



## NATIONWIDE BUILDING SOCIETY

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

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

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

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

**THE FOLLOWING TWO PARAGRAPHS APPLY IN RESPECT OF NOTES SCHEDULED TO MATURE ON OR BEFORE APRIL 9, 2014 AND WHICH ARE ISSUED FOR THE PURPOSE OF REFINANCING GUARANTEED NOTES (AS DEFINED HEREIN):**

Where the applicable Final Terms of an issue of senior notes indicates that an Eligibility Certificate (as defined in the Guarantee (as defined below)) in respect of such Notes has been issued then, in respect of such Notes, The Commissioners of Her Majesty's Treasury ("H.M. Treasury") will unconditionally and irrevocably guarantee the due payment of all sums due and payable by us under such Notes (the "**Guaranteed Notes**"). All such Guaranteed Notes will be exempt from the Prospectus Directive in accordance with Article 1.2(d) thereof and no prospectus approved by the Financial Services Authority has been or will be prepared in connection therewith. H.M. Treasury's obligations in that respect are contained in a Deed of Guarantee (the "**Guarantee**") dated 13 October 2008 (as amended by a supplemental deed dated 20 October 2008 and a second supplemental deed dated 6 February 2009 and as further amended and/or supplemented from time to time), the form of which is available at [www.dmo.gov.uk](http://www.dmo.gov.uk). Any demand under the Guarantee must be made in writing and in the form set out in Annex 9 to the Rules of the United Kingdom government's 2008 Credit Guarantee Scheme (the "**Credit Guarantee Scheme**"). The purpose of the Base Prospectus in relation to Guaranteed Notes is to give information with respect to the issue of Guaranteed Notes. Applications may be made for Guaranteed Notes to be admitted to trading on the London Stock Exchange's Regulated Market and to be listed on the Official List.

H.M. Treasury has neither reviewed the Base Prospectus nor verified the information contained herein, and H.M. Treasury makes no representation with respect to, and does not accept any responsibility for, the contents of the Base Prospectus or any other statement made or purported to be made on its behalf in connection with the Issuer or the issue and offering of the Guaranteed Notes. H.M. Treasury accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of the Base Prospectus or any such statement.

See the section entitled "*Risk Factors*" commencing on page 9 for a discussion of certain risks that you should consider prior to making an investment in the notes. The applicable Final Terms for any series of notes may describe additional risks you should consider.

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

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

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

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

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

The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant series of notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed in the Final Terms.

BOFA MERRILL LYNCH

BARCLAYS CAPITAL

CITIGROUP

CREDIT SUISSE

DEUTSCHE BANK SECURITIES

HSBC

J.P. MORGAN

MORGAN STANLEY

UBS INVESTMENT BANK

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The date of this Base Prospectus is February 22, 2012

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## NOTICE TO INVESTORS

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

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

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

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

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

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

Some notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in notes which are complex financial instruments unless it has the expertise (either alone or with the

help of a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of such notes and the impact this investment will have on the potential investor's overall investment portfolio.

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

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

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

Notwithstanding anything in this Base Prospectus to the contrary, we and each prospective investor in the notes (and our and its respective employees, representatives and other agents) may disclose to any and all persons, without limitations of any kind, the U.S. federal income tax treatment and U.S. 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 U.S. tax treatment and U.S. tax structure. However, any such information relating to the U.S. tax treatment or U.S. tax structure is required to be kept confidential to the extent necessary to comply with any applicable federal or state securities laws.

In connection with the issue of any tranche of notes, the Placement Agent or Placement Agents (if any) named as the stabilizing manager(s) (or persons acting on behalf of any stabilizing manager(s)) in the applicable Final Terms may over-allot notes (provided that, in the case of any tranche of notes to be admitted to trading on the London Stock Exchange or any other regulated market (within the meaning of the Markets in Financial Instruments Directive (Directive 2004/39/EC)) in the European Economic Area, the aggregate principal amount of notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant tranche) or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilizing manager(s) (or persons acting on behalf of a stabilizing manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant tranche of notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of notes and 60 days after the date of the allotment of the relevant tranche of notes. Any stabilization action or over-allotment must be conducted by the relevant stabilizing manager(s) (or persons acting on behalf of any stabilizing manager(s)) in accordance with all applicable laws and rules.

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

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

## **FORWARD-LOOKING STATEMENTS**

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

The words “believe”, “expect”, “anticipate”, “intend” and “plan” and similar expressions identify forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which in any event speak only as of the date of this Base Prospectus. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The risk factors beginning on page 9 of this Base Prospectus and many other factors could cause actual events and results to differ materially from historical results or those anticipated. See the sections entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Description of Business*”.

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

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

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

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

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

## **ENFORCEMENT OF CIVIL LIABILITIES**

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

## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents have previously been published or are published simultaneously with this Base Prospectus and have been admitted to and filed with the Financial Services Authority and shall be deemed to be incorporated in, and form part of, this Base Prospectus, subject to paragraph (4) below:

- (1) our unaudited condensed consolidated financial statements for the six month periods ended September 30, 2011 and 2010 and the Independent Review Report thereon appearing on pages 36-52 and 60, respectively of our Half-Yearly Financial Report for the period ended September 30, 2011;
- (2) our audited consolidated financial statements for the financial years ended April 4, 2011, 2010 and 2009 and the auditors' reports thereon;
- (3) the Description of the Notes contained in the previous base prospectuses dated November 23, 2003, pages 88-117 (inclusive), June 25, 2009, pages 102-130 (inclusive), July 1, 2010, pages 126-154 (inclusive), July 15, 2011, pages 145-173 (inclusive); save that
- (4) 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 16 of the Prospectus Directive 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.

We will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed to our Treasury Division at Nationwide Building Society, King's Park Road, Moulton Park, Northampton, NN3 6NW.

