008 (SI 2008/346) (the **Original RCB Regulations**) and the corresponding implementation provisions, set out in the Regulated Covered Bonds Sourcebook published under the FSMA 2000 (the **RCB Sourcebook**), came into force in the United Kingdom on 6 March 2008 and were amended by the Regulated Covered Bonds Regulations (Amendment) Regulations 2008 (SI 2008/1714) (the **Amendment RCB Regulations** and, together with the Original RCB Regulations, the **RCB Regulations**). In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 52(4) of Directive 2009/65/EC on undertakings for collective investment in transferable securities (the **UCITS Directive**). For further information on the new covered bond directive which replaces Article 52(4) of the UCITS and the regulatory treatment of the Covered Bonds, see the risk factor “*Harmonisation of the EU Covered Bond framework*”.

### *Supervision and registration*

The FCA performs certain supervision and enforcement-related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FCA has certain powers under the RCB Regulations. In particular, in certain circumstances the FCA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner and direct an issuer to publish information given to the FCA under the RCB Regulations. Moreover, as a body that regulates the financial services industry in the United Kingdom, the FCA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

The Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations on 11 November 2008.

### *Requirements under the legislative framework*

The RCB Regulations and the RCB Sourcebook include various requirements related to registered issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (among other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality-related requirements are met and notify the FCA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (among other things) notify the FCA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above). Whilst the framework has been shaped to generally accommodate existing UK covered bond structures (such as that contemplated in respect of Covered Bonds previously issued under the Programme), certain changes are required to such structures to meet the requirements of the RCB Regulations.

The UK authorities undertook reviews of the UK legislative framework in 2011 and 2012 and certain changes were made to the regime with the intention of enhancing the attractiveness of UK regulated covered bonds to investors. These changes took effect from 1 January 2013 and include the following:

- *Single asset pool designation* – issuers are required to designate their programme as being a single asset pool (consisting of either class one assets – public sector debt, class two assets – residential mortgage loans or class three assets – commercial loans and, in each case, liquid assets) or a mixed asset pool (consisting of all eligible property for the purposes of the RCB Regulations). The Issuer has provided the necessary certifications for the

Programme to be registered as a single asset pool programme, falling in class two. As a result, the Asset Pool will consist solely of residential mortgage loans and certain liquid assets, being UK government securities and cash deposits, all of which complies with paragraph 68(a) or (b) of Annex VI to the Banking Consolidation Directive (2006/48/EC). To be clear, and in keeping with the new requirements under the RCB Regulations, the Asset Pool will not include any asset-backed securities.

- *Fixed minimum over-collateralisation requirement for principal and fixed minimum coverage requirement for interest* – under the new requirements, the total principal amount outstanding on the loans constituting eligible property in the asset pool will be required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8% and a minimum threshold will apply in respect of interest amounts such that the total amount of interest payable in the period of 12 months following any given date in respect of the eligible property in the asset pool will be required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. For the purposes of calculating each of these tests, the issuer can take into account certain liquid assets up to a maximum of 8% of those covered bonds that have a maturity date of one year or more and 100% of those covered bonds that have a maturity date of less than one year.
- *Investor reporting, including loan-level data* – new investor reporting requirements will apply. In particular, issuers will be required to make available detailed loan-level information relating to the asset pool following an issuance of regulated covered bonds after 1 January 2013. Issuers will also be required to publish certain transaction documents relating to the programme. When available, the information to be published by the Issuer can be found at <https://www.nationwide.co.uk/about/investor-relations/funding-programmes/covered-bond>. The information set out on the website and the contents thereof do not form part of this Base Prospectus.
- *Asset pool monitor role* – new requirements have been introduced to formalise the role of the asset pool monitor. Under the new provisions, an asset pool monitor will be required, on an annual basis, to inspect and assess the issuer's compliance with certain principles-based requirements under the regime and to report on their findings to the FCA (with additional reporting requirements in the case of issuer non-compliance). Each issuer is required to appoint an asset pool monitor in advance of their annual attestation falling on or after 1 January 2013.

Under the RCB Regulations, an issuer may be removed from the register of issuers in certain limited circumstances but the FCA is restricted from removing a regulated covered bond from the register of regulated covered bonds before the expiry of the whole period of validity of the relevant bond.

See also "*Risk Factors – Risks Relating to Regulation of the Covered Bonds – UK regulated covered bond regime*" and "*Risk Factors – Legal and Regulatory Risks Expenses of insolvency officeholders*".



## DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland (but not Northern Ireland) under the Limited Liability Partnership Act 2000 (the **LLPA 2000**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

### **Corporate characteristics**

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 2006 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 (as amended by the Limited Liability Partnerships from time to time) so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

### **Partnership characteristics**

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

### **Taxation**

A limited liability partnership which carries on a trade or business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the corporate members of a limited liability partnership, and not the limited liability partnership itself, are subject to corporation tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to corporation tax in relation to the business of that partnership.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly owned subsidiary of The Depository Trust and Clearing Corporation (**DTCC**). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants** and, together with Direct Participants, **Participants**). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org) but such information is not incorporated by reference in and does not form part of this Base Prospectus.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the **DTC Rules**), DTC makes book-entry transfers of Registered Covered Bonds among Direct Participants on whose behalf it acts with respect to Covered Bonds accepted into DTC's book-entry settlement system (**DTC Covered Bonds**) as described below and receives and transmits distributions of principal and interest on DTC Covered Bonds. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Covered Bonds (**Owners**) have accounts with respect to the DTC Covered Bonds similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Covered Bonds through Direct Participants or Indirect Participants will not possess Registered DTC Covered Bonds, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Covered Bonds.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participants or Indirect Participants, as applicable, and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of the Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Direct Participants or Indirect Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Covered Bonds purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Covered Bonds by causing the Direct Participant to transfer the Participant's interest in the DTC Covered Bonds, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Covered Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Covered Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Covered Bonds to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Covered Bonds at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, Registered Definitive Covered Bonds are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Registered Definitive Covered Bonds will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

### **Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC,

Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## UNITED KINGDOM TAXATION

*The following is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs' (HMRC's) practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom taxation purposes) in respect of the Covered Bonds. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Covered Bonds. The United Kingdom tax treatment of prospective holders of Covered Bonds depends on their individual circumstances and may be subject to change in the future. Any holders of Covered Bonds who are in doubt as to their tax position should consult their professional advisers.*

*Prospective holders of the Covered Bonds should note that the particular terms of issue of any Series of Covered Bonds as specified in the applicable Final Terms may affect the tax treatment of that and any other Series of Covered Bonds and should be treated with appropriate caution. The comments below do not deal with the tax consequences of any substitution of the Issuer in accordance with Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) of the Covered Bonds.*

*Holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Covered Bonds. In particular, holders of Covered Bonds should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

### **Payment of Interest by the Issuer on the Covered Bonds**

Payments of interest on the Covered Bonds may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Covered Bonds carry a right to interest and the Covered Bonds are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the ITA). The London Stock Exchange is a recognised stock exchange for this purpose. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Covered Bonds carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Covered Bonds will be payable without withholding or deduction for or on account of United Kingdom tax.

In other cases, if the Covered Bonds are capable of being listed on a "recognised stock exchange" at the time the interest on the Covered Bonds becomes payable, an amount must generally be withheld from such payments on account of United Kingdom income tax at the basic rate (currently 20%), subject to any available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a holder of a Covered Bond, HMRC can issue a notice to the Issuer to pay interest to such holder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

### **Payments by the LLP**

The UK withholding tax treatment of payments by the LLP under the Covered Bond Guarantee that have a UK source is uncertain. If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds), such payment may be subject to UK withholding tax, whether or not the Covered Bonds are listed on a "recognised stock exchange" within the meaning of section 1005 of the ITA. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

## UNITED STATES FEDERAL INCOME TAXATION

The following summary describes certain US federal income tax consequences of the purchase, ownership and disposition of Covered Bonds. Except where noted, this discussion deals only with holders that acquire the Covered Bonds at their original issuance and that will hold the Covered Bonds as capital assets and does not deal with investors subject to special tax rules, such as dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, individual retirement accounts and other tax-deferred accounts, insurance companies, persons holding Covered Bonds as a part of a hedging, integrated, conversion or constructive sale transaction or straddle, entities or arrangements treated as partnerships for US federal income tax purposes, traders in securities that elect to use the mark-to-market method of accounting for their securities holdings, persons that have ceased to be US citizens or lawful permanent residents of the United States, or US Holders (as defined below) of Covered Bonds whose "functional currency" is not the US dollar. The discussion below is based upon the provisions of the US Internal Revenue Code of 1986, as amended (the **Code**), its legislative history, final, temporary and proposed US Treasury regulations promulgated thereunder, published rulings and judicial decisions as of the date hereof, all of which are subject to change possibly with retroactive effect or possible differing interpretations so as to result in US federal income tax consequences different from those discussed below.

The discussion set forth below only covers Covered Bonds issued pursuant to this Programme that will constitute debt for US federal income tax purposes. If any Covered Bond did not constitute debt for US federal income tax purposes, the tax consequences of the ownership of such Covered Bond could differ materially from the tax consequences described herein. This summary does not address the US federal income tax consequences of every type of Covered Bond which may be issued under this Programme, such as Covered Bonds with an original maturity of more than 30 years, with certain contingent payment features or where redenomination is specified in the applicable Final Terms as being applicable, and additional or modified disclosure concerning certain US federal income tax consequences relevant to such types of Covered Bonds will be provided as appropriate. Moreover, this summary does not address US federal estate, gift, or alternative minimum tax considerations, the Medicare tax on net investment income or state, local or non-US tax considerations, or special tax accounting rules as a result of any item of gross income with respect to the Covered Bonds being taken into account on an applicable financial statement.

As used herein, a **US Holder** of a Covered Bond means a beneficial owner that is, for US federal income tax purposes, (i) a citizen or individual resident of the United States, (ii) a corporation created or organised in or under the laws of the United States or any political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is subject to US federal income taxation regardless of its source, or (iv) a trust (X) that is subject to the supervision of a court within the United States and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust or (Y) that has a valid election in effect under applicable US Treasury regulations to be treated as a United States person. A **Non-US Holder** is a beneficial owner of Covered Bonds that is neither a US Holder nor a partnership.

If an entity or arrangement treated as a partnership for US federal income tax purposes holds Covered Bonds, the tax treatment of a partner in such entity or arrangement will generally depend upon the status of the partner and the activities of the partnership. An entity or arrangement treated as a partnership for US federal income tax purposes considering holding Covered Bonds should consult its tax advisers concerning the US federal income tax consequences to it and its partners of the acquisition, ownership and disposition of the Covered Bonds by the partnership.

Bearer Covered Bonds are not being offered to US Holders. A US Holder who owns a Bearer Covered Bond may be subject to limitations under US federal income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Code.

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY AND DOES NOT ADDRESS EVERY TYPE OF COVERED BOND THAT CAN BE ISSUED UNDER THE PROGRAMME. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE COVERED BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF US FEDERAL, STATE, LOCAL, NON-US AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

## Payments of Interest

Except as set forth below, interest (including the amount of any taxes withheld and the payment of any additional amounts) on a Covered Bond, other than interest on an "Original Issue Discount Covered Bond" that is not "qualified stated interest" (each as defined below), generally will be taxable to a US Holder as ordinary income at the time it is paid or accrued in accordance with the US Holder's method of tax accounting, reduced by the allocable amount of amortisable bond premium, if any (discussed below). Interest income (including original issue discount (**OID**), if any, as discussed below) on the Covered Bonds will generally be treated as foreign source income. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Covered Bonds.

## Original Issue Discount

US Holders of Covered Bonds issued with OID will be subject to special tax accounting rules, as described in greater detail below. US Holders of such Covered Bonds should be aware that they generally must include OID in gross income as ordinary income in advance of the receipt of cash attributable to that income. However, US Holders of such Covered Bonds generally will not be required to include separately in income cash payments received on the Covered Bonds, even if denominated as interest, to the extent such payments do not constitute "qualified stated interest" (as defined below) and were previously included in income as OID. Covered Bonds issued with OID will be referred to as "**Original Issue Discount Covered Bonds**". The applicable Final Terms will specify if a series of Covered Bonds should be treated as Original Issue Discount Covered Bonds.

Additional rules applicable to Original Issue Discount Covered Bonds that are denominated in or determined by reference to a currency other than the US dollar are described under "*Foreign Currency Covered Bonds*" below.

For US federal income tax purposes, a Covered Bond, other than a Covered Bond with a term of one year or less (a **Short-Term Covered Bond**), with an "issue price" (as defined below) that is less than its stated redemption price at maturity (the sum of all payments to be made on the Covered Bond other than payments of qualified stated interest) will be issued with OID unless such difference is de minimis (i.e., less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of a Covered Bond that provides for the payment of amounts other than qualified stated interest before maturity, the weighted average maturity). A Covered Bond's weighted average maturity is the sum of the following amounts determined for each payment on a Covered Bond (other than a payment of "qualified stated interest"): (i) the number of complete years from the issue date until the payment is made; multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Covered Bond's stated redemption price at maturity. The **issue price** of each Covered Bond in a particular offering will be the first price at which a substantial amount of that particular offering is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The term **qualified stated interest** means stated interest that is unconditionally payable over the entire term of the Covered Bond in cash or in property (other than debt instruments of the Issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments.

In the case of a Covered Bond issued with de minimis OID, the US Holder generally must include such de minimis OID in income at the time principal payments on the Covered Bond are made in proportion to the amount paid for the Covered Bond. Any amount of de minimis OID includable in income will be treated as capital gain.

Certain Covered Bonds may be redeemed prior to their maturity at the option of the Issuer. Original Issue Discount Covered Bonds containing such feature may be subject to rules that differ from the general rules discussed herein. In the case of Covered Bonds that provide for alternative payment schedules, OID is calculated by assuming that the Issuer will exercise or not exercise options in a manner that minimises the holder's yield.

US Holders of Original Issue Discount Covered Bonds with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includable in income by the initial US Holder of an Original Issue Discount Covered Bond is the sum of the "daily portions" of OID with respect to the Original Issue Discount Covered Bond for each day during the taxable year or portion of the taxable year in which such US Holder held such Original Issue Discount Covered Bond (**accrued OID**). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Covered Bond may be of any length and may vary in



length over the term of the Original Issue Discount Covered Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Original Issue Discount Covered Bond's "adjusted issue price" at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The **adjusted issue price** of an Original Issue Discount Covered Bond at the beginning of any accrual period is equal to its issue price increased by the amount of accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Covered Bond (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a US Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Covered Bond that is treated as a "variable rate debt instrument" under US Treasury regulations (a **Floating Rate Covered Bond**), both the "yield to maturity" and "qualified stated interest" generally will be determined solely for purposes of calculating the accrual of OID as though the Floating Rate Covered Bond will bear interest in all periods at a fixed rate generally equal to the value of the rate that would be applicable to interest payments on the Covered Bond on its date of issue or, in the case of certain Floating Rate Covered Bonds, the rate that reflects the yield to maturity that is reasonably expected for the Covered Bond. Additional rules may apply if interest on a Floating Rate Covered Bond is based on more than one interest index or if the principal amount of the Floating Rate Covered Bond is indexed in any manner. Different rules may apply if a Floating Rate Covered Bond is treated as a "contingent payment debt instrument" under US Treasury regulations.

Certain Covered Bonds may be treated as contingent payment debt instruments for US federal income tax purposes. The applicable Final Terms will specify if a series of Covered Bonds should be treated as contingent payment debt instruments for US federal income tax purposes. Under applicable US Treasury regulations, interest on contingent payment debt instruments is treated as OID and must be accrued on a constant-yield basis based on a yield to maturity that reflects the rate at which the Issuer would issue a comparable fixed rate instrument with no contingent payments but with terms and conditions otherwise similar to the contingent payment debt instruments (the **comparable yield**), based on a projected payment schedule determined by the Issuer (the **projected payment schedule**). This projected payment schedule must include each non-contingent payment on the Covered Bond and an estimated amount for each contingent payment, and must produce the comparable yield.

The Issuer will be required to provide to holders, solely for US federal income tax purposes, a schedule of the projected amounts of payments on such Covered Bonds that are treated as contingent payment debt instruments for US federal income tax purposes. The applicable Final Terms will either contain the comparable yield and projected payment schedule, or will provide an address to which a US Holder of a contingent payment debt instrument can submit a written request for this information. A US Holder generally will be bound by the comparable yield and the projected payment schedule determined by the Issuer unless the US Holder determines its own comparable yield and projected payment schedule and explicitly and timely justifies and discloses such schedule to the US Internal Revenue Service (**IRS**). The Issuer's determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

THE COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE WILL NOT BE DETERMINED FOR ANY PURPOSE OTHER THAN FOR THE DETERMINATION OF INTEREST ACCRUALS AND ADJUSTMENTS THEREOF IN RESPECT OF CONTINGENT COVERED BONDS FOR US FEDERAL INCOME TAX PURPOSES AND WILL NOT CONSTITUTE A PROJECTION OR REPRESENTATION REGARDING THE ACTUAL AMOUNTS PAYABLE TO THE HOLDERS OF THE COVERED BONDS.