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

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

## **PRESENTATION OF FINANCIAL INFORMATION**

The financial information incorporated by reference in this Base Prospectus as of and for the financial years ended April 4, 2011, 2010 and 2009 has been derived from our 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.

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

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

Unless otherwise indicated, all references in this Base Prospectus to “**pounds sterling**”, “**sterling**” and “**£**” are to the lawful currency of the United Kingdom, all references to “**U.S. dollars**”, “**dollars**” and “**\$**” are to the lawful currency of the United States and all references to “**Canadian dollars**” or “**C\$**” are to the lawful currency of Canada.

## **WHERE YOU CAN FIND MORE INFORMATION**

Our audited consolidated financial statements are incorporated by reference in this Base Prospectus. We will not distribute these financial statements to holders of notes, but we will make them available to these holders upon request. You should direct requests for copies of these financial statements to the Treasury Division, Nationwide Building Society, Kings Park Road, Moulton Park, Northampton, NN3 6NW, England.

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

## OVERVIEW

This overview highlights important information regarding, but is not a complete description of, our medium-term note program. We urge you to read the remainder of this Base Prospectus where we set out a description of our medium-term note program in more detail. You should also review the applicable Final Terms for additional information about the particular series of notes that you are considering purchasing. The terms of the applicable Final Terms for a series of notes may supersede the description of the notes contained in this Base Prospectus.

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

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

Issuance in Series.....	We will issue senior notes and subordinated notes in series under an indenture. Within each series, we will issue tranches of notes subject to terms identical to those of other tranches in that series, except that the issue date, the issue price and the amount of the first payment of interest may vary.
Ranking of Senior Notes.....	The senior notes will constitute our direct, unconditional, unsubordinated and, subject to the provisions set forth in the section entitled “ <i>Description of the Notes—Redemption and Repurchase— Negative Pledge</i> ”, unsecured obligations without any preference among themselves and will rank equally with non-member deposits and all of our other unsecured and unsubordinated obligations, subject, in the event of insolvency, to laws of general applicability relating to or affecting creditors’ rights. They will rank senior to our UK retail member deposits. If we demutualize or transfer our business to the subsidiary of another mutual organization, our UK retail member deposits will rank equally with our obligations under our senior debt, including the senior notes.
Ranking of Subordinated Notes .....	The subordinated notes will constitute our direct, unsecured and subordinated obligations, conditional in the event of a winding up, and rank without any preference among themselves. They will rank equally with all of our other unsecured and subordinated indebtedness, other than some subordinated indebtedness, at present comprising our permanent interest bearing shares, which will rank junior to the subordinated notes. They will rank junior to our UK retail member and non-member deposits and our senior indebtedness, including the senior notes.
Guaranteed Notes.....	Where the applicable Final Terms of an issue of Notes indicates that an Eligibility Certificate (as defined in the Guarantee) in respect of such Notes has been issued then, in respect of such Notes, H.M. Treasury will unconditionally and irrevocably guarantee the due payment of all sums due and payable by us under the Notes.
Issue Price.....	We may offer notes at par or at a premium or discount to par as specified in the applicable Final Terms.
Maturities.....	The notes will mature in nine months or longer as specified in the applicable Final Terms.
Redemption at Maturity .....	We may redeem notes at par on the maturity date or at such other amount as we may specify in the applicable Final Terms.
Early Redemption .....	We are permitted to redeem the notes prior to maturity for taxation reasons and as specified in the applicable Final Terms. Additionally, the applicable Final Terms may provide that the notes of a series are redeemable at our option and/or the option of the holder.
Interest .....	Interest may accrue at a fixed rate or a floating rate, which will be calculated by referring to an index and/or formula. The floating rate may be determined by reference to one or more base rates, such as LIBOR, and may be adjusted by a spread or a spread multiplier or other interest rate formula, in each case as we agree with the purchaser and describe in the applicable Final Terms.
Interest Payments.....	We may pay interest monthly, quarterly, semi-annually, annually or at such other intervals as we describe in the applicable Final Terms.

Denominations.....	We will issue the senior notes in minimum denominations of \$100,000 and the subordinated notes in minimum denominations of \$250,000 or, in each case, in integral multiples of \$1,000 in excess of these minimum denominations, or the equivalent of these amounts in other currencies or composite currencies, and in any other denominations in excess of the minimum denominations as we specify in the applicable Final Terms.
Rating.....	The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant series of notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 will be disclosed in the Final Terms.
Form, Clearance and Settlement.....	<p>Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes and notes offered outside the United States in reliance on Regulation S will be represented by one or more international global notes.</p> <p>The global notes will be issued in fully registered form and will be held by or on behalf of DTC for the benefit of participants in DTC.</p> <p>No temporary documents of title will be issued.</p> <p>Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with the transfer restrictions set forth therein. Transfers of interests from a U.S. global note to an international global note are subject to certification requirements.</p>
Governing Law .....	The notes and all related contracts will be governed by, and construed in accordance with, the laws of the State of New York, except that the subordination provisions in each of the indenture and the subordinated notes will be governed by, and construed in accordance with, the laws of England and Wales.
Sales and Transfer Restrictions.....	We have not registered the notes and the Guarantee under the Securities Act, and they may not be offered or sold within the United States or to or for the benefit of U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the Securities Act.
Listing.....	Application has been made to the UK Listing Authority for the notes to be admitted to listing on the Official List. Application has also been made to the London Stock Exchange for the notes to be admitted to trading on the London Stock Exchange's regulated market. Application may be made for Guaranteed Notes to be admitted to trading on the London Stock Exchange and to be listed on the Official List.
Risk Factors .....	There are certain risks related to any issue of notes under the program, which investors should ensure they fully understand. See " <i>Risk Factors</i> " on page 9 of this Base Prospectus.