Gain from the sale, exchange, retirement or other disposition of a contingent payment debt instrument will be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the US Holder's total interest inclusions to the date of sale, exchange, retirement or other disposition exceed the total net negative adjustments that the US Holder took into account as ordinary loss, and any further loss will be capital loss. Gain or loss realised by a US Holder on the sale, exchange or retirement of a Covered Bond that is treated as a contingent payment debt instrument generally will be treated as foreign source gain or loss. Prospective purchasers should consult their tax advisers as to the US federal income tax consequences of purchasing contingent payment debt instruments.

US Holders may elect to treat all interest on any Covered Bond as OID and calculate the amount includible in gross income under the constant-yield method described above with certain modifications. For the purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. The election is to be made for the taxable year in which the US Holder acquired the Covered Bond, and may not be revoked without the consent of the IRS.

### **Covered Bonds Subject to Redemption**

Certain of the Covered Bonds may be redeemable at the option of the Issuer prior to their maturity. Covered Bonds containing such feature may be subject to rules that are different from the general rules discussed above, which will depend, in part, on the particular terms and features of such Covered Bonds.

### **Short-Term Covered Bonds**

In general, an individual or other cash basis US Holder of a Short-Term Covered Bond is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for US federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis US Holders and certain other US Holders are required to accrue OID on Short-Term Covered Bonds on a straight-line basis or, if the US Holder so elects, under the constant-yield method (based on daily compounding). In the case of a US Holder not required and not electing to include OID in income currently, any gain realised on the sale, exchange, retirement or other disposition of the Short-Term Covered Bond will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale, exchange, retirement or other disposition. US Holders who are not required and do not elect to accrue OID on Short-Term Covered Bonds will be required to defer deductions for interest on borrowings allocable to Short-Term Covered Bonds in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Covered Bond are included in the Short-Term Covered Bond's stated redemption price at maturity. A US Holder may elect to determine OID on a Short-Term Covered Bond as if the Short-Term Covered Bond had been originally issued to the US Holder at the US Holder's purchase price for the Short-Term Covered Bond. This election shall apply to all obligations with a maturity of one year or less acquired by the US Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### **Market Discount**

If a US Holder purchases a Covered Bond (other than a Short-Term Covered Bond) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Covered Bond, its revised issue price, the amount of the difference will be treated as "market discount" for US federal income tax purposes, unless such difference is less than a specified de minimis amount. Under the market discount rules, a US Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Covered Bond as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such Covered Bond at the time of such payment or disposition. In addition, the US Holder generally will be required to defer, until the maturity of the Covered Bond or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such Covered Bond. Such interest is deductible when paid or incurred to the extent of income from the Covered Bond for the year. If the interest expense exceeds such income, such excess is currently deductible only to the extent that such excess exceeds the portion of the market discount allocable to the days during the taxable year on which such Covered Bond was held by the US Holder.

Any market discount will be considered to accrue rateably during the period from the date of acquisition to the maturity date of the Covered Bond on a straight-line basis, unless the US Holder elects to accrue on a constant-yield method. This election to accrue market discount on a constant-yield method is to be made for the taxable year in which the US Holder acquired the Covered Bond, applies only to that Covered Bond, and may not be revoked without the consent of the IRS. A US Holder may elect to include market discount in income currently as it accrues (on either a rateable or constant-yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

## **Acquisition Premium; Amortisable Bond Premium**

A US Holder that purchases an Original Issue Discount Covered Bond for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Covered Bond after the purchase date other than payments of qualified stated interest will be considered to have purchased such Covered Bond at an "acquisition premium." Under the acquisition premium rules, if the US Holder does not make the election to treat all interest as OID (as described above) then the amount of OID which such US Holder must include in its gross income with respect to such Covered Bond for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

A US Holder that purchases a Covered Bond (including an Original Issue Discount Covered Bond) for an amount in excess of the sum of all amounts payable on the Covered Bond after the purchase date other than qualified stated interest will be considered to have purchased the Covered Bond at a "bond premium". A US Holder generally may elect to amortise bond premium over the remaining term of the Covered Bond on a constant-yield method as an offset to interest when includible in income under the US Holder's regular tax accounting method. In the case of Covered Bonds that provide for alternative payment schedules, bond premium is calculated by assuming that the Issuer will exercise or not exercise options in a manner that minimises the holder's yield. Bond premium on a Covered Bond held by a US Holder that does not make such an election will decrease the gain or increase the loss otherwise recognised on disposition of the Covered Bond. The election to amortise premium on a constant-yield method once made applies to all debt obligations held or subsequently acquired by the electing US Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

## **Sale, Exchange and Retirement or Other Disposition of Covered Bonds**

Upon the sale, exchange, retirement or other disposition of a Covered Bond, a US Holder generally will recognise gain or loss equal to the difference between the amount realised upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid qualified stated interest, which will be treated as a payment of interest for US federal income tax purposes) and the adjusted tax basis of the Covered Bond. A US Holder's adjusted tax basis in a Covered Bond will, in general, be the US Holder's cost therefor, increased by the amount of any OID, market discount or any income attributable to de minimis OID or de minimis market discount previously included in income by the US Holder and reduced by any amortisable bond premium applied to reduce interest on the Covered Bond and any payments on the Covered Bond other than qualified stated interest. Except as with respect to certain Short-Term Covered Bonds or Covered Bonds with market discount as described above, with respect to gain or loss attributable to changes in exchange rates, with respect to certain Foreign Currency Covered Bonds as described below, and with respect to contingent payment debt instruments as described above, such gain or loss will be capital gain or loss. Except with respect to Covered Bonds that are treated as contingent payment debt instruments as described above, gain or loss realised by a US Holder on the sale, exchange, retirement or other disposition of a Covered Bond generally will be treated as US source gain or loss. Capital gains of individuals derived from capital assets held for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

## **Foreign Currency Covered Bonds**

The following is a summary of the principal US federal income tax consequences to a US Holder of the ownership of a Covered Bonds denominated in a currency other than the US dollar (a **Foreign Currency Covered Bond**).

### *Qualified Stated Interest Payments*

Cash basis US Holders are required to include in income the US dollar value of the amount of interest received, based on the "spot rate" for such foreign currency in effect on the date of receipt, regardless of whether the payment is in fact converted into US dollars. No exchange gain or loss is recognised with respect to the receipt of such payment.

Accrual basis US Holders may determine the amount of income recognised with respect to such interest payment in accordance with either of two methods. Under the first method, the US Holder will be required to include in income for each taxable year the US dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued (or, in the case of an accrual period that spans two taxable years of a US Holder, the part within each taxable year). Under the second method, an accrual basis holder may elect to translate interest income at the spot rate on the last day of the accrual period (or last day of the taxable year in the case of a portion of an accrual period that straddles the holder's taxable year) or on the date

the interest payment is received if such date is within five days of the end of the accrual period. Any such election will apply to all debt instruments held by the US Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by such holder and will be irrevocable without the consent of the IRS. Upon receipt of an interest payment on such Foreign Currency Covered Bond (including, upon the sale of or other disposition of such Foreign Currency Covered Bond, the receipt of proceeds that include amounts attributable to accrued interest previously included in income), the accrual basis US Holder will recognise US source ordinary income or loss in an amount equal to the difference between the US dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date received) and the US dollar value of the interest income that such US Holder has previously included in income with respect to such payment, regardless of whether the payment is in fact converted into US dollars.

#### *Original Issue Discount*

OID on a Foreign Currency Covered Bond will be determined for any accrual period in the applicable foreign currency and then translated into US dollars in the same manner as interest income accrued by an accrual basis holder, as described above. Additionally, a US Holder will recognise exchange gain or loss (which will be treated as ordinary income or loss) when the OID is paid (including, upon the sale, exchange, retirement or other disposition of such Foreign Currency Covered Bond, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the US dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date of payment) and the US dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Foreign Currency Covered Bond will be viewed: first, as the receipt of any stated interest payments called for under the terms of the Foreign Currency Covered Bond; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

#### *Market Discount*

The amount of market discount on Foreign Currency Covered Bonds includible in income will generally be determined by translating the market discount determined in the foreign currency into US dollars at the spot rate on the date the Foreign Currency Covered Bond is retired or otherwise disposed of. If the US Holder has elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into US dollars on the basis of the average exchange rate in effect during such accrual period (or portion thereof within the US Holder's taxable year), and the US Holder will recognise exchange gain or loss with respect to market discount determined using the approach applicable to the accrual of interest income described above.

#### *Amortisable Bond Premium*

Bond premium on a Foreign Currency Covered Bond will be computed in the applicable foreign currency. With respect to a US Holder that elects to amortise the premium, the amortisable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortised, exchange gain or loss (which is generally taxable as ordinary income or loss) will be realised based on the difference between spot rates at such time and at the time of acquisition of the Foreign Currency Covered Bond. A US Holder that does not elect to amortise bond premium will translate the bond premium, computed in the applicable foreign currency, into US dollars at the spot rate on the maturity date and such bond premium will constitute a market loss which may be offset or eliminated by exchange gain.

#### *Sale, Exchange and Retirement or Other Disposition of Foreign Currency Covered Bonds*

Upon the sale, exchange, retirement or other disposition of a Foreign Currency Covered Bond, a US Holder generally will recognise gain or loss equal to the difference between the amount realised upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid interest, which will be treated as a payment of interest for US federal income tax purposes) and the US Holder's adjusted tax basis in the Foreign Currency Covered Bond.

If a US Holder receives foreign currency on the sale, exchange, retirement or other disposition of a Foreign Currency Covered Bond, then the amount realised generally will be based on the spot rate of the foreign currency on the date of sale. For purchases and sales of Foreign Currency Covered Bonds traded on an established securities market, as defined in applicable US Treasury regulations, by a cash method taxpayer, however, foreign currency paid or received is translated into US dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of Foreign Currency Covered Bonds traded on an established

securities market, provided that the election is applied consistently from year to year. This election cannot be changed without the consent of the IRS.

A US Holder's adjusted tax basis in a Foreign Currency Covered Bond generally will be the US Holder's cost therefore, which, in the case of a US Holder that purchases a Foreign Currency Covered Bond with foreign currency, will be the US dollar value of the foreign currency amount paid for such Foreign Currency Covered Bond determined at the time of such purchase. If the Foreign Currency Covered Bonds are traded on an established securities market, as defined in applicable US Treasury regulations, cash method taxpayers (and electing accrual method taxpayers) will determine the US dollar cost of the Foreign Currency Covered Bond on the settlement date.

Gain or loss recognised by a US Holder on the sale, exchange, retirement or other disposition of a Foreign Currency Covered Bond will generally be treated as US source gain or loss. Subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other disposition, the Foreign Currency Covered Bond has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

A US Holder will recognise exchange gain or loss attributable to the movement in exchange rates between the time of purchase and the time of disposition (including the sale, exchange, retirement or other disposition) of a Foreign Currency Covered Bond. Such gain or loss will be treated as ordinary income or loss (and will not be taxable as interest income or expense, except to the extent provided in US Treasury regulations or administrative pronouncements of the IRS) and generally will be US source gain or loss. The realisation of such gain or loss (including any exchange gain or loss attributable to interest or OID realised in connection with the disposition) will be limited to the amount of overall gain or loss realised on the disposition of a Foreign Currency Covered Bond.

#### *Exchange Gain or Loss With Respect to Foreign Currency*

A US Holder's tax basis in foreign currency received as interest on (or OID with respect to), or received on the sale, exchange, retirement or other disposition of, a Foreign Currency Covered Bond will be the US dollar value thereof at the spot rate at the time the holder received such foreign currency. As discussed above, if the Foreign Currency Covered Bonds are traded on an established securities market, a cash basis US Holder (or, upon election, an accrual basis US Holder) will determine the US dollar value of the foreign currency by translating the foreign currency received at the spot rate of exchange on the settlement date of the sale. Accordingly, no foreign currency gain or loss will result from currency fluctuations between the trade date and settlement date of a sale. Any gain or loss recognised by a US Holder on a sale, exchange, retirement or other disposition of foreign currency will be ordinary gain or loss and generally will be US source gain or loss.

#### **Base Rate Change**

It is possible that a change in the interest rate benchmark referenced by a Floating Rate Covered Bond (including from EURIBOR to an alternative base rate) (a **Base Rate Change**) will be treated as a deemed exchange of the existing note for a new note, which may be taxable to U.S. Holders, or will affect the calculation of OID. U.S. Holders should consult with their own tax advisers regarding the potential consequences of a Base Rate Change.

Recently released proposed Treasury regulations describe circumstances under which a Base Rate Change (or related adjustments to the interest rate) on a Floating Rate Covered Bond referencing an IBOR would not be treated as a deemed exchange and would not affect the calculation of OID, provided certain conditions are met. Although it cannot be determined at this time whether the final Treasury regulations on this issue will contain the same standards as the proposed Treasury regulations, taxpayers may rely on the proposed Treasury regulations until the final Treasury regulations adopting such rules are published in the Federal Register.

#### **Non-US Holders**

Subject to the discussion under "*Information Reporting and Backup Withholding*" and "*Foreign Account Tax Compliance Act*" below, Non-US Holders generally should not be subject to US federal income or withholding tax on any payments on the Covered Bonds and gain from the sale, exchange, retirement or other disposition of the Covered Bonds unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-US Holder of a trade or business in the United States; (ii) in the case of any gain realised on the sale, exchange, retirement or other disposition of

a Covered Bond by an individual Non-US Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met; or (iii) the Non-US Holder is subject to tax pursuant to provisions of the Code applicable to certain persons that have ceased to be US citizens or lawful permanent residents of the United States.

Non-US Holders should consult their own tax advisers regarding the US federal income and other tax consequences of owning Covered Bonds.

### **Information Reporting and Backup Withholding**

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, exchange, retirement or other disposition of, the Covered Bonds, by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of accrued OID, if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the applicable certification requirements. Certain US Holders are not subject to backup withholding. Non-US Holders may be required to comply with applicable certification procedures to establish that they are not US Holders in order to avoid the application of such information reporting requirements and backup withholding.

### **Tax Return Disclosure Requirements**

US Treasury regulations requiring the reporting of certain tax shelter transactions (**Reportable Transactions**) could be interpreted to cover and require reporting of transactions that are generally not regarded as tax shelters, including certain foreign currency transactions. Under these regulations, certain transactions may be characterised as Reportable Transactions based upon any of several indicia, including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Covered Bond or foreign currency received in respect of a Foreign Currency Covered Bond to the extent that such sale, exchange, retirement or other disposition results in a tax loss in excess of a threshold amount. Persons considering the purchase of Foreign Currency Covered Bonds should consult with their tax advisers to determine the tax return obligations, if any, with respect to an investment in such Covered Bonds, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

### **Foreign Financial Asset Reporting**

Certain US Holders that own "specified foreign financial assets" that meet certain US dollar value thresholds generally are required to file an information report with respect to such assets with their tax returns. The Covered Bonds generally will constitute specified foreign financial assets subject to these reporting requirements unless the Covered Bonds are held in an account at certain financial institutions (in which case the account may be reportable if maintained by a foreign financial institution). US Holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the Covered Bonds.

### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the US Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the US Federal Register and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the US Federal Register generally would be

"grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds (as described under "*Terms and Conditions of the Covered Bonds – Further Issues*") that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, no person will be required to pay additional amounts as a result of the withholding.

## SETTLEMENT OF CERTAIN OFFERINGS

In connection with any issuance of Covered Bonds that may initially be sold to QIBs in the United States in reliance on Rule 144A, unless otherwise agreed between the relevant Dealers and the Issuer, payment of the purchase price of the Covered Bonds must be made in immediately available funds in the applicable specified currency in New York City five US business days (as such term is used for purposes of Rule 15c6-1 of the Exchange Act after the trade date (such settlement cycle being referred to as **T+5**)). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Covered Bonds to be issued or any such offerings on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the Covered Bonds initially will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Covered Bonds who wish to make such trades should consult their own advisers.



## CERTAIN ERISA CONSIDERATIONS

*The following is a summary of certain considerations associated with the purchase of the Covered Bonds by employee benefit plans that are subject to Title I of the US Employee Retirement Income Security Act of 1974, as amended (ERISA), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code, and entities whose underlying assets are considered to include "plan assets" of such employee benefit plans, plans, accounts and arrangements (each, a **Plan**).*

### General Fiduciary Matters

ERISA imposes certain duties on persons who are fiduciaries of a Plan subject thereto, and ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and its fiduciaries or certain other interested parties. In considering an investment in the Covered Bonds of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents governing such Plan and the applicable provisions of ERISA and Section 4975 of the Code relating to a fiduciary's duties to such Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA and Section 4975 of the Code.

### Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit Plans from engaging in specified transactions involving plan assets with persons who are "parties in interest" within the meaning of ERISA, or "disqualified persons" within the meaning of Section 4975 of the Code, unless an exemption applies. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Plan subject to ERISA that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA.