## RISK FACTORS

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

*We believe that the factors described below represent all the material and principal risks inherent in investing in the Notes, but our inability to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons, and we do not represent that the statements below regarding the risks of holding any Notes are exhaustive. As a result of some or all of the factors described below or for other reasons, it is possible that you may lose some or all of your investment. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

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

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

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

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

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

Although there have been periods where market conditions have generally improved, recent developments, particularly in the eurozone, have demonstrated that there continues to be significant uncertainty. From April 2010 to date, financial markets have been periodically negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Greece, Ireland, Italy, Portugal and Spain (“**GIIPS**”)) and the possibility of one or more defaults on sovereign debt. In 2011 concerns relating to Greece and, more recently, Italy and Spain have been particularly high, and the ongoing sovereign debt crisis across Europe continues to significantly impact the market.

The sovereign debt crisis in Europe, which in recent months has further intensified and spread beyond GIIPS, adversely affecting the ability of countries throughout the eurozone to raise capital and the cost thereof, and the uncertainty of how this may be resolved, has led to an increase in the cost of funding. While the initial impact of this increase has been felt in the wholesale markets, there has been a consequent increase in the cost of retail funding, with greater competition in a savings market which is growing only slowly by historical standards. In the absence of a swift resolution of the crisis, this situation is likely to persist for the medium term, or could deteriorate further if the future of the eurozone is not secured.

The outlook for the UK economy has also weakened over the last six months, and prospects for the remainder of the financial year ending April 4, 2012 and the 2012-2013 financial year are very challenging. Uncertainty surrounding the future of the eurozone is increasing the risk of a significant slowdown in economic activity in the UK's principal export markets which would have a corresponding effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures, and we face the risk of higher levels of unemployment combined with declines in real disposable incomes. We continue to expect the UK recovery to be maintained, but at a modest pace, and the downside risk of a return to recessionary conditions in 2012 cannot be ruled out. With the recovery likely to remain sluggish, we expect UK interest rates to remain at current levels for an extended period, with the first increase in the Bank Rate not expected until 2013. In the meantime, the low interest rate environment and pressure on retail funding costs will continue to exert downward pressure on net interest income across the sector.

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

We have experienced a decline in our net interest margin since the market dislocations commenced in August 2007. The main factors which drove the reduction in margin were the increased cost of retail funding, reflecting the competitive savings market and the progressive re-pricing of long term wholesale funding. This was partly offset by wider spreads on new mortgage pricing, the impact of which was limited as liabilities continued to reprice faster than the asset side of the balance sheet due to very low levels of re-mortgage activity and our Base Mortgage Rate ("BMR") commitment to existing borrowers, whereby we guaranteed to existing customers that our BMR mortgage will be no more than 200 basis points above the Bank of England ("BoE") Base Rate. The decline in net interest margin also reflects the fact that customers have continued to benefit from our decision to implement the mortgage tracker floor when our Base Rate reached 2%, 0.75% below their contractual floor limit of 2.75%.

The UK housing market has remained muted throughout 2011, with transaction levels well below historic norms and with house prices essentially flat for the past eighteen months. We expect buyer activity to continue to be relatively subdued, with the potential to decline further should the labor market situation deteriorate markedly, or if strains in the financial system intensify and impair the flow of credit to the wider economy. Similarly, the outlook for the commercial property market continues to be uncertain in the light of the broader macroeconomic conditions. Potential for further weakening in tenant demand and investor appetite means the impairment outlook for our commercial lending business has become more uncertain in the last six months.

The continued effect from margin compression and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions means that we may continue to experience the lower levels of profitability that we have experienced in the last 42 months, and there remains the possibility of further downward pressure on profitability depending on a number of influences, such as the consequences of a more austere economic environment.

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

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

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

Our business is subject to risks concerning liquidity, which are inherent in building society operations. If access to liquidity is constrained for a prolonged period of time, this could affect our profitability. Whilst we expect to have sufficient liquidity to meet our funding requirements even in a market wide stress scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank funding and liquidity support) could affect our ability to meet our financial obligations as they fall due, to meet our regulatory minimum liquidity requirements, or to fulfill our commitments to lend. In such extreme circumstances the Group 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 Group'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 Group may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for us to grow our business or even maintain it at current levels. Our ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of our control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

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

The maintenance and growth of the level of our lending activities depends in large part on the availability of retail deposit funding on appropriate terms, for which there has been increased competition since the severe disturbances in the financial markets began. Increases in the cost of such funding together with the low base rate environment have had a negative impact on our margins and profit. In extreme circumstances, loss in consumer confidence could result in high levels of withdrawals from our retail deposit base, upon which we rely for lending and which could have a material adverse effect on our business, financial position and results of operations.

In line with other UK banks and building societies, we availed ourselves of certain measures made available by the UK government to financial institutions to ease the crisis in liquidity at the height of the market dislocation in 2008. The BoE has indicated that the UK Government's 2008 Special Liquidity Scheme (the "**Special Liquidity Scheme**") (which was closed for new transactions in January 2009) will not be extended when it expires in January 2012, and we do not expect any extension or renewal of the Credit Guarantee Scheme (which was closed for new issuance in February 2010 and is only available for certain refinancing of debt that was issued pursuant to the Credit Guarantee Scheme). Throughout the remainder of 2011 and 2012, we will need to refinance our obligations arising from the maturity of Special Liquidity Scheme transactions and Credit Guarantee Scheme issuances that we have undertaken. Over the same period a number of other UK banks and building societies that have availed themselves of the same measures will also be seeking to refinance their obligations under the Special Liquidity Scheme and the Credit Guarantee Scheme. We have made a number of repayments of our Special Liquidity Scheme drawings ahead of both our contractual obligations and bilateral agreement with the BoE, and since the first six months of 2011 the drawings have been substantially repaid. However, there can be no assurance that the large number of UK banks simultaneously seeking to refinance their obligations will not have a material impact on our ability to obtain liquidity or cost of funding.

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

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

As a result of, among other factors, increases and decreases in the BoE base rate, interest rates payable on a significant portion of our outstanding mortgage loan products fluctuate over time, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low

introductory rate, at the end of the relevant fixed or introductory period). Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefitted borrowers taking out new loans and those repaying existing variable rate loans regardless of special or introductory rates, and these rates are expected to increase as general interest rates return to historically more normal levels. Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

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. Recent declines in housing prices and/or any further 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.