Whether or not the underlying assets of the Issuer are deemed to include "plan assets", as described below, the acquisition, holding and/or subsequent disposition of the Covered Bonds by a Plan with respect to which the Issuer, the underwriter, the trustee or the guarantor is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired, held and subsequently disposed of in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the US Department of Labor (the **DOL**) has issued prohibited transaction class exemptions, or **PTCEs**, that may apply to the acquisition, holding and disposition of the Covered Bonds. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Covered Bond and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to certain transactions between a plan and a non-fiduciary service provider), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), and PTCE 96-23 (relating to transactions effected by in-house asset managers). There can be no assurance that any of these PTCEs or any other exemption will be available with respect to any particular transaction involving the Covered Bonds.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-US plans (as described in Section 4(b)(4) of ERISA), whilst not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code, may nevertheless be subject to other federal, state, local or non-US laws or regulations that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (**Similar Law**).

### Plan Asset Issues

**"Look-through" Rule.** Under the "look-through" rule set forth in the regulations issued by the DOL at 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the **Plan Assets Regulation**), the underlying assets owned by an entity (such as the Issuer) in which a Plan has an equity interest might be treated as if they were "plan assets" of such

Plan. However, the "look-through" rule does not, by its terms, apply to an entity in which a Plan only owns debt of such entity and not an equity interest. The Plan Assets Regulation provides that an instrument constituting debt under applicable local law and lacking substantial equity features is not treated as an equity interest for purposes of such Regulation. If the Covered Bonds are treated as equity interests for purposes of the Plan Assets Regulation, the assets of the Issuer might be treated as "plan assets" of Plans that acquire or hold such Covered Bonds unless an exception to the "look-through" rule under the Plan Assets Regulation applies. Whilst there is little pertinent authority in this area and no assurance can be given, the Issuer believes that the Covered Bonds should not be treated as equity interests for the purposes of the Plan Assets Regulation.

**Operating Company.** One exception to the "look-through" rule provides that when a Plan acquires an equity interest in an entity that is an "operating company" the underlying assets of such entity will not be deemed "plan assets". Under the Plan Assets Regulation, an "operating company" is defined as "an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of capital". The Issuer believes that it is an "operating company" for purposes of the Plan Assets Regulation, although no assurance can be given in this regard.

**Plan Assets Consequences.** If equity securities of the Issuer are held by Plans and the Issuer is not an operating company for purposes of the Plan Assets Regulation, the Issuer's assets could be deemed to be "plan assets" under ERISA unless, at such time, another exemption is available under the Plan Assets Regulation. This would result, among other things, in (i) the application of the prudence and other fiduciary responsibility standards of ERISA to investments made by the Issuer, and (ii) the possibility that certain transactions in which the Issuer might seek to engage could constitute prohibited transactions under ERISA and the Code.

## **Representation**

Accordingly, by acceptance of the Covered Bonds (or any interest therein), each purchaser and subsequent transferee of the Covered Bonds (or any interest therein) will be deemed to have represented and warranted that either (i) it is not, and is not acquiring the Covered Bonds (or any interest therein) on behalf of, or with the assets of, any Plan or any governmental, church or non-US plan that is subject to Similar Law, or (ii) the acquisition, holding and disposition of the Covered Bonds (or any interest therein) by such purchaser or transferee will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any Similar Law.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Covered Bonds on behalf of, or with the assets of, any Plan or any governmental, church or non-US plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Law to such investment and whether an exemption would be applicable to the acquisition, holding and disposition of the Covered Bonds.

## CERTAIN VOLCKER RULE CONSIDERATIONS

The LLP is not now, and solely after giving effect to any offering and sale of Covered Bonds pursuant to the Trust Deed will not be, a "covered fund" for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the "Volcker Rule". In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended (**Investment Company Act**), and under the Volcker Rule and its related regulations may be available, the Issuer has relied on the determinations that:

- the LLP may rely on the exemption from registration under the Investment Company Act provided by Section 3(c)(5)(C) thereunder, and accordingly the LLP does not rely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for its exemption from registration under the Investment Company Act and may rely on the exemption from the definition of a "covered fund" under the Volcker Rule made available to entities that do not rely solely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for their exemption from registration under the Investment Company Act.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 30 November 2005 and amended and restated on 25 June 2007, 30 April 2008, 1 July 2010, 7 January 2011, 31 July 2015, 28 July 2017, 27 July 2018, 15 July 2019, 3 February 2020 and 12 February 2021 (as the same may be further amended and/or supplemented and/or restated from time to time the **Programme Agreement**), agreed with the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under "*Form of the Covered Bonds*" and "*Terms and Conditions of the Covered Bonds*" above. The Issuer may pay the Dealers commission from time to time in connection with the sale of any Covered Bonds and, in the Programme Agreement, the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Covered Bonds are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.*

Each purchaser of Covered Bonds and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A; or (ii) it is outside the United States and is not a US person;
- (b) that it is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Issuer and is not acting on the Issuer's behalf;
- (c) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable US state securities laws and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except as set forth in this section and in compliance with applicable US securities laws;
- (d) that, unless it holds an interest in a Regulation S Global Covered Bond and is a person located outside the United States and is not a US person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable US state securities laws;
- (e) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (d) above or (i) below, if then applicable;
- (f) that, prior to any proposed transfer of Covered Bonds (other than pursuant to an effective registration statement), the holder of such Covered Bonds may be required to provide certifications relating to the manner of such transfer as provided in the Trust Deed;

- (g) that either (i) it is not, and is not acquiring the Covered Bonds (or any interest therein) on behalf of, or with the assets of, an "employee benefit plan" as defined in Section 3(3) of ERISA subject to the fiduciary responsibility provisions thereof, a "plan" as defined in and subject to Section 4975 of the Code, an entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity, or a governmental, church or non-US plan which is subject to Similar Law, or (ii) its acquisition, holding and disposition of the Covered Bonds (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any Similar Law;
- (h) that the Legended Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THE SECURITIES EVIDENCED HEREBY (THE **COVERED BONDS**) AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE US STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A **QUALIFIED INSTITUTIONAL BUYER** (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED COVERED BONDS THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE ACQUISITION OF THE COVERED BONDS (OR ANY INTEREST THEREIN) BY, OR ON BEHALF OF, OR WITH THE ASSETS OF, ANY **EMPLOYEE BENEFIT PLAN** AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS THEREOF, ANY **PLAN** AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY PURSUANT TO US DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR ANY GOVERNMENTAL, CHURCH OR NON-US PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, OR NON-US LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE IS PROHIBITED UNLESS SUCH ACQUISITION, HOLDING AND SUBSEQUENT DISPOSITION OF THE COVERED BONDS (OR ANY INTEREST THEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-US PLAN, A VIOLATION OF ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL, OR NON-US LAW OR REGULATION).

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON)."

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE AGENCY AGREEMENT REFERRED TO HEREIN.";

- (i) if it is outside the United States and is not a US person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as the period that ends 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, it will do so only (A)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (B) in accordance with the Securities Act and all applicable US state securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THE SECURITIES EVIDENCED HEREBY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE US STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR, IF THE SECURITIES EVIDENCED HEREBY ARE IN BEARER FORM, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART AS DETERMINED AND CERTIFIED BY THE RELEVANT DEALER, IN THE CASE OF A NON-SYNDICATED ISSUE, OR THE LEAD MANAGER, IN THE CASE OF A SYNDICATED ISSUE, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO US PERSONS UNLESS MADE (A) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (B) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

- (j) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

### **Selling Restrictions**

#### *United Kingdom*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make

available any Covered Bonds which are the subject of the offering contemplated by this Offering Circular as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
  - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
  - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
  - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (b) the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds that have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered, sold or delivered and will not offer, sell or deliver any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of such Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA 2000 by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA 2000) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA 2000 does not apply to the LLP or, in the case of the Issuer would not, if it was not an authorised person, apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA 2000 with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the UK.

#### *United States*

Each Dealer has acknowledged that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and may not be offered, sold or delivered directly or indirectly within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Subject to the provisions below, each Dealer has represented and agreed that it has not offered, sold or delivered any Covered Bonds or Covered Bond Guarantees, and will not offer, sell or deliver any such Covered Bonds or Covered Bond Guarantees within the United States or to, or for the account or benefit of, US persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds or Covered Bond Guarantees of which such Covered Bonds or Covered Bond Guarantees are a part (such period, the **Distribution**

**Compliance Period**), except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each subsequent Dealer appointed under the Programme will be required to agree, that it will send, at or prior to confirmation of sale, to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells any Covered Bonds or Covered Bond Guarantees during the Distribution Compliance Period (other than a sale pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds or Covered Bond Guarantees within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Covered Bonds or Covered Bond Guarantees, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds or Covered Bond Guarantees, an offer or sale of any Covered Bonds or Covered Bond Guarantees within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or any other available exemption from registration under the Securities Act.

The Bearer Covered Bonds are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US Treasury regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986, as amended (the **Code**), and US Treasury regulations promulgated thereunder (the **Regulations**).

In addition, in respect of Bearer Covered Bonds where TEFRA D is specified in the applicable Final Terms:

- (a) except to the extent permitted under US Treas. Reg. Section 1.163-5(c)(2)(i)(D) (or any successor rules substantially in the same form as such rules for purposes of Section 4701 of the Code) (**TEFRA D**), each Dealer (i) has represented that it has not offered or sold, and has agreed that during the restricted period it will not offer or sell, Bearer Covered Bonds to a person who is within the United States or its possessions or to a United States person, and (ii) has represented that it has not delivered and has agreed that it will not deliver within the United States or its possessions Bearer Definitive Covered Bonds that are sold during the restricted period;
- (b) each Dealer has represented that it has and has agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Covered Bonds are aware that such Bearer Covered Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;
- (c) each Dealer that is a United States person has represented that it is acquiring Bearer Covered Bonds for purposes of resale in connection with their original issuance and that if it retains Bearer Covered Bonds for its own account, it will only do so in accordance with the requirements of US Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6) (or any successor rules substantially in the same form as such rules for purposes of Section 4701 of the Code);
- (d) with respect to each affiliate that acquires Bearer Covered Bonds from a Dealer for the purpose of offering or selling such Bearer Covered Bonds during the restricted period, such Dealer will repeat and confirm the representations and agreements contained in paragraphs (a), (b), and (c) above on such affiliate's behalf; and
- (e) each Dealer has agreed that it will obtain from any distributor (within the meaning of US Treas. Reg. Section 1.163-5(c)(2)(i)(D)(4)(ii) (or any successor rules substantially in the same form as such rules that are applicable for purposes of Section 4701 of the Code)) that purchases any Bearer Covered Bonds from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, paragraphs (a), (b), (c) and (d) above insofar as they relate to TEFRA D, as if such distributor were a Dealer hereunder.



Terms used in the preceding paragraphs (a) through (e) above have the meanings given to them by the Code and the Regulations, including TEFRA D.

In respect of Bearer Covered Bonds where TEFRA C is specified in the applicable Final Terms, each Dealer understands that under US Treas. Reg. Section 1.163-5(c)(2)(i)(C) (or any successor rules otherwise substantially in the same form as such rules for purposes of Section 4701 of the Code) (TEFRA C) such Bearer Covered Bonds must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer represents and agrees that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Covered Bonds within the United States or its possessions in connection with their original issuance. Further, each Dealer represents and agrees in connection with the original issuance of such Bearer Covered Bonds that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either the Dealer or such prospective purchaser is within the United States or its possessions or otherwise involve a US office of the Dealer in the offer or sale of such Bearer Covered Bonds. Terms used in this paragraph have the meanings given to them by the Code and the Regulations, including TEFRA C.

Notwithstanding anything above to the contrary, it is understood that Registered Covered Bonds may be offered and sold pursuant to a private placement in the United States or to or for the account or benefit of United States persons, and in connection therewith each Dealer has represented and agreed that:

- (a) offers, sales, resales and other transfers of Covered Bonds or Covered Bond Guarantees made in the United States or to or for the account or benefit of United States persons made or approved by a Dealer (including offers, resales or other transfers made or approved by a Dealer in connection with secondary trading) shall be made with respect to Registered Covered Bonds or Covered Bond Guarantees in respect of such Registered Covered Bonds only and shall be effected pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act;
- (b) offers, sales, resales and other transfers of Registered Covered Bonds or Covered Bond Guarantees made in the United States or to or for the account or benefit of United States persons will be made only in private transactions (1) to persons that are reasonably believed to be QIBs, (2) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) or (3) pursuant to another available exemption from registration under the Securities Act (if any), and in each of such cases in accordance with any applicable securities laws of any State of the United States or other applicable jurisdiction. Each Dealer has agreed to notify the related purchaser of Registered Covered Bonds and Covered Bond Guarantees of the private offering nature of such purchase and, accordingly, that such Covered Bonds and Covered Bond Guarantees are subject to the resale and other transfer restrictions referred to above. Neither any Dealer nor the Issuer or the LLP will be liable for any resales or other transfers made in violation of the foregoing conditions if such resale or transfer was not made by or through the party against whom such liability is sought to be imposed;
- (c) the Registered Covered Bonds and Covered Bond Guarantees will be offered in the United States or to or for the account or benefit of United States persons only by approaching prospective purchasers on an individual basis. No general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the Registered Covered Bonds or Covered Bond Guarantees in the United States;
- (d) each Registered Covered Bond sold as a part of a private placement in the United States or to or for the account or benefit of United States persons and each Regulation S Global Covered Bond or Definitive Regulation S Covered Bond shall contain a legend in substantially the form set out on the face of such Covered Bond in the Trust Deed; and
- (e) each Dealer may offer and sell Registered Covered Bonds and Covered Bond Guarantees in the United States or to United States persons only if such Dealer is a registered broker-dealer in the United States or through its selling agent which is a registered broker-dealer in the United States in compliance with the Exchange Act.

The Issuer has represented and agreed that any resale or other transfer, or attempted resale or other transfer, of Covered Bonds or Covered Bond Guarantees sold as part of a private placement in the United States made other than in compliance with the restrictions set out in this paragraph shall not be recognised by the Issuer or the LLP or any agent of the Issuer or the LLP and shall be void.

Each issue of Covered Bonds may be subject to such additional US selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Covered Bonds or Covered Bond Guarantees in respect of such Covered Bonds, which shall be set out in the applicable Final Terms. The relevant Dealer has agreed that it shall offer, sell or deliver such Covered Bonds or Covered Bond Guarantees only in compliance with such additional US selling restrictions.

#### *Prohibition of Sales to EEA Retail Investors*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II;
  - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

#### *Japan*

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act (Act No. 25 of 1948, as amended: the **FIEA**). Accordingly each Dealer has represented and agreed that it has not, directly or indirectly, offered, sold or delivered and will not directly or indirectly offer, sell or deliver any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

#### *Republic of Italy*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors ("*investitori qualificati*"), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-*ter*, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (the **CONSOB Regulation No. 11971**); or
- (a) in other circumstances that are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of CONSOB Regulation No. 11971.

In any event, any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under paragraph (a) or (a) above must:

- (i) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993 (the **Italian Banking Act**);
- (ii) comply with any other applicable laws and regulations or requirement imposed by Commissione Nazionale per le Società e la Borsa (**CONSOB**), the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) and/or and other Italian authority; and
- (iii) be in accordance with any other applicable laws and regulations or requirements imposed by CONSOB or any other Italian authority.

### *Belgium*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Covered Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a **Belgian Consumer**) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Covered Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Covered Bonds, directly or indirectly, to any Belgian Consumer.

### *Singapore*

Each Dealer has acknowledged, that no document (including the Base Prospectus) has been registered, or will be registered, as a prospectus with the Monetary Authority of Singapore, and the Covered Bonds will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, each Dealer has represented and agreed that the Covered Bonds have not and may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Covered Bonds be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act) pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person (as defined in in Section 275(2) of the Securities and Futures Act) pursuant to Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Covered Bonds are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person that is:

- (a) a corporation (that is not an accredited investor) (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) whose sole purpose is to hold investments, and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust will not be transferable for six months after that corporation or that trust has acquired the Covered Bonds pursuant to an offer under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor (for corporations, under Section 274 of the Securities and Futures Act) or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) and Section 276(4)(i)(B) of the Securities and Futures Act;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the Securities and Futures Act; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

#### *Switzerland*

The Covered Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (**FinSA**) and no application has or will be made to admit the Covered Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus pursuant to the FinSA, and neither this Prospectus nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

#### *General*

These selling restrictions may be modified by the agreement of the Issuer and any relevant Dealer following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any relevant Dealer will be required to comply will be set out in the Subscription Agreement in respect of the issue of Covered Bonds to which it relates.

Each Dealer has agreed that it will comply with all applicable securities laws, directives and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus, any other offering material or any Final Terms and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws, directives and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, base prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer, sell or deliver Covered Bonds a copy of the Base Prospectus as then amended or supplemented or, unless delivery of the Base Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not

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authorised to give any information or to make any representation not contained in the Base Prospectus in connection with the offer and sale of Covered Bonds to which the Base Prospectus relates.