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

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

On May 13, 2010 and January 6, 2011, Standard & Poor's Credit Market Services Europe Limited ("S&P") announced that it is considering significant revisions to its global criteria for rating financial institutions which, when published, are expected to place heightened emphasis on economic and industry risk across all financial institutions. On October 7, 2011, Moody's Investors Service Limited ("Moody's") announced that it was downgrading the senior debt and deposit ratings of 12 UK financial institutions and confirming the ratings of one institution, following its review of systemic support assumptions from the UK government for these institutions, which it initiated on May 24, 2011. The ratings actions announced included a two-notch downgrade of our long-term debt rating from Aa3 to A2. On November 3, 2011, Fitch Rating Ltd. ("Fitch") announced that it was downgrading our long-term and short-term ratings and the long-term and short-term ratings of our debt and that such rating actions were consistent with Fitch's broad review of other European banks. The ratings actions announced included a downgrade of our long-term debt rating from AA- to A+. If the ratings analysis of any other agencies that rate our credit is similarly updated, or if Moody's or Fitch's analysis is further updated, to reflect lower forward-looking assumptions of systemic support in the post-crisis environment or higher assumptions of the risks in the financial sector, or otherwise modified, it could result in a further downgrade to the outlook or to the credit ratings of UK financial institutions, including Nationwide, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including Nationwide. A further downgrade could also create new obligations or requirements for Nationwide under existing contracts with its counterparties that may have a material adverse effect on our business, financial condition, liquidity or results of operations.

Likewise, any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilize the markets and have a material adverse effect on our operating results, financial condition, prospects and the marketability or trading value of the Notes. This might also impact on our own credit ratings, borrowing costs and our ability to fund ourselves. A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a 'double dip' recession. These risks are exacerbated by concerns over the levels of the public debt of, the risk of further sovereign downgrades of, and the weakness of the economies in, GIIPS in particular. Further instability within these countries or others within the eurozone might lead to contagion.

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

Developments in our industry and increased competition could have a material adverse effect on our operations. We operate in an increasingly competitive UK personal financial services market. We compete mainly with other

providers of personal finance services, including banks, building societies and insurance companies. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Impact of Economic Conditions in the United Kingdom Generally*”.

The UK market for financial services and the mortgage market in particular have been reshaped by the recent financial crisis. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers, judged by credit score and loan to value criteria, and there is strong competition for these customers. The supply of credit is much more limited for those potential customers without a large deposit or good credit history. As the wholesale funding market has become more challenging, there has been greater competition for retail deposits, which has inevitably impacted on lenders’ margins. Competition may intensify further in response to consumer demand, technological changes, the impact of consolidation by our competitors, regulatory actions and other factors. If increased competition were to occur as a result of these or other factors, our business, financial condition and results of operations could be materially adversely affected.

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

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

Our success as a financial institution depends on our ability to manage and control our financial risk, which includes liquidity, market, and credit risk. We are exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments. We have market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. Credit risk is the risk that a customer or counterparty is unable to meet its obligations to us as they fall due. If we fail to manage and control these risks, we could become unable to meet our own obligations, including those under the Notes, resulting in material adverse effects to our business, financial condition and reputation. For additional information about our policies for managing and controlling liquidity, market and credit risk, see the section entitled “*Financial Risk Management*”.

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

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

The most significant market risks we face are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency.

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

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

Our ability to attract and retain customers and conduct business with our counterparties could be adversely affected to the extent that our reputation or the reputation of the Nationwide brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to us and our business prospects. Reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; legal and regulatory requirements; ethical issues; adequacy of anti-money laundering processes; privacy issues; customer service issues; record-keeping; sales and trading practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and general company performance. A failure to address these issues appropriately could make customers unwilling to do business with us, which could adversely affect our business, financial condition and results of operations.

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

We are exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of our business may be determined by the BoE, the FSA, HM Treasury, the Financial Ombudsman Service or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the Financial Ombudsman Service, with what is fair and reasonable in the Ombudsman's opinion;
- the alleged misselling of financial products may result in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions; and
- we may be liable for damages to third parties harmed by the conduct of our business.

In addition, we face both financial and reputational risk where legal or regulatory proceedings, or the Financial Ombudsman Service, or other complaints are brought against us or members of our industry generally in the UK High Court or elsewhere. For example, a recent UK High Court judgment on the misselling of payment protection insurance ("PPI") has resulted in very significant provisions for customer redress made by several UK financial services providers. Our provision for customer redress is reflected in a charge for the year ended April 4, 2011 of £16 million. Although our PPI product sales ceased in 2007 and although we view our historical sales volumes as relatively low and subject to a rigorous sales process, there can be no assurance that our estimates for potential liability are correct, and our reserves taken to date might prove inadequate.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage, which could have a material adverse effect on our business, financial condition, results of operations and relations with customers

***Risks associated with governmental authorities and monetary policies of the UK and changes thereto may adversely affect our business.***

We conduct our business subject to ongoing regulation by the Financial Services Authority, which oversees the sale of residential mortgages, commercial lending and general insurance products. The regulatory regime requires us to be in compliance across many aspects of activity, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to be compliant with relevant regulations, there is a risk of an adverse impact on our business due to sanctions, fines or other action imposed by the regulatory authorities.

This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking, personal finance and real estate sectors. Future changes in regulation, fiscal or other policies are unpredictable and beyond our control and could materially adversely affect our business or operations.