This Base Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds were duly authorised by resolutions of the board of directors of the Issuer dated 16 March 2005 and 19 October 2005 and the minutes of delegation of the Issuer's Group Finance Director dated 5 April 2005. The giving of the Covered Bond Guarantee was duly authorised by a resolution of the board of directors of Nationwide Building Society in its capacity as Member of the LLP dated 19 October 2005.

The update of the Programme has been duly authorised by a resolution of the management board of the LLP dated 4 February 2021.

### Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the regulated market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond or a Rule 144A Global Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 12 February 2021.

### Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available to holders of the Covered Bonds during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the principal office of the Issuer and from the specified office of the Paying Agent for the time being in London and on the website of the Issuer at <https://www.nationwide.co.uk/about/investor-relations/funding-programmes/covered-bond>:

- (a) the constitutive documents of the LLP and the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 4 April 2018, 4 April 2019 and 4 April 2020. The Issuer currently prepares audited accounts on an annual basis;
- (c) the audited financial statements of the LLP for the financial years ended 4 April 2018, 4 April 2019 and 4 April 2020. The LLP currently prepares audited accounts on an annual basis;
- (d) the most recently published audited annual financial statements of the Issuer and the most recently published consolidated unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis;
- (e) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Coupons and the Talons;
- (f) a copy of this Base Prospectus;
- (g) any future base prospectuses, information memoranda and supplements including Final Terms (save that Final Terms relating to an unlisted Covered Bond will be available for inspection only by the relevant Dealer or Dealers specified in such Final Terms or, upon proof satisfactory to the Principal Paying Agent or the Registrar, as the case may be, as to the identity of the holder of any Covered Bond to which such Final Terms relate) to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (h) each Transaction Document.

In addition, copies of this Base Prospectus, any documents incorporated by reference and each Final Terms relating to the Covered Bonds issued pursuant to this Base Prospectus will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

### **Clearing Systems**

The Bearer Global Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Global Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

### **Yield**

In relation to any Series or Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

### **Significant or Material Change**

There has been no significant change in the financial performance or the financial position of Nationwide since 30 September 2020, being the date of the most recent unaudited condensed consolidated financial statements of Nationwide, or of the LLP since 4 April 2020, being the date of the most recent annual audited financial statements of the LLP. Save as disclosed in “*Risk Factors – Risks relating to the impact of Covid-19*” and “*Recent Developments – Prospects*” there has been no material adverse change in the prospects of Nationwide or the LLP since 4 April 2020.

### **Litigation**

There have not been and there are no governmental, legal or arbitration proceedings which may have or have had in the 12 months prior to the date hereof, a significant effect on the financial position or profitability of Nationwide or the Issuer or the LLP nor, so far as the Issuer or the LLP is aware, are any such proceedings pending or threatened.

### **Independent Auditors**

The financial statements of the Issuer as at 4 April 2019 and for the year then ended, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors as stated in their report incorporated by reference herein.

The financial statements of the LLP as of 4 April 2019 and for the year then ended, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors as stated in their report incorporated by reference herein.

The financial statements of the Issuer as at 4 April 2020 and for the year then ended, incorporated by reference in this Base Prospectus, have been audited by Ernst & Young LLP (EY), independent auditors as stated in their report incorporated by reference herein.

The financial statements of the LLP as of 4 April 2020 and for the year then ended, incorporated by reference in this Base Prospectus, have been audited by EY, independent auditors as stated in their report incorporated by reference herein.

## **Banking Services**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and/or the Guarantors and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Covered Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and/or the Guarantor and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

## **Reports**

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

In addition, the Issuer is required, pursuant to the terms of the RCB Regulations, to provide loan level information relating to the Loans in the Asset Pool and to display the Transaction Documents related to the Programme. The loan level information and the Transaction Documents shall be posted on <https://www.nationwide.co.uk/about/investor-relations/funding-programmes/covered-bond>. Please note that websites and URLs referred to herein do not form part of this Base Prospectus.

## **Contracts**

There are no material contracts having been entered into outside the ordinary course of the Issuer's business, which could result in any member of Nationwide being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to Covered Bond holders in respect of the Covered Bonds being issued.

## **Post-issuance information**

The Issuer provides monthly Investor Reports which are available online from the Issuer's website, detailing, *inter alia*, compliance with the Asset Coverage Test.

## **Legal Entity Identifier**

The Legal Entity Identifier (LEI) of the Issuer is: 549300XFX12G42QIKN82.



## GLOSSARY

|   |  |
|---|--|
| <b>1999 Regulations</b>                     | Unfair Terms in Consumer Contracts Regulations 1999, as amended;   |
| <b>€, Euro or euro</b>                      | The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency in accordance with the treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the treaty on European Union;  |
| <b>£ and Sterling</b>                       | The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;  |
| <b>\$ and US Dollars</b>                    | The lawful currency for the time being of the United States of America;  |
| <b>¥, Yen and JPY</b>                       | Japanese Yen;  |
| <b>Account Bank</b>                         | Nationwide Building Society and/or, as the context may require, any Additional Account Bank;   |
| <b>Account Bank Required Ratings</b>        | The meaning given in " <i>Summary of the Principal Documents</i> " on page 329;  |
| <b>Accrual Period</b>                       | The relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date;   |
| <b>Accrued Interest</b>                     | In respect of a Loan as at any date, the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date;   |
| <b>Additional Account Bank</b>              | Any additional account bank appointed under a Bank Account Agreement or any person with whom the LLP opens a bank account which includes a GIC Account, a Transaction Account, the Collateralised GIC Account or a custody account for the purposes of holding collateral provided pursuant to a Covered Bond Swap Agreement, an Interest Rate Swap Agreement or the Collateral Agreement; |
| <b>Additional Loan Advance</b>              | A further drawing (including, but not limited to, Further Advances, Re-draws and Further Draws) in respect of Loans sold by the Seller to the LLP;   |
| <b>Additional Stand-by Account Bank</b>     | Any bank other than Citibank, N.A., London Branch at which any Stand-by Account is opened;   |
| <b>Additional Stand-by GIC Account Bank</b> | Any bank other than Citibank, N.A., London Branch at which any Stand-by GIC Account is opened;   |
| <b>Adjusted Aggregate Loan Amount</b>       | The meaning given in " <i>Summary of the Principal Documents</i> " on page 346;  |

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| <b>Adjusted Required Redemption Amount</b>     | The Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) (i) amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds or (ii) amounts standing to the credit of the GIC Account and the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds that mature prior to or on the same date as the relevant Series of Covered Bonds) plus or minus any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement; |
| <b>Adjusted True Balance</b>                   | The meaning given in " <i>Summary of Principal Documents</i> " on page 346;   |
| <b>Agency Agreement</b>                        | The agency agreement dated the Initial Programme Date and further amended and restated on or about 25 June 2007, 6 January 2011, 7 January 2011, 28 June 2012, 17 July 2013, 29 July 2016, 28 July 2017 and 12 February 2021 (as further amended and/or supplemented and/or restated from time to time) and made between the Issuer, the LLP, the Bond Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents;  |
| <b>Agent</b>                                   | Each of the Paying Agents, the Registrar, the Exchange Agent and the Transfer Agent;  |
| <b>Amortisation Test</b>                       | The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;  |
| <b>Amortisation Test Aggregate Loan Amount</b> | The meaning given in " <i>Summary of the Principal Documents</i> " on page 349;   |
| <b>Amortisation Test True Balance</b>          | The meaning given in " <i>Summary of the Principal Documents</i> " on page 349;   |
| <b>Amortised Face Amount</b>                   | The meaning given in " <i>Terms and Conditions of Covered Bonds</i> " on page 150;  |
| <b>Arranger</b>                                | Barclays Bank PLC, acting through its investment bank;  |
| <b>Arrears Adjusted True Balance</b>           | The meaning given in " <i>Summary of the Principal Documents</i> " on page 346;   |
| <b>Arrears of Interest</b>                     | As at any date in respect of any Loan, interest (other than Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date;  |
| <b>Asset Coverage Test</b>                     | The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;   |

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| <b>Asset Coverage Test Breach Notice</b>    | The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates;  |
| <b>Asset Monitor</b>                        | A reputable institution appointed as such under the Asset Monitor Agreement;  |
| <b>Asset Monitor Agreement</b>              | The asset monitor agreement entered into on the Initial Programme Date (as amended and restated on 3 July 2009 and 17 July 2013) between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee;   |
| <b>Asset Monitor Report</b>                 | The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee];  |
| <b>Asset Percentage</b>                     | The meaning given in " <i>Summary of the Principal Documents</i> " on page 348;   |
| <b>Asset Pool</b>                           | All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) (Asset Pool) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations;  |
| <b>Authorised Investments</b>               | <p>(a) Sterling gilt edged securities; and</p> <p>(b) Sterling demand or time deposits,</p> <p>provided that in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and, in the case of Sterling demand or time deposits, the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under FSMA 2000) are rated at least A/F1 by Fitch, A-1 by S&amp;P and P-1 by Moody's or their equivalents by three other internationally recognised rating agencies (in each case, provided that such ratings by Fitch, S&amp;P and/or Moody's shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and there are no Covered Bonds issued prior to such date which are still outstanding), and provided further that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations;</p> |
| <b>Authorised Underpayment</b>              | A payment made by a Borrower in an amount less than the Monthly Payment then due on the Loan being a sum not exceeding the aggregate of any previous Overpayments;  |
| <b>Available Mortgage Collateral Amount</b> | An amount equal to the amount by which the Adjusted Aggregate Loan Amount determined on the basis that item V of the definition of Adjusted Aggregate Loan Amount was excluded exceeds the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the next Calculation Date;   |
| <b>Available Principal Receipts</b>         | <p>On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):</p> <p>(a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on any GIC Account or the Collateralised GIC Account, as applicable (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);</p>   |

- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied (x) to acquire New Portfolios or invest in Substitution Assets or (y) pursuant to clause 4.1 of the Intercompany Loan Agreement), (ii) any Cash Capital Contributions received from a Member (to the extent not applied pursuant to clause 15.5 of the LLP Deed) and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreements;
- (c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the LLP on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the LLP has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger); and
- (d) any amount transferred to the Principal Ledger from the Supplemental Liquidity Reserve Ledger pursuant to schedule 2 of the Cash Management Agreement,

provided that: (i) principal amounts that cannot be withdrawn from the Collateralised GIC Account (including, without limitation, in the event of a moratorium arising upon the insolvency, building society insolvency, administration or building society special administration of Nationwide Building Society or the Society being unable to pay these amounts) shall cease to constitute Available Principal Receipts; (ii) any amounts recovered in respect of such principal amounts from realisation of the related Custody Collateral shall constitute Available Principal Receipts, save to the extent that any Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Principal Receipts; and (iii) any amounts (other than Swap Collateral) subsequently withdrawn from the Collateralised GIC Account will not constitute Available Principal Receipts but will instead constitute Available Revenue Receipts. For the avoidance of doubt, Swap Collateral shall be excluded from the calculation of and shall not constitute Available Principal Receipts;

**Available Revenue Receipts**

On a relevant Calculation Date, an amount equal to the aggregate of:

- (a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on any GIC Account or the Collateralised GIC Account, as applicable;
- (b) other net income of the LLP including all amounts of interest received on the LLP Accounts (except for the Covered Bond Swap Collateral Accounts, the Stand-by Covered Bond Swap Collateral Accounts, the Interest Rate Swap Collateral Accounts, the Stand-by Interest Rate Swap Collateral Accounts and any GIC Collateral Custody Account), the Substitution Assets and Authorised Investments (other than Authorised Investments made from amounts standing to the credit of any Covered Bond Swap Collateral Account, any Interest Rate Swap Collateral Account and any GIC Collateral Custody Account) in the previous Calculation Period but excluding amounts received by the LLP under the Interest Rate Swap Agreement and in respect of interest received by the LLP under each Covered Bond Swap Agreement and excluding any Swap Collateral;
- (c) prior to the service of a Notice to Pay, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;

- (d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on any GIC Account or the Collateralised GIC Account, as applicable;
- (e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund; and
- (f) any amounts subsequently recovered in respect of amounts credited to the Collateralised GIC Account which were previously not capable of being withdrawn and ceased being Available Principal Receipts or Available Revenue Receipts,

provided that revenue amounts and amounts of interest accrued in respect of amounts which cannot be withdrawn from the Collateralised GIC Account (including, without limitation, in the event of a moratorium arising upon the insolvency, building society insolvency, administration or building society special administration of Nationwide Building Society or the Society being unable to pay these amounts) shall cease to constitute Available Revenue Receipts; provided further, that any amounts subsequently recovered in respect of such revenue amounts and amounts of interest from realisation of the related Custody Collateral shall constitute Available Revenue Receipts, save to the extent that any Excess Collateral shall be paid to the GIC Provider and shall not constitute Available Revenue Receipts. For the avoidance of doubt, Swap Collateral shall be excluded from the calculation of and shall not constitute Available Revenue Receipts;

*less*

- (g) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;

**Back-Up Cash Management Agreement**

Any back-up cash management agreement entered into by the Cash Manager (with the assistance of the Back-Up Cash Manager Facilitator) pursuant to the terms of the Cash Management Agreement (as the same may be amended, restated, supplemented, replaced or novated from time to time);

**Back-Up Cash Manager**

The person appointed to undertake the back-up cash management services for the LLP pursuant to the Back-Up Cash Management Agreement;

**Back-Up Cash Manager Event**

The meaning given in "Summary of the Principal Documents" on page 356;

**Back-Up Cash Manager Facilitator**

Wilmington Trust SP Services (London) Limited and any successor or replacement entity;

**Back-Up Servicer**

The person appointed to undertake the back-up servicing obligations in relation to the Portfolio pursuant to the Back-Up Servicing Agreement;

**Back-Up Servicer Event**

The meaning given in "Summary of the Principal Documents" on page 339;

**Back-Up Servicer Facilitator**

Wilmington Trust SP Services (London) Limited and any successor or replacement entity;

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| <b>Back-Up Servicing Agreement</b>     | Any back-up servicing agreement entered into by the Servicer (with the assistance of the Back-Up Servicer Facilitator) pursuant to the terms of clause 22.1 of the Servicing Agreement (as the same may be amended, restated, supplemented, replaced or novated from time to time);  |
| <b>Bank Account Agreement</b>          | The bank account agreement entered into on the Initial Programme Date (as the same may be amended, restated, supplemented, replaced or novated from time to time) between the LLP, Nationwide Building Society in its capacity as an Account Bank, the Cash Manager and the Security Trustee and/or, as the context may require, any other bank account agreement entered into between an Additional Account Bank, the LLP, the Cash Manager and the Security Trustee;   |
| <b>Basel Committee</b>                 | Basel Committee on Banking Supervision;  |
| <b>Basis Covered Bond Swap</b>         | Each basis swap transaction entered into between the LLP and a Covered Bond Swap Provider;   |
| <b>Bearer Covered Bonds</b>            | Bearer Definitive Covered Bonds or Bearer Global Covered Bonds, as the case may be;  |
| <b>Bearer Definitive Covered Bonds</b> | A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated Issues) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bonds in bearer form) having Coupons and, where appropriate, Talons attached thereto on issue; |
| <b>Bearer Global Covered Bond</b>      | The meaning given on page 95;  |
| <b>Beneficial Owner</b>                | Each actual purchaser of each DTC Covered Bond;  |
| <b>BMR</b>                             | The Seller's base mortgage rate which is capped at 2% above the Bank of England base rate;   |
| <b>BMR Loans</b>                       | Loans that are subject to the Seller's BMR;  |
| <b>Bond Trustee</b>                    | Citicorp Trustee Company Limited, in its capacity as bond trustee under the Trust Deed together with any successor bond trustee appointed from time to time;   |
| <b>Borrower</b>                        | In relation to a Loan, the individual or individuals specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it;  |
| <b>BRRD</b>                            | The Bank Recovery and Resolution Directive, as amended;  |

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| <b>Buildings Insurance Policies</b> | All buildings insurance policies relating to Properties taken out (a) in the name of the relevant Borrower (and, in the case of Seller Arranged Policies, the Seller) and (b) in the name of the landlord in the case of leasehold Properties where the relevant landlord is responsible for insuring the Property;   |
| <b>Building Societies Act</b>       | Building Societies Act 1986, as amended;  |
| <b>Butterfill Act</b>               | Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended;   |
| <b>Calculation Agent</b>            | In relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds;                                 |
| <b>Calculation Date</b>             | The 12th day of each month (or, if that day is not a Business Day, then the immediately preceding Business Day);  |
| <b>Calculation Period</b>           | The period from, and including, the first day of each month to, and including, the last day of each month;  |
| <b>Capital Account Ledger</b>       | The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time;  |
| <b>Capital Balance</b>              | For a Loan at any date, the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues;   |
| <b>Capital Contribution</b>         | In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed;  |
| <b>Capital Contribution in Kind</b> | A contribution of Loans and their Related Security to the LLP in an amount equal to (a) the aggregate of the True Balance of those Loans as at the relevant Transfer Date minus (b) any cash payment paid by the LLP for the Loans and their Related Security on that Transfer Date;  |
| <b>Capital Distribution</b>         | A repayment of a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration);  |
| <b>Capitalised Arrears</b>          | For any Loan at any date, interest or other amounts that are overdue in respect of that Loan and that, as at that date, have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;   |
| <b>Capitalised Expenses</b>         | In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the relevant Mortgage Conditions;  |
| <b>Capitalised Interest</b>         | For any Loan at any date, interest that is overdue in respect of that Loan and that, as at that date, has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest that have not been so capitalised on that date); |