There are a number of business risks associated with the UK personal finance sector that alone or cumulatively could have a material adverse effect on our operations. These risks include:

- if the United Kingdom were to adopt the euro as its currency. We have incurred costs preparing our business for the potential adoption of the euro, and these costs will continue. Additionally, the adoption of the euro could destabilize the United Kingdom's economy, which may have an adverse effect on our business; and

- the Financial Services Authority (and in the future, its successor regulatory bodies), and other bodies such as the Financial Services Ombudsman, could impose additional regulations on current and past dealings with retail customers. As a result, we may be required to incur costs to apply these regulations to our business, including costs relating to advice given to retail customers that purchased endowment policies used to repay mortgage loans.

The Banking Act 2009 (the “**UK Banking Act**”), which came into effect on February 21, 2009, includes (amongst other things) provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society (such as us). The orders which may be made under the UK Banking Act in respect of relevant deposit-taking institutions relate to share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances, including between group companies, and/or disapplication or modification of laws (with possible retrospective effect)) and two new special insolvency procedures (bank insolvency and bank administration) which may be commenced by UK authorities. In addition, in respect of UK building societies, the relevant tools include modified property transfer powers which refer to (i) cancellation of shares and conferring rights and liabilities in place of such shares and (ii) a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society. The UK Banking Act also includes powers for a modified bank insolvency procedure and/or a modified bank administration procedure to be applied by statutory instrument to building societies. Pursuant to Section 90C of the UK Building Societies Act (as inserted by the Building Societies (Insolvency and Special Administration) Order 2009 (amended by the Building Societies (Insolvency and Special Administration) (Amendment) Order 2010)), these special insolvency proceedings were applied (with modifications) to building societies.

In general, the UK Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the UK Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial systems of the UK. It is a condition to the exercise of a stabilization power under the UK Banking Act that the FSA must be satisfied that the relevant bank or building society is failing or likely to fail to meet the FSA’s threshold conditions for authorization and that, having regard to timing and other relevant circumstances, it is not reasonably likely that action would be taken that would have enabled such bank or building society to satisfy the threshold conditions. The UK Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it.

If an instrument or order were to be made under the UK Banking Act in respect of us, such instrument or order may (amongst other things) (i) result in a transfer to another issuer via the modified tools described above, (ii) affect our ability to satisfy our obligations under the Notes and/or (iii) result in modifications to the terms of the Notes, which may have certain tax implications. In addition, the UK Banking Act contains particular powers for provision to be included in an instrument or order that such instrument or order (and possibly certain related events) be disregarded in determining whether certain widely defined “default event” provisions have occurred (which default events could include certain events of default under any Notes) and provides for the disapplication or modification of laws (with possible retrospective effect) and/or fiscal consequences in connection with the exercise of powers under the UK Banking Act.

At present, the UK authorities have not made an instrument or order under the UK Banking Act in respect of us and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that the holders of Notes will not be adversely affected by any such instrument or order if made.

In 2011 the European Commission consulted on Technical Details of a Possible EU Framework for Bank Recovery and Resolution which, if implemented, could:

- require changes to the scope of powers and tools available to the UK authorities under the UK Banking Act, including by allowing “bail in” of debt (potentially including the Notes), generally understood as a forced write-off or write-down of debt, most likely with compensation provided in the form of equity in the relevant institution;
- provide the UK authorities with power to intervene in the management, or to require changes to the legal or operational structure, of an affected financial institution, including Nationwide, prior to the point at which it is considered to be failing or likely to fail; or

- otherwise impact the business of Nationwide in ways that may affect our ability to satisfy our obligations under the Notes and/or result in modifications to the terms of the Notes.

On April 7, 2010 the UK Building Societies (Financial Assistance) Order 2010 came into force in exercise of certain powers under the UK Banking Act for the purpose of modifying the application of the UK Building Societies Act in specified circumstances to facilitate the provision to a building society of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain 'qualifying persons'. Qualifying institutions for this purpose include H.M. Treasury, the BoE, another central bank of a member state of the European Economic Area, 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 from such an institution. Most significantly, the UK Building Societies (Financial Assistance) Order 2010 would permit any qualifying institution to provide such assistance to us without it counting for the purpose of the 50% limit on our non-member funding. It would also permit us to create a floating charge over our assets in favor of a qualifying institution in respect of that assistance.

The Government has announced a range of structural reforms to UK financial regulatory bodies to be implemented, as follows:

- the FSA will cease to exist in its current form;
- a new Financial Policy Committee will be established in the BoE which will be responsible for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the BoE, the Prudential Regulation Authority, will be established which will be responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the Financial Conduct Authority ("FCA"), previously referred to as the Consumer Protection and Markets Authority, will be established and will have the responsibility for conduct of business and markets regulation. The FCA will also represent the UK's interests in markets regulation at the new European Securities and Markets Authority.

In addition, UK banks and building societies are subject to a bank levy from January 1, 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance is given against the first £20 billion of relevant liabilities meaning that smaller institutions will effectively be exempted from the levy charge. The scope of the excluded liabilities also includes Tier 1 capital, insured retail deposits and repos secured on sovereign debt. For further information, see "Description of Business - Bank levy".

From January 1, 2011 an updated FSA remuneration code (the "**FSA Remuneration Code**") came into effect, which applies to the UK's largest banks and building societies (including Nationwide) and sets forth certain remuneration principles affecting fixed and variable remuneration of employees of covered institutions. Although management does not believe the FSA Remuneration Code has historically affected or presently affects its ability to recruit or retain personnel, there can be no assurance that the aforementioned restrictions will not adversely affect our business, financial condition or results of operations.

It was also announced in connection with the Government's June 2010 budget that the Government would consult on a remuneration disclosure scheme. We are not aware of any developments with the remuneration disclosure scheme since the original announcement.

In June 2010, the Government created the Independent Commission on Banking (the "**ICB**") to consider and to make recommendations on structural and related non-structural reforms to the UK banking sector to promote, among other things, financial stability and competition. The ICB released its Final Report to the Cabinet Committee on Banking Reform on September 12, 2011, which sets out the ICB's recommendations on reforms. These recommendations include (i) ring-fencing domestic retail banking services of UK banks and building societies, (ii) introduction of a power for the UK authorities to bail in debt issued by UK banks and building societies, (iii) increasing UK banks' and building societies' loss-absorbing capacity (including by way of bail-in bonds), (iv) increasing the ranking of insured depositors on a winding up to rank ahead of all other unsecured creditors and (v) promoting competition in UK retail banking. The ICB has indicated that the reforms will require an extended implementation period and has recommended that implementation should be completed at the latest by the start of 2019. If implemented, the ICB's recommendations would

have an impact on the manner in which we conduct our business, may affect our ability to satisfy our obligations under the Notes and/or may result in modifications to the terms of the Notes, which may have certain tax implications.

On September 28, 2011, the European Commission issued proposals, including a draft Directive, for implementing an EU wide financial transaction tax ("FTT"). The FTT would be a broad-based tax on "financial institutions" in relation to "financial transactions". It would apply from January 1, 2014 in circumstances where at least one party to a financial transaction is a financial institution established (or deemed established) in a member state.

A high level of uncertainty remains over whether consensus can be reached in order to implement these proposals in the EU. The next steps are for the proposals for the FTT to be discussed and agreed unanimously by member states. It is not possible to anticipate how long this process might take. It is conceivable that, if unanimity cannot be achieved, a group of member states might introduce an FTT in their states. Even if an FTT were introduced only in some member states, it could still have an impact on financial institutions operating in the UK.

Currently it is not possible to predict how and the extent to which the other foregoing recently announced changes will impact on our operations, business results, financial condition or prospects. Accordingly, we cannot assure that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on our operations, business, results, financial condition or prospects.

***We are subject to capital requirements that could have an impact on our operations.***

We are subject to capital adequacy requirements adopted by the FSA for a building society. Our capital is reported as a ratio of total capital to risk-adjusted assets expressed as a percentage. If we fail to meet our minimum regulatory requirements, this may result in administrative actions or sanctions against us, which may impact our ability to fulfill our obligations under the Notes.

The current risk-adjusted capital guidelines (the "**Basel Accord**") promulgated by the Basel Committee on Banking Supervision, which form the basis for the European Union ("**EU**")'s and thus the FSA's capital adequacy requirements, include the application of risk-weighting (depending upon the credit status of certain customers, using an "internal ratings-based" approach to credit risk, and subject to approval of supervisory authorities). The requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

On December 16, 2010 and on January 13, 2011, the Basel Committee issued its final guidance on a number of fundamental reforms to the regulatory capital framework (such reforms being commonly referred to as "**Basel III**"), including new capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, leverage ratio and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for financial institutions, including building societies.

Detailed proposals for the reform package as it will be implemented in the EEA are outlined in the European Commission's proposal, published on July 20, 2011, for a regulation to establish a single set of harmonized prudential rules which will apply directly to all credit institutions in the EU, and an associated directive containing less prescriptive provisions which will need to be transposed into national law. The proposal for a regulation gives express recognition for core Tier 1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves, although dialogue is continuing with the European Commission on the interpretation of the proposals. Implementation will begin from January 1, 2013.

The ICB's recommendations on reforms will also lead to capital and leverage requirements in excess of those outlined by the European Commission's proposal.

The introduction of the new rules and proposals will present a number of challenges to us in reviewing our existing capital and liquidity arrangements and could have an impact on our capital and liquidity calculations and funding requirements or otherwise adversely affect our business or profitability.

***Financial Services Compensation Scheme***

The Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme (the "**FSCS**"), which pays compensation to eligible customers of authorized financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information, please refer to the section entitled "*Description*

*of Business—Financial Services Compensation Scheme".* Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. The amount provided for in the Group's accounts to meet its obligations to the FSCS was an estimated £53 million as at September 30, 2011. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants, which levies may be in significant amounts that may have a material impact on our profits. Historically, FSCS levies have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will be no actions taken under the Banking Act that may lead to further claims against the FSCS and concomitant increased FSCS levies payable by us. Any such increases in our costs and liabilities related to the levy may have a material adverse effect on our results of operations. Further costs and risks to us may also arise from discussions at national and European Union levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

As of October 3, 2011 the FSA has recommenced work on the FSCS Funding Model Review ("**FFMR**"), on which it hopes to formally consult by mid-2012. The FFMR will concentrate on issues such as the composition of the nine funding classes, the levy thresholds applicable to each and their tariff bases.

As a result of the structural reorganization and reform of the UK financial regulatory authorities, it is proposed that the FSCS will become the responsibility of one of the successor regulatory authorities to the FSA. It is possible that future policy of the FSCS and future levies on us may differ from those at present, and such reforms could lead us to incur additional costs and liabilities, which may adversely affect our business, financial condition and/or results of operations.

***Future legislative and regulatory changes could force the Group to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Group's expenses and/or otherwise adversely affect our business results, financial condition or prospects.***

Regulators and other bodies in the UK and world-wide have produced a range of proposals for future legislative and regulatory changes which could force the Group to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Group's expenses and/or otherwise adversely affect our business results, financial condition or prospects. These include, amongst others:

- the introduction of recovery and resolution planning requirements for banks, building societies and other financial institutions as contingency planning for the failure of a financial institution that may affect the stability of the financial system;
- implementation of the UK Financial Services Act (the "**FS Act**"), which enhances the FSA's disciplinary and enforcement powers;
- the introduction of more regular and detailed reporting obligations;
- a move to pre-funding of the deposit protection scheme in the UK; and
- a proposal to require large UK retail banks and building societies to hold a minimum Core Tier 1 to risk-weighted assets ratio of at least 10% which is, broadly, 3% higher than the minimum capital levels under Basel III.

At this point it is impossible to predict the effect that any of the proposed or recently enacted changes will have on our operations, business and prospects or how any of the proposals discussed above will be affected and implemented in light of the fundamental changes to the regulatory environment proposed by the coalition government. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs, and/or capital requirements. Accordingly, we cannot assure that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on our operations, business, results, financial condition or prospects.