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| <b>Cash Capital Contributions</b>   | A Capital Contribution made in cash;  |
| <b>Cash Management Agreement</b>    | The cash management agreement dated the Initial Programme Date as amended on 27 November 2006, 30 November 2007, 30 April 2008, 3 July 2009, 18 December 2009 and 12 February 2021 (as amended and/or supplemented and/or restated from time to time) entered into between the LLP, Nationwide Building Society in its capacity as the Cash Manager and the Security Trustee;   |
| <b>Cash Manager</b>                 | Nationwide Building Society, in its capacity as cash manager under the Cash Management Agreement together with any successor cash manager appointed from time to time;  |
| <b>Cash Re-draws</b>                | Cash re-draws to which a Borrower is entitled under a Flexible Loan as a result of Overpayments that the Borrower has made on that Flexible Loan or otherwise;  |
| <b>CCA</b>                          | The Consumer Credit Act 1974, as amended;   |
| <b>CCA 2006</b>                     | The Consumer Credit Act 2006, as amended;   |
| <b>Certificate of Title</b>         | A solicitor's, licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation;  |
| <b>Charged Property</b>             | The property charged by the LLP pursuant to Clauses 3.1 to 3.9 (inclusive) (Security and Declaration of Trust) of the Deed of Charge;   |
| <b>Clearing Systems</b>             | DTC, Euroclear and/or Clearstream, Luxembourg;  |
| <b>Clearstream, Luxembourg</b>      | Clearstream Banking, SA;  |
| <b>CML</b>                          | The Council of Mortgage Lenders;  |
| <b>Collateral Agreement</b>         | The collateral agreement entered into by the LLP and the GIC Provider in relation to the GIC Provider's obligations with respect to the Collateralised GIC Account, substantially in the form set forth in schedule 4 to the Cash Management Agreement (as the same may be amended, restated, supplemented, replaced or novated from time to time);   |
| <b>Collateral Available Amounts</b> | On termination of the Collateral Agreement, the amount of Custody Collateral which under the terms of the Collateral Agreement and following termination thereof may be applied at that time by way of set-off in satisfaction of any of the GIC Provider's obligations to the LLP with respect to the Collateralised GIC Account under or in connection with the Guaranteed Investment Contract first entered into on the Initial Programme Date, to the extent such obligations remain outstanding; |
| <b>Collateralised GIC Account</b>   | An account in the name of the LLP held at Nationwide Building Society in its capacity as an Account Bank and maintained subject to the terms of the Guaranteed Investment Contract first entered into on the Initial Programme Date, the Bank Account Agreement and the Deed of Charge and/or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee;  |
| <b>Common Depository</b>            | The common depository for Euroclear and Clearstream, Luxembourg;  |



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| <b>Common Safekeeper</b>            | Either of Euroclear and/or Clearstream, Luxembourg in its capacity as common safekeeper or a person nominated by either of Euroclear and/or Clearstream, Luxembourg to perform the role of common safekeeper;   |
| <b>Conditions</b>                   | Terms and conditions of the Covered Bonds (with the exception of the N Covered Bond Conditions);  |
| <b>Corporate Services Agreement</b> | The corporate services agreement dated the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) entered into by each of the Liquidation Member and Holdings, with, <i>inter alios</i> , the relevant Corporate Services Provider and the LLP;  |
| <b>Corporate Services Provider</b>  | Wilmington Trust SP Services (London) Limited, a company incorporated under the laws of England and Wales in its capacity as corporate services provider to Holdings and to the Liquidation Member under a Corporate Services Agreement, together with any successor corporate services provider appointed from time to time;   |
| <b>Couponholders</b>                | The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons);  |
| <b>Coupons</b>                      | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 113;  |
| <b>Covered Bond</b>                 | Each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements or a Covered Bond issued pursuant to Condition 10 (Replacement of Covered Bonds, Coupons and Talons) (and which for the avoidance of doubt, includes the N Covered Bonds);  |
| <b>Covered Bondholders</b>          | The several persons who are for the time being holders of outstanding Covered Bonds (being, in the case of Bearer Covered Bonds, the bearers thereof and, in the case of Registered Covered Bonds, the several persons whose names are entered in the register of holders of the Registered Covered Bonds as the holders thereof) save that, in respect of the Covered Bonds of any Series, for so long as such Covered Bonds or any part thereof are represented by a Global Covered Bond deposited with a common depository or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, or so long as Euroclear or Clearstream, Luxembourg, DTC or its nominee is a registered holder of a Registered Global Covered Bond, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) or, as the case maybe, DTC or its nominee or as the case may be, the common safekeeper, as the holder of a particular principal amount of the Covered Bonds of such Series shall be deemed to be the holder of such principal amount of such Covered Bonds (and the holder of the relevant Global Covered Bond shall be deemed not to be the holder) for all purposes of the trust presents other than with respect to the payment of principal or interest on such principal amount of such Covered Bonds and, in the case of DTC or its nominee, voting, giving consents and making requests pursuant to the trust presents, the rights to which shall be vested, as against the Issuer, the LLP and the Bond Trustee, solely in such common depository or as the case may be, the common safekeeper or, as the case may be, DTC or its nominee and for which purpose such common depository or as the case may be, the common safekeeper or, as the case may be, DTC or its nominee shall be deemed to be the holder of such principal amount of such Covered Bonds in accordance with and subject to its terms and the provisions of the trust presents, and the expression holder of Covered Bonds and related expressions shall be construed accordingly; |

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| <b>Covered Bond Guarantee</b>                      | An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment;  |
| <b>Covered Bond Swap</b>                           | Each Basis Covered Bond Swap and Interest Rate Covered Bond Swap;  |
| <b>Covered Bond Swap Agreement</b>                 | Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee governing Covered Bond Swaps entered into with such Covered Bond Swap Provider in the form of an ISDA Master Agreement, including a schedule, confirmations and any credit support annex in relation to each such Covered Bond Swap;   |
| <b>Covered Bond Swap Collateral Account</b>        | (a) Each custody or bank account of the LLP to be opened and maintained by an Account Bank or (b) the Collateralised GIC Account (but only to the extent of any Swap Collateral posted thereto and recorded on the applicable Designated Covered Bond Swap Collateral Ledger), in each case for the purposes of holding Swap Collateral provided by a Covered Bond Swap Provider pursuant to and in accordance with the terms of the relevant Covered Bond Swap Agreement;   |
| <b>Covered Bond Swap Collateral Account Ledger</b> | The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Covered Bond Swap Provider to record the amount of Swap Collateral provided from time to time under the applicable Covered Bond Swap Agreement;  |
| <b>Covered Bond Swap Early Termination Event</b>   | The meaning given in " <i>Summary of the Principal Documents</i> " on page 362;  |
| <b>Covered Bond Swap Provider</b>                  | Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement;  |
| <b>Covered Bond Swap Rate</b>                      | In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate;   |
| <b>CPUTR</b>                                       | The Consumer Protection from Unfair Trading Regulations 2008;  |
| <b>Custodian</b>                                   | Any custodian with whom the relevant Registered Global Covered Bonds have been deposited;  |
| <b>Custody Collateral</b>                          | Any asset (including, without limitation, cash and/or securities) that is paid or transferred by the GIC Provider to the GIC Collateral Custody Account pursuant to the Collateral Agreement to secure the performance by such GIC Provider of its obligations with respect to the Collateralised GIC Account under or in connection with the Guaranteed Investment Contract first entered into on the Initial Programme Date together with income or distributions received in respect of such asset and any equivalent asset into which such asset is transformed; |
| <b>Day Count Fraction</b>                          | In the case of a Fixed Rate Covered Bond, the meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 119 and, in the case of a Floating Rate Covered Bond, the meaning given in Condition 4.2 (Interest on Floating Rate Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 140;  |

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| <b>Dealer</b>                               | Each of Barclays Bank PLC, Barclays Capital Inc., BNP Paribas, Citigroup Global Markets Inc., Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, HSBC Bank plc, HSBC Securities (USA) Inc., J.P. Morgan Securities plc, NatWest Markets Plc, NatWest Markets Securities Inc, RBC Capital Markets LLC, RBC Europe Limited, Société Générale, TD Securities (USA) LLC and UBS AG London Branch and any other dealers appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds; |
| <b>Deed of Charge</b>                       | The deed of charge dated the Initial Programme Date and amended and restated on 30 November 2007, 30 April 2008, 19 June 2008, 17 July 2013, 1 July 2016 and 12 February 2021 (as amended and/or supplemented and/or restated from time to time) and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors;  |
| <b>Deed of Consent</b>                      | A deed whereby a person in or intended to be in occupation of a Property agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created in the relevant Mortgage;  |
| <b>Deed of Postponement</b>                 | A deed or agreement whereby a mortgagee of or the heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as appropriate) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;  |
| <b>Defaulted Loan</b>                       | Any Loan in the Portfolio that is more than three months in arrears;  |
| <b>Defaulted Loans Notice</b>               | A notice from the Cash Manager to the Seller identifying any Defaulted Loan;  |
| <b>Deferred Consideration</b>               | The consideration payable to a Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priorities of Payments;  |
| <b>Definitive Covered Bond</b>              | A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond;  |
| <b>Definitive Regulation S Covered Bond</b> | A Registered Covered Bond in definitive form sold to non-US persons outside the United States in reliance on Regulation S;  |
| <b>Definitive Rule 144A Covered Bond</b>    | A Registered Covered Bond in definitive form sold to QIBs pursuant to Rule 144A;  |
| <b>Delegated Act</b>                        | Commission Delegated Regulation (EU) 2015/62;   |
| <b>Deposit Non-Reserved Amounts</b>         | All amounts received by the LLP other than the Reserve Fund and amounts standing to the credit of either the Pre-Maturity Liquidity Ledger or the Supplemental Liquidity Reserve Ledger;  |
| <b>Designated Account</b>                   | The meaning given in Condition 5.4 (Payments in respect of Registered Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 143;   |

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| <b>Designated Bank</b>                                 | The meaning given in Condition 5.4 (Payments in respect of Registered Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 143;   |
| <b>Designated Covered Bond Swap Collateral Ledger</b>  | Each ledger maintained by the Cash Manager on which it shall record any collateral provided by a Covered Bond Swap Provider which is deposited in the Collateralised GIC Account and identified as a Designated Collateral Amount;  |
| <b>Designated Collateral Amount</b>                    | The meaning given in " <i>Summary of the Principal Documents</i> " on page 363;   |
| <b>Designated Collateral Amount Ledger</b>             | The ledger maintained by the Cash Manager on which it shall record each credit and debit to the Collateralised GIC Account which is designated as a Designated Collateral Amount;   |
| <b>Designated Interest Rate Swap Collateral Ledger</b> | Each ledger maintained by the Cash Manager on which it shall record any collateral provided by an Interest Rate Swap Provider which is deposited in the Collateralised GIC Account and identified as a Designated Collateral Amount;  |
| <b>Designated Maturity</b>                             | The meaning given in the ISDA Definitions;  |
| <b>Designated Member</b>                               | Each Member appointed and registered as such from time to time having those duties and obligations set out in sections 8 and 9 of the LLPA 2000 being, as at the date of this Base Prospectus, Nationwide Building Society and the Liquidation Member;  |
| <b>Determination Date</b>                              | The meaning given in the applicable Final Terms;  |
| <b>Determination Period</b>                            | The meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 119;  |
| <b>Direct Participants</b>                             | The meaning given in " <i>Book-Entry Clearance Systems</i> " on page 416;   |
| <b>Directors</b>                                       | The Board of Directors for the time being of the Issuer;  |
| <b>Distribution Compliance Period</b>                  | The period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds;   |
| <b>DTC</b>   | The Depository Trust Company;   |
| <b>DTC Covered Bonds</b>                               | Covered Bonds accepted into DTC's book-entry settlement system;   |
| <b>Due for Payment</b>                                 | The requirements by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP, <ul style="list-style-type: none"> <li>(a) prior to the occurrence of an LLP Event of Default, on the later of: <ul style="list-style-type: none"> <li>(i) the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day that is two Business Days following service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts, or if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date (the <b>Original Due for Payment Date</b>); and</li> </ul> </li> </ul> |

- (ii) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (A) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (B) to the extent that the LLP having received a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, as the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date that falls two Business Days after service of such Notice to pay on the LLP or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9.2(a)) under the terms of the Covered Bond Guarantee) or (2) the Extension Determination Date,

or, if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

- (b) following the occurrence of an LLP Event of Default, the date on which an LLP Acceleration Notice is served on the Issuer and the LLP;

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| <b>Earliest Maturing Covered Bonds</b> | At any time the Series of the Covered Bonds (other than any Series that is fully collateralised by amounts standing to the credit of any GIC Account or the Collateralised GIC Account, as applicable) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default); |
| <b>Early Redemption Amount</b>         | The meaning given in the relevant Final Terms;   |
| <b>EEA</b>                             | The European Economic Area;  |
| <b>Eligibility Criteria</b>            | The meaning given on page 332;   |

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| <b>Eligible Custody Arrangement</b> | A custody arrangement in a form satisfactory to the Cash Manager that (i) is entered into by, among others, the LLP and the Security Trustee, with an Eligible GIC Custodian, (ii) requires such Eligible GIC Custodian to hold the relevant Custody Collateral subject to and in accordance with the terms of the Collateral Agreement, (iii) requires such Eligible GIC Custodian to liquidate the relevant Custody Collateral no earlier than five Business Days (unless no loss would result from such sale) and no later than 30 calendar days, following the occurrence of an Insolvency Event with respect to Nationwide Building Society through a best-efforts sale process, (iv) provides that the Custody Collateral will be ringfenced from the other collateral held by the Custodian, (v) provides that the LLP has free access to the Custody Collateral held in the related GIC Collateral Custody Account to the extent amounts standing to the credit of the Collateralised GIC Account are unavailable, (vi) requires the receipt of a satisfactory legal opinion from a law firm of international repute that such Eligible Custody Arrangement is a legal valid binding obligation of the custodian and as to such other matters as the LLP and the Security Trustee may reasonably require and (vii) following prior notice of such arrangement, no Relevant Rating Agency has indicated such arrangement would result in the downgrade, withdrawal or qualification of the then current ratings of the Covered Bonds; |
| <b>Eligible GIC Custodian</b>       | A third party custodian that is not the Cash Manager or Nationwide Building Society;   |
| <b>EMIR</b>                         | Regulation (EU) No.648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012;   |
| <b>EMIR Amendment</b>               | Any modification to the Transaction Documents and/or the Conditions of the Covered Bonds made pursuant to the terms of the Trust Deed and the Deed of Charge to enable the Issuer to comply with any requirements that apply to it under EMIR;   |
| <b>English Loans</b>                | Loans secured by a Mortgage over a Property located in England or Wales;   |
| <b>English Mortgage</b>             | A Mortgage over a Property located in England or Wales;  |
| <b>€STR</b>                         | The Euro Short-Term Rate;  |
| <b>EU</b>                           | The European Union;  |
| <b>EU Prospectus Regulation</b>     | Regulation (EU) 2017/1129;   |
| <b>EU Securitisation Regulation</b> | Regulation (EU) 2017/2402, as amended, including (i) relevant regulatory and/or implementing technical standards or delegated regulation in relation thereto (including any applicable transitional provisions); and/or (ii) any relevant guidance and policy statements in relation thereto published by the EBA, the ESMA, the EIOPA and/or the European Commission;   |
| <b>EURIBOR</b>                      | The Euro-zone inter-bank offered rate;   |
| <b>EUWA</b>                         | The European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020) as amended, varied, superseded or substituted from time to time.   |
| <b>Euroclear</b>                    | Euroclear Bank S.A./N.V.;  |