***Demutualization, mutual society transfers and consequences of the UK Building Societies Act may have an adverse impact on the holders of Notes.***

Subject to confirmation by the FSA, our members and our directors determine whether we remain a building society or if we demutualize (save in circumstances where the FSA makes a direction under Section 42B of the UK

Building Societies Act or a UK authority makes an instrument or order under the UK Banking Act which results in a demutualization taking place).

The UK Building Societies Act includes provisions under which a building society may demutualize by transferring the whole of its business to a company. In addition, the UK Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 (the “**Mutual Transfers Order**”) made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the “**Funding and Mutual Societies Transfers Act**”)) includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). At present, the claims of our depositors and other unsubordinated creditors would rank ahead of share accounts (which term excludes any deferred shares) and our members’ rights to any surplus in the event of our liquidation, and the claims of our subordinated creditors would rank behind share accounts but ahead of members’ rights to any surplus in the event of our liquidation. If, however, we transfer our business to a specially formed company or an existing company (as defined in the UK Building Societies Act) or to a subsidiary of another mutual society, all of our liabilities which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of our successor.

Under section 90B of the UK Building Societies Act (which was inserted by the Funding and Mutual Societies Transfers Act), H.M. Treasury may, by order, make provision for the purpose of ensuring that, on the winding up, or dissolution by consent, of a building society, any assets available for satisfying the society’s liabilities to creditors (other than liabilities in respect of subordinated deposits, liabilities in respect of preferential debts, or any other category of liability which H.M. Treasury specifies in the order for these purposes) or to shareholders (other than liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. The power to make an order under section 90B of the UK Building Societies Act is exercisable by statutory instrument but may not be made unless a draft of it has been laid before and approved by a resolution of each House of Parliament. No such order has been made as of the date of this Base Prospectus.

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

For additional discussion in relation to the ranking of our debt, see the section entitled “*Description of the Notes—General*”. For further information about demutualization, see the section entitled “*Supervision and Regulation*”.

## **Risks Related to the Notes**

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

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

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

### ***UK membership of European Monetary Union may potentially have an adverse impact on investors.***

If the UK were to join the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes the UK may become a participating member state and that the euro may become the lawful currency of the UK. In the event that the euro were to become the lawful currency of the UK, (i) all amounts payable in respect of any Notes denominated in sterling may become payable in euro; (ii) the law may allow or require such Notes to be re-denominated into euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or

displayed rates for deposits in sterling used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

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

Under EC Council Directive 2003/48/EC (the “**Directive**”) on the taxation of savings income, each member state is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has prepared certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

***The Notes may be subject to U.S. Foreign Account Tax Compliance withholding tax***

We and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30% on all, or a portion of, payments made on or after January 1, 2017 in respect of any Notes issued on or after January 1, 2013 (and any Notes which are treated as equity for U.S. federal tax purposes, whenever issued) pursuant to the U.S. Foreign Account Tax Compliance Act (“**FATCA**”). This withholding tax may be triggered if:

- Nationwide is a foreign financial institution (“**FFI**”) (as defined by FATCA), which enters into and complies with an agreement with the U.S. Internal Revenue Service to provide certain information on its account holders (a term which includes the holders of its debt or equity interests that are not regularly traded on an established securities market) (making the issuer a “participating FFI”);
- Nationwide has a positive “passthru percentage” (as defined by FATCA); and
- an investor does not provide information sufficient for the participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States account” of Nationwide, or any FFI through which payment on such Notes is made is not a participating FFI.

The relevant rules have not yet been fully developed and the future application of FATCA to Nationwide and the holders of the Notes is uncertain. Accordingly, the application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear. If an amount were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder’s failure to comply with rules under FATCA or as a result of the presence in the payment chain of a non-participating FFI, neither we nor any paying agent nor any other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the U.S. Internal Revenue Service, receive less interest or principal than expected. Holders of Notes should consult their own tax advisors on how these rules may apply to payments they receive under the Notes.

The application of FATCA to Notes issued on or after January 1, 2013 (or whenever issued, in the case of Notes treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms or a Supplement to the Base Prospectus, as applicable.

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

We will pay principal and interest on the Notes in the Specified Currency (as defined below). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency

would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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

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

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

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

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

Potential investors should note that, in view of prevailing and widely reported global credit market conditions (which continue at the date hereof), the secondary market for the Notes and for instruments of this kind may be illiquid. We cannot predict when and how these circumstances will change. Liquidity in the Notes may also be disrupted by the recent market disruptions referred to above.

***There is a risk of loss of investment.***

If, in the case of any particular tranche of Notes, the relevant Final Terms specifies that the Notes are Index Linked Notes or subordinated Notes, there is a risk that any investor may lose the value of their entire investment or part of it.

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

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

***We may redeem the Notes prior to maturity.***

If the applicable Final Terms specifies that the Notes are redeemable at our option or are otherwise subject to mandatory redemption, we may choose to, in the case of optional redemption, or must, in the case of mandatory redemption, redeem those Notes at times when prevailing interest rates may be relatively low. Accordingly, an investor generally will not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

***Fluctuations in applicable indices may adversely affect the value of Index Linked Notes.***

With respect to an investment in Notes indexed to one or more interest rates, currencies or other indices or formulas, significant risks exist that are not associated with a conventional fixed rate or floating rate debt security. These risks include fluctuation of the particular indices or formulas and the possibility that an investor will receive a lower amount of principal, premium or interest and at different times than expected. We have no control over a number of matters, including economic, financial and political events, that are important in determining the existence, magnitude and longevity of such risks and their results. In addition, if an index or formula used to determine any amounts payable in respect of the Notes contains a multiplier or leverage factor, the effect of any change in such index or formula will be

magnified. In recent years, values of certain indices and formulas have been volatile, and volatility in those and other indices and formulas may be expected in the future. Fluctuations in exchange rates may adversely affect the value of the Notes. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. We have no control over the factors that generally affect these exchange rates, such as economic, financial and political events and the supply and demand for the applicable currencies.