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| <b>Excess Collateral</b>                    | In respect of a Collateral Agreement, (a) any Return Amount (as defined in the Collateral Agreement), (b) any Custody Collateral (or equivalent Custody Collateral) not included in (a) above that Nationwide Building Society in its capacity as GIC Provider is entitled to have transferred to it in accordance with the terms of the Collateral Agreement and (c) any Custody Collateral that is in excess of any termination amount due but unpaid by the Society (if any) on termination of such Collateral Agreement (subject to any set-off provisions contained therein);   |
| <b>Excess Hedge Collateral</b>              | In respect of a Swap Provider, (a) any Return Amount (as defined in the applicable Swap Agreement), (b) any distributions or interest on Swap Collateral provided by that Swap Provider, (c) any amount of Swap Collateral (or equivalent Swap Collateral) not included in the preceding clauses (a) and (b) that the Swap Provider is entitled to have transferred to it in accordance with the terms of the applicable Swap Agreement and (d) any Swap Collateral in respect of that Swap Provider in excess of any termination amount due but unpaid by such Swap Provider (if any) on termination of the transactions under the applicable Swap Agreement; |
| <b>Excess Proceeds</b>                      | Moneys received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer;  |
| <b>Exchange Act</b>                         | The US Securities Exchange Act of 1934, as amended;  |
| <b>Exchange Agent</b>                       | Citibank, N.A., London Branch in its capacity as exchange agent (which expression shall include any successor exchange agent);   |
| <b>Exchange Date</b>                        | On or after the date that is 40 days after a Temporary Global Covered Bond is issued;  |
| <b>Exchange Event</b>                       | In the case of Bearer Global Covered Bonds, the meaning given in " <i>Form of the Covered Bonds</i> " on page 95 and, in the case of Registered Covered Bonds, the meaning given in " <i>Form of the Covered Bonds</i> " on page 97;   |
| <b>Excluded Scheduled Interest Amounts</b>  | The meaning given to it in the definition of Scheduled Interest;   |
| <b>Excluded Scheduled Principal Amounts</b> | The meaning given to it in the definition of Scheduled Principal;  |
| <b>Excluded Swap Termination Amount</b>     | In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider;   |
| <b>Existing Covered Bonds</b>               | The Covered Bonds of all Series then outstanding;  |
| <b>Extended Due for Payment Date</b>        | In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date;  |

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| <b>Extension Determination Date</b> | In respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds;   |
| <b>Extraordinary Resolution</b>     | A resolution of the holders of the Covered Bonds passed as such under the terms of the Trust Deed;   |
| <b>FCA</b>                          | The Financial Conduct Authority;   |
| <b>Final Maturity Date</b>          | The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions;  |
| <b>Final Redemption Amount</b>      | The meaning given in the relevant Final Terms;   |
| <b>Final Terms</b>                  | The Final terms that, with respect to Covered Bonds (with the exception of the N Covered Bonds) to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds;  |
| <b>First Transfer Date</b>          | The date on which the Initial Portfolio was transferred to the LLP pursuant to the Mortgage Sale Agreement;  |
| <b>Fitch</b>                        | Fitch Ratings Ltd.;  |
| <b>Fixed Interest Period</b>        | The meaning given in Condition 4.1 (Interest on Fixed Rate Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 119;   |
| <b>Fixed Rate Covered Bonds</b>     | Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s);  |
| <b>Flexible Advance</b>             | A Loan for unrestricted purposes (which may have been CCA regulated and if it was formerly CCA regulated is now a consumer credit back book mortgage contract) offered to Borrowers with existing Loans (other than a Flexible Advance) from the Seller which is secured on the same Property which secures the Borrower's existing Loan. Some Flexible Advances permit the Borrower to make further draws up to the fixed credit limit extended under the Mortgage Conditions at the inception of the Flexible Advance; |
| <b>Flexible Loan</b>                | A type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Loan Account and/or to overpay or underpay interest and principal in a given month and/or take a Payment Holiday;   |
| <b>Flexible Re-draw Capacity</b>    | The meaning given in " <i>Summary of the Principal Documents</i> " on page 349;  |
| <b>Floating Rate</b>                | The meaning given in the ISDA Definitions;   |
| <b>Floating Rate Convention</b>     | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 120;   |
| <b>Floating Rate Covered Bonds</b>  | Covered Bonds that bear interest at a rate determined:   |



- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or
  - (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
  - (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),
- as set out in the applicable Final Terms;

**Floating Rate Option** The meaning given in the ISDA Definitions;

**Following Business Day Convention** The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 120;

**Framework** The Framework issued by the Basel Committee on Banking Supervision under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)";

**FSA** The Financial Services Authority and any successor thereto, including (as applicable) the FCA and the PRA;

**FSCS Limit** The current applicable limit established by the Financial Services Compensation Scheme;

**FSMA or FSMA 2000** The Financial Services and Markets Act 2000, as amended;

**Further Advance** In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, excluding the amount of any retention in respect of the Initial Advance and excluding any Redraw in respect of any Flexible Loan or Further Draw in respect of any Flexible Advance;

**Further Draws** Additional amounts Borrowers are permitted to draw under Flexible Advances (in aggregate up to the fixed credit limit under the Mortgage Conditions);

**GIC Account** The account or accounts in the name of the LLP held with an Account Bank and maintained subject to the terms of a Guaranteed Investment Contract, the Bank Account Agreement and the Deed of Charge (which, for the avoidance of doubt, does not include the Collateralised GIC Account) or such additional or replacement accounts as may for the time being be in place with the prior consent of the Security Trustee;

**GIC Collateral Custody Account** Each custody or bank account in the name of the LLP to be opened and maintained at an Eligible GIC Custodian for the purpose of holding Custody Collateral pursuant to and in accordance with the terms of the Collateral Agreement;

**GIC Provider** Nationwide Building Society, in its capacity as GIC provider with respect to a GIC Account and the Collateralised GIC Account under the Guaranteed Investment Contract first entered into on the Initial Programme Date and/or any additional or successor GIC provider appointed from time to time, as the context requires;

**Global Covered Bond** A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require;

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| <b>Guaranteed Amounts</b>                    | Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts and Excluded Scheduled Principal Amounts (whenever the same arose), and all amounts payable by the LLP under the Trust Deed; |
| <b>Guaranteed Investment Contract or GIC</b> | The guaranteed investment contract between the LLP, the GIC Provider, the Security Trustee and the Cash Manager dated the Initial Programme Date (as the same may be amended, restated, supplemented, replaced or novated from time to time) and any further guaranteed investment contract entered into with any other GIC Provider;  |
| <b>Guarantee Priority of Payments</b>        | The meaning given in " <i>Cash flows</i> " on page 378;  |
| <b>Hard Bullet Covered Bonds</b>             | The meaning given in " <i>Credit Structure – Pre-Maturity Liquidity</i> " on page 369;   |
| <b>HMRC</b>                                  | HM Revenue & Customs;  |
| <b>Holders of the Covered Bonds</b>          | The holders for the time being of the Covered Bonds;   |
| <b>Holdings</b>                              | Moulton Capital Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372200);   |
| <b>ICSD</b>                                  | Euroclear or Clearstream, Luxembourg, as the case may be;  |
| <b>Indexed Valuation</b>                     | At any date in relation to any Loan secured over any Property: <ul style="list-style-type: none"> <li>(a) where the Latest Valuation of that Property is equal to or greater than the Nationwide Price Indexed Valuation as at that date, the Nationwide Price Indexed Valuation; or</li> <li>(b) where the Latest Valuation of that Property is less than Nationwide Price Indexed Valuation as at that date, the Latest Valuation plus 85% of the difference between the Latest Valuation and the Nationwide Price Indexed Valuation;</li> </ul>   |
| <b>Indirect Participants</b>                 | The meaning given in " <i>Book-Entry Clearance Systems</i> " on page 416;  |
| <b>Initial Advance</b>                       | In respect of any Loan, the original principal amount advanced by the Seller to the relevant Borrower;   |
| <b>Initial Portfolio</b>                     | The meaning given in " <i>The Portfolio</i> " on page 402;   |
| <b>Initial Programme Date</b>                | 30 November 2005;  |
| <b>Insolvency Act</b>                        | The Insolvency Act 1986, as amended;   |
| <b>Insolvency Event</b>                      | In respect of the Seller, the Servicer or the Cash Manager:  |

- (a) an order is made or an effective resolution passed for the winding-up of the relevant entity; or
- (b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part (having an aggregate book value in excess of £40 million) of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied in respect of a claim for £40 million or more or enforced upon or sued out against the whole or any material part (having an aggregate book value in excess of £40 million) of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or
- (d) the relevant entity is unable to pay its debts as they fall due;

**Insurance  
Distribution  
Directive**

Directive (EU) 2016/97 (as amended or superseded);

**Insurance Policies**

Each of:

- (a) the Properties in Possession Policies; and
- (b) Buildings Insurance Policies;

**Intercompany Loan  
Agreement**

The term loan agreement dated the Initial Programme Date as amended and restated on 30 April 2008 (as amended and/or supplemented and/or restated from time to time) between the Issuer, the LLP and the Security Trustee;

**Interest Amount**

The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;

**Interest Payment  
Date**

In relation to any Series of Covered Bonds, the Specified Interest Payment Date or the meaning given in the applicable Final Terms (as the case may be);

**Interest Period**

The period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;

**Interest Rate  
Covered Bond Swap**

Each interest rate swap transaction entered into between the LLP and a Covered Bond Swap Provider;

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| <b>Interest Rate Swap Agreement</b>                 | The agreement between the LLP, Nationwide Building Society (in its capacity as an Interest Rate Swap Provider) and the Security Trustee dated on or about the Initial Programme Date as amended and restated on 3 April 2009, 18 December 2009 and 1 July 2016 (as the same may be amended, restated, supplemented, replaced or novated from time to time) between the LLP, the Interest Rate Swap Provider and the Security Trustee governing certain Interest Rate Swaps in the form of an ISDA Master Agreement, including a schedule, credit support annex and one or more confirmation(s) thereto and/or any other agreement between the LLP, an Interest Rate Swap Provider and the Security Trustee in the form of an ISDA Master Agreement, including the schedule, credit support annex and one or more confirmation(s) thereto which governs one or more Interest Rate Swaps; |
| <b>Interest Rate Swap (BMR)</b>                     | The interest rate swap in respect of the BMR Loans entered into between the LLP, Nationwide Building Society (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 pursuant to the amendment and restatement of certain pre-existing interest rate swaps (as the same may be amended, restated, supplemented, replaced or novated from time to time);  |
| <b>Interest Rate Swap Collateral Account</b>        | (a) Each custody or bank account of the LLP to be opened and maintained by an Account Bank or (b) the Collateralised GIC Account (but only to the extent of any Swap Collateral posted thereto and recorded on the applicable Designated Interest Rate Swap Collateral Ledger), in each case for the purposes of holding Swap Collateral provided by an Interest Rate Swap Provider pursuant to and in accordance with the terms of the applicable Interest Rate Swap Agreement;  |
| <b>Interest Rate Swap Collateral Account Ledger</b> | The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Interest Rate Swap Provider to record the amount of Swap Collateral provided from time to time under the applicable Interest Rate Swap Agreement;   |
| <b>Interest Rate Swap Early Termination Event</b>   | The meaning given in " <i>Summary of the Principal Documents</i> " on page 359;   |
| <b>Interest Rate Swap (Fixed)</b>                   | The interest rate swap in respect of the fixed rate Loans entered into between the LLP, Nationwide Building Society (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 as amended and restated on 15 July 2019 and 11 November 2020 (as the same may be amended, restated, supplemented, replaced or novated from time to time);  |
| <b>Interest Rate Swap Provider</b>                  | Nationwide Building Society, in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider;   |
| <b>Interest Rate Swap (SMR)</b>                     | The interest rate swap in respect of the SMR Loans entered into between the LLP, Nationwide Building Society (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 as amended and restated on 15 July 2019 and 11 November 2020 (as the same may be amended, restated, supplemented, replaced or novated from time to time);   |
| <b>Interest Rate Swap (Tracker)</b>                 | The interest rate swap in respect of the tracker rate Loans entered into between the LLP, Nationwide Building Society (in its capacity as Interest Rate Swap Provider) and the Security Trustee on 1 July 2016 as amended and restated on 15 July 2019 and 11 November 2020 (as the same may be amended, restated, supplemented, replaced or novated from time to time);  |
| <b>Interest Rate Swaps</b>                          | Each of the Jumbo Interest Rate Swaps and any other interest rate swap entered into under an Interest Rate Swap Agreement (and <b>Interest Rate Swap</b> means any one of them);  |

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| <b>Investor Report</b>            | The quarterly report made available to the holders of the Covered Bonds, the Security Trustee, the Bond Trustee and the Relevant Rating Agencies detailing <i>inter alia</i> compliance with the Asset Coverage Test. Investor Reports shall be posted on the Nationwide Building Society website;   |
| <b>ISDA</b>                       | International Swaps and Derivatives Association, Inc.;   |
| <b>ISDA Definitions</b>           | The 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time;  |
| <b>ISDA Master Agreement</b>      | The 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA;   |
| <b>ISDA Rate</b>                  | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 121;   |
| <b>Issue Date</b>                 | Each date on which the Issuer issues Covered Bonds to holders of the Covered Bonds;  |
| <b>Issuer</b>                     | Nationwide Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Nationwide House, Pipers Way, Swindon, SN38 1NW, and references to " <b>we</b> " or " <b>us</b> " in this Base Prospectus should be read as references to Nationwide Building Society;   |
| <b>Issuer Acceleration Notice</b> | The meaning given in Condition 9.1 (Issuer Events of Default) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 152;   |
| <b>Issuer Event of Default</b>    | The meaning given in Condition 9.1 (Issuer Events of Default) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 153;   |
| <b>Issuer Subordinated Loan</b>   | The meaning given in " <i>Summary of the Principal Documents</i> " on page 344;  |
| <b>Jumbo Interest Rate Swaps</b>  | The Interest Rate Swap (BMR), Interest Rate Swap (Fixed), Interest Rate Swap (SMR) and Interest Rate Swap (Tracker), and <b>Jumbo Interest Rate Swap</b> means any one of them;  |
| <b>Latest Valuation</b>           | In relation to any Property, the value given to that Property by the most recent valuation addressed to the Seller;  |
| <b>Ledger</b>                     | Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Capital Account Ledger, the Pre-Maturity Liquidity Ledger, the Intercompany Loan Ledger, the Supplemental Liquidity Reserve Ledger, the GIC Collateral Custody Account Ledger, the Designated Mortgages Amount Ledger, the Designated Collateral Amount Ledger, the Covered Bond Swap Collateral Account Ledgers, the Interest Rate Swap Collateral Account Ledgers, the Designated Covered Bond Swap Collateral Ledgers and the Designated Interest Rate Swap Collateral Ledgers; |
| <b>Legended Covered Bonds</b>     | The meaning given in Condition 2 (Transfers of Registered Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 117;  |
| <b>Lending Criteria</b>           | The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;  |
| <b>LIBOR</b>                      | The London inter-bank offered rate;  |

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| <b>Liquidation Member</b>       | Moulton Capital Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5372384);  |
| <b>LLP</b>                      | Nationwide Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC313878), whose first members are Nationwide Building Society and the Liquidation Member;   |
| <b>LLPA 2000</b>                | The Limited Liability Partnerships Act 2000;   |
| <b>LLP Acceleration Notice</b>  | A notice in writing given by the Bond Trustee to the Issuer and the LLP that each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default) and as against the LLP, thereupon immediately become due and repayable at its Early Redemption Amount together with accrued interest as provided in and in accordance with the Trust Deed and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing;                  |
| <b>LLP Accounts</b>             | Each of any GIC Account, the Collateralised GIC Account, the Transaction Account, each Covered Bond Swap Collateral Account (to the extent maintained), each Interest Rate Swap Collateral Account (to the extent maintained), each GIC Collateral Custody Account (to the extent maintained) and any additional or replacement accounts opened in the name of the LLP from time to time including any Stand-by GIC Account and, to the extent maintained, any Stand-by Transaction Account, each Stand-by Covered Bond Swap Collateral Account and each Stand-by Interest Rate Swap Collateral Account; |
| <b>LLP Deed</b>                 | The limited liability partnership deed entered into on the Initial Programme Date as amended and restated on 21 February 2007, 30 November 2007, 30 April 2008, 19 June 2008, 18 December 2009, 28 June 2012 and 17 July 2013 between the LLP, Nationwide Building Society, the Liquidation Member, the Bond Trustee and the Security Trustee;   |
| <b>LLP Event of Default</b>     | The meaning given in Condition 9.2 (LLP Events of Default) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 155;  |
| <b>LLP Management Committee</b> | The Management Committee which will act on behalf of the LLP and to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters;   |
| <b>LLP Payment Date</b>         | The 17th day of each month or if not a London Business Day the next following London Business Day;   |
| <b>LLP Payment Period</b>       | The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date;  |

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| <b>Loan</b>  | Any mortgage loan (including, for the avoidance of doubt, any Scottish Loan and any Northern Irish Loan) that is sold and assigned by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including all Additional Loan Advances) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding, or, as the context may require, the Borrower's obligations in respect of the same but excluding any mortgage loan that is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it; |
| <b>Loan Account</b>                                  | As the context requires, either (a) all Loans secured on the same Property or (b) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof;  |
| <b>Loan Files</b>                                    | The file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system) containing <i>inter alia</i> correspondence between the Borrower and the Seller and including the mortgage documentation applicable to the Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's, or (in Scotland) qualified conveyancer's Certificate of Title;  |
| <b>Loan Without Independent Valuation</b>            | A Loan that was not the subject of a Valuation Report by reason of the relevant loan-to-value ratio being less than 40% or being an Additional Loan Advance where an updated Valuation Report was not obtained in relation to such Additional Loan Advance;  |
| <b>London Business Day</b>                           | A day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London;   |
| <b>London Stock Exchange</b>                         | The London Stock Exchange plc;   |
| <b>Long Maturity Covered Bond</b>                    | A Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond;  |
| <b>Losses</b>  | All realised losses on the Loans;  |
| <b>Master Definitions and Construction Agreement</b> | The master definitions and construction agreement dated on or about the Initial Programme Date as amended and restated on 27 November 2006, 25 June 2007, 30 November 2007, 30 April 2008, 19 June 2008, 3 July 2009, 18 December 2009, 28 June 2012 and 17 July 2013 (as further amended and/or supplemented and/or restated from time to time) made between the parties to the Transaction Documents;  |
| <b>MCOB</b>  | The Mortgages and Home Finance: Conduct of Business Sourcebook, implemented by the FCA on 31 October 2004 as amended, revised or supplemented from time to time;   |
| <b>Member</b>  | Each member of the LLP;  |
| <b>Member States</b>                                 | Member States of the European Community;   |

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| <b>MHA Documentation</b>                          | An affidavit, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 in connection with a Scottish Mortgage or the Property secured thereby;  |
| <b>MiFID II</b>                                   | Directive 2014/65/EU, as amended;  |
| <b>Modified Following Business Day Convention</b> | The meaning given in Condition 4 (Interest) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 120;   |
| <b>Modified Preceding Business Day Convention</b> | The meaning given in Condition 4.2 (Interest on Floating Rate Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 121;  |
| <b>Monthly Payment Date</b>                       | In relation to a Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal for that Loan, as required by the applicable Mortgage Conditions;   |
| <b>Moody's</b>                                    | Moody's Investors Service Limited;   |
| <b>Mortgage</b>                                   | (a) In respect of any Loan (other than any Flexible Advance related to a Loan entered into before 1 September 2002) each first charge by way of legal mortgage (in relation to an English Loan), each first legal charge or mortgage (in relation to a Northern Irish Loan) and each first ranking standard security (in relation to a Scottish Loan), sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, in either case which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it and (b) in respect of any Flexible Advance related to a Loan entered into before 1 September 2002, the second or later ranking legal charge over the English Property or Northern Irish Property or the second or later ranking standard security over the Scottish Property; |
| <b>Mortgage Conditions</b>                        | All the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions, each as varied from time to time by the relevant mortgage loan agreement and the relevant Mortgage Deed;  |
| <b>Mortgage Deed</b>                              | In respect of any Mortgage, the deed creating that Mortgage;   |
| <b>Mortgage Sale Agreement</b>                    | The mortgage sale agreement dated the Initial Programme Date and as amended and restated on 30 April 2008, 1 December 2008, 18 December 2009 and 12 February 2021 (as amended and/or supplemented and/or restated from time to time) entered into between the Seller, the LLP and the Security Trustee;  |
| <b>N Covered Bond</b>                             | A Registered Covered Bond in definitive registered form made out in the name of a specified N Covered Bondholder issued or to be issued by the Issuer in accordance with the provisions of the Agency Agreement and in accordance with and constituted by the Trust Deed, in the form of a German " <i>Namenschuldverschreibung</i> " substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant N Covered Bondholder and having the N Covered Bond Conditions applicable to it annexed thereto and subject to the provisions of the N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating thereto;   |



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| <b>N Covered Bondholder</b>                | The registered holder of an N Covered Bond;  |
| <b>N Covered Bond Assignment Agreement</b> | An assignment agreement substantially in the form attached to the relevant N Covered Bond delivered in accordance with the N Covered Bond Conditions in respect of the relevant Series of N Covered Bonds;   |
| <b>N Covered Bond Conditions</b>           | The terms and conditions of each N Covered Bond annexed thereto;   |
| <b>N Covered Bond Confirmation</b>         | In relation to each N Covered Bond, a confirmation incorporating the N Covered Bond Confirmation Terms and signed by the N Covered Bondholder, the LLP, the Issuer and the Bond Trustee, substantially in the form set out in Schedule 6 to the Trust Deed;  |
| <b>N Covered Bond Confirmation Terms</b>   | The standard set of confirmation terms relating to each N Covered Bond, substantially in the form set out in Schedule 6 to the Trust Deed as may be amended from time to time in accordance with the Trust Deed;   |
| <b>Nationwide</b>                          | Nationwide Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Nationwide House, Pipers Way, Swindon, SN38 1NW, and its Subsidiaries collectively;  |
| <b>Nationwide Index</b>                    | The index of increases or decreases in house prices issued by Nationwide Building Society in relation to residential properties in the United Kingdom;   |
| <b>Nationwide Price Indexed Valuation</b>  | In relation to any Property at any date means the Latest Valuation of that property increased or decreased as appropriate by the increase or decrease in the Nationwide Index since the date of that Latest Valuation;   |
| <b>Negative Carry Factor</b>               | The meaning given on page 348;   |
| <b>New Global Covered Bond</b>             | A Temporary Global Covered Bond in the form set out in Part A of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part B of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms specify that the Covered Bonds are in New Global Covered Bond form;  |
| <b>New Loan</b>                            | Loans, other than the Loans comprised in the Initial Portfolio, that the Seller may assign or transfer to the LLP after the First Transfer Date pursuant to the Mortgage Sale Agreement;   |
| <b>New Loan Type</b>                       | A new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees; |
| <b>New Member</b>                          | Any new member admitted to the LLP after the Programme Date;   |
| <b>New Portfolio</b>                       | The meaning given in " <i>The Portfolio</i> " on page 402;   |

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| <b>New Portfolio Notice</b>          | A notice in the form set out in Schedule 11 to the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement;  |
| <b>New Rating Criteria</b>           | Any rating criteria of Fitch, Moody's or S&P that have been updated or replaced (in each case, provided that such ratings by Fitch, S&P and/or Moody's shall only apply to the extent such agency maintains ratings of outstanding Existing Covered Bonds issued after 12 February 2021); |
| <b>New Safekeeping Structure</b>     | The safekeeping structure for registered notes set out in the press release of the ECB dated 22 October 2008 and titled "Evolution of the custody arrangements for international debt services and their eligibility in Euro system credit operations";                                   |
| <b>New Seller</b>                    | Any Subsidiary of Nationwide that is a "connected person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells Loans and their Related Security to the LLP in the future;   |
| <b>Non-cash Re-draws</b>             | Authorised Underpayments or Payment Holidays under Flexible Loans included in the Portfolio, which will result in the Seller being required to pay to the LLP an amount equal to the unpaid interest associated with that Authorised Underpayment or Payment Holiday;                     |
| <b>Northern Irish Loans</b>          | Loans secured by Northern Irish Mortgages;  |
| <b>Northern Irish Mortgage</b>       | A Mortgage over a Property located in Northern Ireland;   |
| <b>Notice to Pay</b>                 | The meaning given in Condition 9.1 (Issuer Events of Default) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 154;  |
| <b>NSS</b>                           | The New Safekeeping Structure for registered global securities which are intended to constitute eligible collateral for Eurosystem monetary policy operations;  |
| <b>Official List</b>                 | The Official list of the FCA;   |
| <b>OFT</b>                           | The Office of Fair Trading;   |
| <b>Ombudsman</b>                     | The Financial Ombudsman Service under the FSMA 2000;  |
| <b>Order</b>                         | The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), as amended;  |
| <b>Original Due for Payment Date</b> | The meaning given in paragraph (a)(i) of the definition of <b>Due for Payment</b> ;   |
| <b>Overpayment</b>                   | A payment by a Borrower in an amount greater than the amount due on a Monthly Payment Date which (a) is permitted by the terms of such Loan or by agreement with the Borrower and (b) reduces the True Balance of such Loan;  |
| <b>Partial Portfolio</b>             | Part of any portfolio of Selected Loans;  |
| <b>Paying Agents</b>                 | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 112;  |
| <b>Payment Day</b>                   | The meaning given in Condition 5 (Payments) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 144;  |

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| <b>Payment Holiday</b>                                 | The right of a Borrower, under the applicable Mortgage Conditions, to not make a monthly payment for one or more months in certain circumstances;  |
| <b>Permanent Global Covered Bond</b>                   | The meaning given in " <i>Form of the Covered Bonds</i> " on page 95;  |
| <b>Portfolio</b>                                       | The Initial Portfolio and each New Portfolio acquired by the LLP;  |
| <b>Post-Enforcement Priority of Payments</b>           | The meaning given in " <i>Cash flows</i> " on page 381;  |
| <b>Potential Issuer Event of Default</b>               | The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 162;   |
| <b>Potential LLP Event of Default</b>                  | The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 162;   |
| <b>PRA</b>   | The Prudential Regulation Authority;   |
| <b>Pre-Acceleration Principal Priority of Payments</b> | The meaning given in " <i>Cash flows</i> " on page 376;  |
| <b>Pre-Acceleration Revenue Priority of Payments</b>   | The meaning given in " <i>Cash flows</i> " on page 373;  |
| <b>Preceding Business Day Convention</b>               | The meaning given in Condition 4.2 (Interest on Floating Rate Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 121;  |
| <b>Pre-Maturity Liquidity Ledger</b>                   | The ledger on the GIC Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached;    |
| <b>Pre-Maturity Test</b>                               | The meaning given in " <i>Credit Structure – Pre-Maturity Liquidity</i> " on page 369;   |
| <b>Pre-Maturity Test Date</b>                          | The meaning given in " <i>Credit Structure – Pre-Maturity Liquidity</i> " on page 369;   |
| <b>PRIPs Regulation</b>                                | Regulation (EU) No. 1286/2014;   |
| <b>Principal Amount Outstanding</b>                    | In respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof;  |
| <b>Principal Ledger</b>                                | The ledger in connection with any GIC Account or the Collateralised GIC Account, as applicable, of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of the Principal Receipts in accordance with the terms of the LLP Deed; |

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| <b>Principal Paying Agent</b>            | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 112;   |
| <b>Principal Receipts</b>                | <ul style="list-style-type: none"> <li>(a) principal repayments under the Loans (including payments of arrears, Capitalised Interest, Capitalised Expenses and Capitalised Arrears);</li> <li>(b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);</li> <li>(c) any payment pursuant to any insurance policy in respect of a Property in connection with a Loan in the Portfolio; and</li> <li>(d) the proceeds of the repurchase of any Loan by the Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date);</li> </ul> |
| <b>Priorities of Payments</b>            | The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts (except for the Covered Bond Swap Collateral Accounts and the Stand-by Covered Bond Swap Collateral Accounts) in different circumstances;   |
| <b>Product Switch</b>                    | <p>A variation to the financial terms or conditions included in the Mortgage Conditions applicable to a Loan other than:</p> <ul style="list-style-type: none"> <li>(a) any variation agreed with a Borrower to control or manage arrears on a Loan;</li> <li>(b) any variation in the maturity date of a Loan; and/or</li> <li>(c) any variation imposed by statute or any variation in the frequency with which the interest payable in respect of the Loan is charged;</li> </ul>   |
| <b>Programme</b>                         | Nationwide Building Society's €45 billion Covered Bond Programme;  |
| <b>Programme Agreement</b>               | The meaning given in " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " on page 434;   |
| <b>Programme Date</b>                    | 28 June 2012;  |
| <b>Programme Resolution</b>              | Any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (Events of Default and Enforcement) or to direct the Bond Trustee or the Security Trustee to take any enforcement action;  |
| <b>Properties in Possession Policies</b> | The properties in the possession policy written by Churchill Insurance Company Limited in favour of the Seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement properties in a possession policy or policies as may be effected from time to time to cover a Seller in respect of Loans and their Related Security, such other properties in a possession policy or policies to provide such level of cover as would be acceptable to a Reasonable, Prudent Mortgage Lender at the date of such other policy or policies;   |
| <b>Property</b>                          | A freehold or leasehold property (or in Scotland a heritable property or a property held under a long lease) that is subject to a Mortgage;  |
| <b>Purchaser</b>                         | Any third party or the Seller to whom the LLP offers to sell Selected Loans;   |

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| <b>QIB</b>                                 | A "qualified institutional buyer" within the meaning of Rule 144A;  |
| <b>Rating Agencies</b>                     | Moody's, S&P and/or Fitch, and each a <b>Rating Agency</b> ;  |
| <b>Rating Agency Confirmation</b>          | A confirmation in writing by each of the Relevant Rating Agencies that the then current ratings of the Existing Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter;   |
| <b>RCB Regulations</b>                     | The Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended by the Regulated Covered Bonds (Amendments) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) and as further amended from time to time;   |
| <b>RCB Sourcebook</b>                      | The Regulated Covered Bond Specialist Sourcebook 2008 published under the FSMA 2000;  |
| <b>Reasonable, Prudent Mortgage Lender</b> | The Seller and/or the Servicer, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales, Scotland and/or Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital;  |
| <b>Record Date</b>                         | The meaning given in Condition 5 (Payments) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 143;  |
| <b>Redeemed Covered Bonds</b>              | The meaning given in Condition 5 (Payments) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 149;  |
| <b>Re-draw</b>                             | Either a Cash Re-draw or a Non-cash Re-draw;  |
| <b>Reference Lenders</b>                   | The banks and building societies specified as the Reference Lenders in the Interest Rate Swap Agreement, being at the date of this Base Prospectus, Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, the Royal Bank of Scotland plc and Santander UK plc (or their respective successors);  |
| <b>Register</b>                            | The register of holders of the Registered Covered Bonds maintained by the Registrar;  |
| <b>Registered Covered Bonds</b>            | Covered Bonds in registered form;   |
| <b>Registered Definitive Covered Bond</b>  | A Registered Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being in the form or substantially in the form set out in Part 9 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon; |

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| <b>Registered Global Covered Bonds</b>  | The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds;   |
| <b>Registers of Northern Ireland</b>    | The Land Registry of Northern Ireland and/or the Registry of Deeds in Belfast;  |
| <b>Registers of Scotland</b>            | The Land Register of Scotland and the General Register of Sasines;  |
| <b>Registrar</b>                        | Citibank, N.A., London Branch, 21st floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB in its capacity as registrar (and any successor registrar);  |
| <b>Regulated Covered Bonds</b>          | Covered Bonds that have been admitted to the register of covered bonds maintained by the FCA pursuant to the RCB Regulations;   |
| <b>Regulated Mortgage Contract</b>      | The meaning given in " <i>Further Information Relating to the Regulation of Mortgages in the CMA and any other regulatory authorities</i> " on page 337;  |
| <b>Regulation Effective Date</b>        | The date on which the regulation of residential mortgage business under the FSMA 2000 came into force, being 31 October 2004;   |
| <b>Regulation S</b>                     | Regulation S under the Securities Act;  |
| <b>Regulation S Covered Bond</b>        | Any Covered Bond represented by a Regulation S Global Covered Bond or any Definitive Regulation S Covered Bond;   |
| <b>Regulation S Global Covered Bond</b> | The meaning given in " <i>Form of the Covered Bonds</i> " on page 96;   |
| <b>Related Security</b>                 | In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio;  |
| <b>Relevant Date</b>                    | The meaning given in Condition 7 (Taxation) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 152;  |
| <b>Relevant Rating Agencies</b>         | Rating Agencies (in each case, provided that such Rating Agencies maintains ratings of outstanding Existing Covered Bonds),<br><br>and each a <b>Relevant Rating Agency</b> ;   |
| <b>Representations and Warranties</b>   | The representations and warranties set out in Schedule 1 (Representations and Warranties) to the Mortgage Sale Agreement;   |
| <b>Repurchase Notice</b>                | A notice from the Cash Manager to the Seller identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement; |
| <b>Required Redemption Amount</b>       | The meaning given in " <i>Summary of the Principal Documents</i> " on page 337;   |
| <b>Required True Balance Amount</b>     | The meaning given in " <i>Summary of the Principal Documents</i> " on page 351;   |

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| <b>Reserve Fund</b>                 | The reserve fund that the LLP will be required to establish in the GIC Account which will be credited with part of a Term Advance (in the LLP's discretion), any part of a Cash Capital Contribution, if directed by Nationwide Building Society (in its capacity as a Member) and the proceeds of Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount;  |
| <b>Reserve Fund Required Amount</b> | <p>If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&amp;P, F1+ by Fitch and the Issuer is assigned a counterparty risk assessment by Moody's of at least P-1(cr), nil (in each case, provided that such ratings by S&amp;P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding) (or such other amount as Nationwide Building Society shall direct the LLP from time to time) and otherwise, an amount equal to the higher of:</p> <ul style="list-style-type: none"> <li>(a) the Sterling Equivalent of one month's interest due on each Series of Covered Bonds together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) and (b) of the Pre-Acceleration Revenue Priority of Payments; and</li> <li>(b) the sum of: <ul style="list-style-type: none"> <li>(i) for each Series of Covered Bonds in respect of which the Issuer is the Covered Bond Swap Provider or where there is no Covered Bond Swap Provider, an amount equal to the Sterling Equivalent of the interest falling due on such Series of Covered Bonds in the next following three-month period;</li> <li>(ii) for each Series of Covered Bonds in respect of which the Issuer is not the Covered Bond Swap Provider, the aggregate of amounts in sterling falling due to the Covered Bond Swap Provider in relation to such Series of Covered Bonds in the next following three-month period; and</li> <li>(iii) the Sterling Equivalent of an amount equal to the anticipated amounts payable in respect of the items specified in paragraphs (a) and (b) of the Pre-Acceleration Revenue Priority of Payments falling due in the next following three-month period,</li> </ul> </li> </ul> <p>plus £600,000 (or such higher amount as Nationwide Building Society shall direct the LLP from time to time);</p> |
| <b>Reserve Ledger</b>               | The ledger on any GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed;   |
| <b>Reset Date</b>                   | The meaning given in the ISDA Definitions;  |
| <b>Revenue Ledger</b>               | The ledger of such name in connection with any GIC Account or the Collateralised GIC Account, as applicable, maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed;  |

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| <b>Revenue Receipts</b>              | <p>(a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts;</p> <p>(b) recoveries of interest from defaulting Borrowers under Loans being enforced; and</p> <p>(c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;</p>  |
| <b>Rule 144A</b>                     | Rule 144A under the Securities Act;   |
| <b>Rule 144A Global Covered Bond</b> | A Global Covered Bond in registered form representing the Registered Covered Bonds of a Tranche sold to QIBs pursuant to Rule 144A;   |
| <b>Rules</b>                         | The rules, regulations and procedures creating and affecting DTC and its operations;  |
| <b>S&amp;P</b>                       | S&P Global Ratings, a division of S&P Global;   |
| <b>Sale Proceeds</b>                 | The cash proceeds realised from the sale of Selected Loans and their Related Security;  |
| <b>Scheduled Interest</b>            | An amount equal to the amount in respect of interest that would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 4 (Interest) (but excluding any additional amounts relating to premiums, default interest or interest upon interest ( <b>Excluded Scheduled Interest Amounts</b> ) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date) less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 (Taxation); |
| <b>Scheduled Payment Date</b>        | In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date;  |
| <b>Scheduled Principal</b>           | An amount equal to the amount in respect of principal that would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6.1 (Final redemption) and Condition 6.4 (Redemption due to illegality) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest ( <b>Excluded Scheduled Principal Amounts</b> ) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specifies that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date;  |



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| <b>Scottish Declaration of Trust</b>   | Each declaration of trust in relation to Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the sale of such Scottish Loans and their Related Security by the Seller to the LLP and the transfer of the beneficial interest therein to the LLP are given effect;   |
| <b>Scottish Loans</b>                  | Loans secured by Scottish Mortgages;   |
| <b>Scottish Mortgage</b>               | A Mortgage over a Property located in Scotland;  |
| <b>Scottish Sub-Security</b>           | Each standard security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.3 of the Deed of Charge;  |
| <b>Scottish Supplemental Charge</b>    | Each supplemental assignment in security governed by Scots law granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge;  |
| <b>SEC</b>                             | US Securities and Exchange Commission;   |
| <b>Secured Creditors</b>               | The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, any Account Bank, any Additional Account Bank, the Back-Up Servicer Facilitator, the Back-Up Cash Manager Facilitator, any GIC Provider, any Stand-by Account Bank, any Stand-by GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Paying Agents, the Back-Up Servicer (upon acceding to the Deed of Charge), the Back-Up Cash Manager (upon acceding to the Deed of Charge) and any other person that becomes a Secured Creditor pursuant to the Deed of Charge; |
| <b>Securities Act</b>                  | The US Securities Act of 1933, as amended;   |
| <b>Security</b>                        | The meaning given in " <i>Summary of the Principal Documents</i> " on page 365;  |
| <b>Security Trustee</b>                | Citicorp Trustee Company Limited, in its capacity as security trustee under the Trust Deed and the Deed of Charge together with any successor security trustee appointed from time to time;  |
| <b>Selected Loan Offer Notice</b>      | A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount;  |
| <b>Selected Loan Repurchase Notice</b> | A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice;   |
| <b>Selected Loans</b>                  | Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required True Balance Amount;   |
| <b>Selection Date</b>                  | The meaning given in Condition 6 (Redemption and Purchase) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 149;  |
| <b>Seller</b>                          | Nationwide Building Society and any New Seller;  |

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| <b>Series</b>                     | A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds that are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;  |
| <b>Series Reserved Matter</b>     | <p>In relation to Covered Bonds of a Series:</p> <ul style="list-style-type: none"> <li>(a) the reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;</li> <li>(b) the alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;</li> <li>(c) the alteration of the majority required to pass an Extraordinary Resolution;</li> <li>(d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of Covered Bonds of any Series);</li> <li>(e) except in accordance with Condition 6.7 (Cancellation) or Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution), the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for, or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and</li> <li>(f) the alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed;</li> </ul> |
| <b>Servicer</b>                   | Nationwide Building Society in its capacity as servicer under the Servicing Agreement together with any successor servicer appointed from time to time;   |
| <b>Servicer Event of Default</b>  | The meaning given in " <i>Summary of the Principal Documents</i> " on page 341;   |
| <b>Servicer Termination Event</b> | The meaning given in " <i>Summary of the Principal Documents</i> " on page 341;   |
| <b>Servicing Agreement</b>        | The servicing agreement dated the Initial Programme Date as amended and restated on 30 April 2008 (as amended and/or supplemented and/or restated from time to time) entered into between the LLP, the Servicer and the Security Trustee;   |

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| <b>Share Trustee</b>                   | Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF;  |
| <b>SMR</b>                             | The Seller's uncapped standard mortgage rate which was introduced in April 2009;  |
| <b>SMR Loans</b>                       | Loans that are subject to the Seller's SMR;   |
| <b>Society</b>                         | Nationwide Building Society;  |
| <b>Soft Bullet Covered Bond</b>        | Any Covered Bond issued by the Issuer in respect of which the payment of the Final Redemption Amount may be deferred to an Extended Due for Payment Date falling after the Final Maturity Date, should the LLP have insufficient funds to pay such Final Redemption Amount on the Final Maturity Date of that Covered Bond;   |
| <b>SONIA</b>                           | The Sterling Overnight Index Average;   |
| <b>SONIA Spot Rate</b>                 | With respect to publication on any London Business Day, the daily Sterling Overnight Index Average (SONIA) published on such London Business Day (and relating to the immediately preceding London Business Day) as provided by the administrator of SONIA to authorised distributors and as then published on the SONIA Screen Page (or, if the SONIA Screen Page is unavailable, as otherwise published by such authorised distributors); |
| <b>SOFR</b>                            | The Secured Overnight Financing Rate;   |
| <b>Specified Currency</b>              | Subject to any applicable legal or regulatory restrictions, euro, Sterling, US Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms;   |
| <b>Specified Denomination</b>          | In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms;   |
| <b>Specified Interest Payment Date</b> | The meaning given in the applicable Final Terms;  |
| <b>Specified Period</b>                | The meaning given in the applicable Final Terms;  |
| <b>Standard Documentation</b>          | The standard documentation, annexed to the relevant exhibit of the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;  |
| <b>Standard Variable Rate</b>          | The Nationwide BMR or SMR;  |
| <b>Stand-by Account</b>                | Any Stand-by GIC Account, each Stand-by Covered Bond Swap Collateral Account, each Stand-by Interest Rate Swap Collateral Account and/or any Stand-by Transaction Account;  |
| <b>Stand-by Account Bank</b>           | The meaning given in " <i>Summary of the Principal Documents</i> " on page 364;   |
| <b>Stand-by Bank Account Agreement</b> | The meaning given in " <i>Summary of the Principal Documents</i> " on page 364;   |

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| <b>Stand-by Covered Bond Swap Collateral Account</b> | Each custody or bank account of the LLP to be opened and maintained with a Stand-by Account Bank in accordance with and subject to the terms of a Stand-by Bank Account Agreement and the Deed of Charge or such additional or replacement account as may be for the time being in place and designated as such opened and maintained with any Additional Stand-by Account Bank and subject to the terms of a Stand-by Bank Account Agreement and the Deed of Charge;  |
| <b>Stand-by GIC Account</b>                          | The meaning given in " <i>Summary of the Principal Documents</i> " on page 364;  |
| <b>Stand-by GIC Provider</b>                         | The meaning given in " <i>Summary of the Principal Documents</i> " on page 365;  |
| <b>Stand-by Guaranteed Investment Contract</b>       | The meaning given in " <i>Summary of the Principal Documents</i> " on page 365;  |
| <b>Stand-by Transaction Account</b>                  | The meaning given on page 364;   |
| <b>Sterling Equivalent</b>                           | in relation to (i) a Term Advance that is denominated in a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance (ii) any other amount that is denominated in a currency other than Sterling, the Sterling equivalent of such amount ascertained by Nationwide Building Society using the spot rate of exchange on the relevant date and (iii) a Term Advance or another amount which is denominated in Sterling, that amount;  |
| <b>Subsidiary</b>                                    | Any company that is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain);   |
| <b>Substitution Assets</b>                           | Each of: <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities;</li> <li>(b) Sterling demand or time deposits provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA 2000) are rated at least A-1+/AA- by S&amp;P and F1+ by Fitch, and such entity is assigned a counterparty risk assessment by Moody's of at least P-1(cr) short-term and Aa3(cr) long-term (in each case, provided that such ratings by S&amp;P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding), or their equivalents by three other internationally recognised rating agencies; and</li> </ul> |

- (c) Sterling denominated government and public securities, as defined from time to time in accordance with the RCB Regulations, provided that such investments have a remaining period to maturity of one year or less and that are rated at least Aaa by Moody's, AAA by S&P and F1+ by Fitch (in each case, provided that such ratings by S&P, Moody's and/or Fitch shall not apply to the extent (i) such agency does not maintain ratings of outstanding Existing Covered Bonds issued after 12 February 2021 and (ii) there are no Covered Bonds issued prior to such date which are still outstanding), or their equivalents by three other internationally recognised rating agencies,

provided that such Substitution Assets comply with the requirements of Regulation 2(1A) of the RCB Regulations;

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| <b>sub-unit</b>                                | With respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01;   |
| <b>Successor in Business</b>                   | The meaning given in Condition 14 (Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution) of the " <i>Terms and Conditions of the Covered Bonds</i> " on page 162;   |
| <b>Supplemental Liquidity Available Amount</b> | The meaning given in " <i>Summary of the Principal Documents</i> " on page 349;  |
| <b>Supplemental Liquidity Event</b>            | The meaning given in " <i>Credit Structure</i> " on page 368;  |
| <b>Supplemental Liquidity Reserve Amount</b>   | The meaning given in " <i>Summary of the Principal Documents</i> " on page 349;  |
| <b>Supplemental Liquidity Reserve Ledger</b>   | The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available from the proceeds of sales of Selected Loans sold with the aim to fund or replenish such ledger up to the Supplemental Liquidity Reserve Amount;   |
| <b>Swap Agreements</b>                         | The Covered Bond Swap Agreements together with the Interest Swap Agreement, and each a <b>Swap Agreement</b> ;   |
| <b>Swap Collateral</b>                         | At any time, any asset (including, without limitation, cash and/or securities) that is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed; |

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| <b>Swap Collateral Available Amounts</b> | On termination of a Swap Agreement, the amount of Swap Collateral which under the terms of the relevant Swap Agreement and following termination thereof may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP to pay any termination amount owing by such Swap Provider, to the extent such amount remains unpaid, and to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Revenue Priority of Payments, the Pre-Acceleration Principal Priority of Payments, the Post-Enforcement Priority of Payments or the Guarantee Priority of Payments, as applicable;   |
| <b>Swap Provider Default</b>             | The occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event;  |
| <b>Swap Provider Downgrade Event</b>     | The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement;  |
| <b>Swap Providers</b>                    | Covered Bond Swap Providers and the Interest Swap Provider, and each a Swap Provider;   |
| <b>Swaps</b>                             | The Covered Bond Swaps together with the Interest Rate Swaps;   |
| <b>Talons</b>                            | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 113;  |
| <b>TARGET2</b>                           | The Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereto;   |
| <b>Temporary Global Covered Bond</b>     | The meaning given in " <i>Form of the Covered Bonds</i> " on page 95;   |
| <b>Term Advance</b>                      | Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;   |
| <b>Third Party Amounts</b>               | Each of: <ul style="list-style-type: none"> <li>(a) payments of insurance premiums, if any, due to the Seller in respect of any Seller arranged insurance policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller, to reimburse the Seller);</li> <li>(b) amounts under an unpaid direct debit which are repaid by the Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account;</li> <li>(c) payments by the Borrower of any fees (including Early Repayment Fees) and other charges that are due to the Seller; and</li> </ul> |

- (i) any amounts due or arising from any overpayment by any person or arising from any reimbursement by any person of any such overpayment (including, for the avoidance of doubt, where arising from the failure of a direct debit);
- (ii) (subject to any right to refuse or withhold payment or of set-off that has arisen by reason of the Borrower's breach of the terms of the relevant Mortgage or Loan) any amount payable to a Borrower under the terms of the Mortgage or the Loan to which that Borrower is a party (other than a Further Advance);
- (iii) any amounts owed to the Seller pursuant to Clause 6 (Trust of Moneys) of the Mortgage Sale Agreement; and
- (iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP,

which amounts may be paid daily from moneys on deposit in any GIC Account or the Collateralised GIC Account, as applicable;

**Title Deeds**

In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents that make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

**Transaction Account**

The account designated as such in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior consent of the Security Trustee and designated as such;

**Transaction Documents**

- (a) the Mortgage Sale Agreement
- (b) each Scottish Declaration of Trust
- (c) the Servicing Agreement
- (d) the Asset Monitor Agreement
- (e) the Intercompany Loan Agreement
- (f) the LLP Deed
- (g) the Cash Management Agreement
- (h) the Interest Rate Swap Agreement
- (i) each Covered Bond Swap Agreement
- (j) the Guaranteed Investment Contract
- (k) the Stand-by Guaranteed Investment Contract

- (l) the Bank Account Agreement
- (m) the Stand-by Bank Account Agreement
- (n) the Corporate Services Agreement
- (o) the Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation each Scottish Supplemental Charge and Scottish Sub-Security)
- (p) the Trust Deed
- (q) the Agency Agreement
- (r) the Programme Agreement (and any Dealer Accession Letter)
- (s) each set of Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- (t) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- (u) the Collateral Agreement (if applicable)
- (v) the Master Definitions and Construction Agreement;

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| <b>Transfer Agent</b>       | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 113;  |
| <b>Transfer Certificate</b> | The meaning given in Condition 2.5 (Transfers of interests in Regulation S Global Covered Bonds) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 116;   |
| <b>Transfer Date</b>        | Each of the First Transfer Date and the date of transfer of any New Portfolio to the LLP in accordance with the Mortgage Sale Agreement;  |
| <b>True Balance</b>         | For any Loan as at any given date, the aggregate (but avoiding double counting) of: <ul style="list-style-type: none"> <li>(a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage;</li> <li>(b) the amount of any Re-draw made under any Flexible Loan or of any Further Draw made under a Flexible Advance secured or intended to be secured by the related Mortgage;</li> <li>(c) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment that has been property capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by that Loan (including interest capitalised on any Re-draw under a Flexible Loan); and</li> </ul> |



- (d) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) that is due or accrued (whether or not due) and that has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but that is secured or intended to be secured by that Loan,

as at the end of the London Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the London Business Day immediately preceding that given date and excluding any retentions made but not released and any Additional Loan Advances committed to be made but not made by the end of the London Business Day immediately preceding that given date;

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| <b>Trust Deed</b>                 | The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 112;  |
| <b>UCITS Directive</b>            | The meaning given on page 413;  |
| <b>UK EMIR</b>                    | Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories as it forms part of domestic law by virtue of the EUWA   |
| <b>UK Prospectus Regulation</b>   | Regulation (EU) 2017/1129 as it forms part of the domestic law by virtue of EUWA;   |
| <b>Unfair Practices Directive</b> | Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices;   |
| <b>UTCCR</b>                      | The Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Terms in Consumer Contracts Regulations 1994, as amended;  |
| <b>Valuation Report</b>           | The valuation report or reports for mortgage purposes, in the form of one of the pro-forma contained in the Standard Documentation, obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology that would be acceptable to a Reasonable, Prudent Mortgage Lender and that has been approved by the relevant officers of the Seller;  |
| <b>Valuer</b>                     | An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant time either a member of a firm that was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the Seller acting for the Seller in respect of the valuation of a Property; |
| <b>Yield Shortfall Test</b>       | The test as to whether the aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement to be received by the LLP during the relevant LLP Payment Period would give a yield of at least the SONIA Spot Rate published on the final London Business Day in the previous Calculation Period plus 0.25%.   |
| <b>Zero Coupon Covered Bonds</b>  | Covered Bonds that will be offered and sold at a discount to their nominal amount and that will not bear interest.  |

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