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

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

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

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

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

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

***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the program. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

*Notes subject to optional redemption by us*

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

We may be expected to redeem Notes when our cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### *Index Linked Notes and Dual Currency Notes*

We may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, we may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (1) the market price of such Notes may be volatile;
- (2) they may receive no interest;
- (3) payment of principal or interest may occur at a different time or in a different currency than expected;
- (4) the amount of principal payable at redemption may be less than the principal amount of such Notes or even zero;
- (5) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (6) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (7) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Holders of Index Linked Notes and prospective purchasers of such Notes should ensure that they understand the nature of such Notes and the extent of their exposure to risk and that they consider the suitability of such Notes as an investment in the light of their own circumstances and financial condition. A small movement in the index may result in a significant change in the value of such Notes. Holders of such Notes and prospective purchasers of such Notes should conduct their own investigations in deciding whether or not to purchase such Notes. Prospective purchasers should form their own views of the merits of an investment on which the return is to be determined by reference to an index based upon such investigations and not in reliance on any information given in the relevant Final Terms. Given the highly specialized nature of Index Linked Notes, we consider that they are only suitable for highly sophisticated investors who are able to determine for themselves the risk of an investment on which the return is determined in this way. Consequently, if you are not an investor who falls within the description above you should not consider purchasing such Notes without taking detailed advice from a specialized professional adviser.

### *Partly-Paid Notes*

We may issue Notes where the issue price is payable in more than one installment. Failure to pay any subsequent installment could result in an investor losing all of its investment.

### *Variable Rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, or, if the interest which is payable on a note is calculated by reference to a currency other than the currency of the Notes, their market values may be even more volatile than those for securities that do not include those features.

### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### *Floating Rate/Fixed Rate Notes*

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

### *Notes issued at a substantial discount or premium*

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

## **USE OF PROCEEDS**

Unless otherwise disclosed in the accompanying Final Terms, we will use the net proceeds of each issue of notes (other than Guaranteed Notes) for general corporate purposes and, with regard to subordinated notes, to strengthen our capital base. We may also use a portion of the net proceeds from any note issuance to acquire companies or assets that are complementary to our business, although we do not currently have any acquisitions planned. See the section entitled “*Description of Business*” for a detailed description of our funding needs. The net proceeds from each issue of Guaranteed Notes will be applied solely to refinance our liabilities.

## EXCHANGE RATES

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

### U.S. Dollars Per Pound Sterling

For the financial year ended	High	Low	Average <sup>(1)</sup>	Year End
	<i>(U.S. dollars per pound sterling)</i>			
April 4, 2011 .....	1.64	1.43	1.56	1.61
April 4, 2010 <sup>(2)</sup> .....	1.70	1.45	1.60	1.52
April 4, 2009 <sup>(3)</sup> .....	2.00	1.37	1.70	1.48
April 4, 2008 .....	2.11	1.94	2.01	1.99
April 4, 2007 .....	1.98	1.74	1.91	1.98

### U.S. Dollars Per Pound Sterling

For the month of	High	Low	Average <sup>(4)</sup>	Month End
	<i>(U.S. dollars per pound sterling)</i>			
September 2011 .....	1.62	1.54	1.58	1.56
October 2011 .....	1.61	1.54	1.58	1.61
November 2011 .....	1.61	1.55	1.58	1.58
December 2011 .....	1.57	1.54	1.56	1.55
January 2012 .....	1.58	1.53	1.55	1.58

Notes:

- (1) The average of the noon buying rates on the last business day of each month during the relevant period.
- (2) The last business day preceding the financial year end was April 2, 2010.
- (3) The last business day preceding the financial year end was April 3, 2009.
- (4) The average of the daily noon buying rates during the relevant period.

Solely for the convenience of the reader, this Base Prospectus presents translation of income statement and balance sheet data from pounds sterling into U.S. dollars at the rate of £1.00 to \$1.56, the Market Exchange Rate on September 30, 2011. These translations should not be construed as representations that pound sterling amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as of any of the dates mentioned in this Base Prospectus, or at all.

## CAPITALIZATION AND INDEBTEDNESS

The following is a summary of our consolidated capitalization and indebtedness extracted from our unaudited consolidated financial statements as at September 30, 2011:

	<u>As at September 30, 2011</u> <i>(£ millions)</i>
<b>Consolidated Indebtedness<sup>(1)</sup></b>	
Deposits from banks .....	3,437
Amounts due to customers and other deposits .....	13,074
Debt securities in issue <sup>(2)</sup> .....	36,248
<b>Total Senior Debt</b> .....	<u><b>52,759</b></u>
<b>Subordinated Debt<sup>(1)(3)</sup></b>	
Comprising one issue maturing in 2014, two issues maturing in 2015, two issues maturing in 2016, two issues maturing in 2018, one issue maturing in 2019, two issues maturing in 2020 and one issue maturing in 2022. ....	2,017
<b>Total Senior and Subordinated Debt</b> .....	<u><b>54,776</b></u>
<b>Permanent Interest Bearing Shares<sup>(1)(4)</sup></b>	
Comprising nine issues of permanent interest bearing shares callable (subject to relevant supervisory consent) in 2013, 2015, 2016, 2019, 2021, 2024, 2026, and 2030. The floating rate shares are only repayable in the event of the winding up of the Society .....	<b>1,648</b>
<b>Members' Funds</b>	
General reserve .....	<b>6,541</b>
Revaluation reserve .....	71
Other reserves .....	(535)
UK retail member deposits <sup>(1)(5)</sup> .....	124,903
<b>Total members' funds</b> .....	<u><b>130,980</b></u>
<b>Total capitalization<sup>(6)</sup></b> .....	<u><u><b>187,404</b></u></u>

Notes:

- (1) If we were to go into liquidation the claims of non-member depositors and other unsubordinated creditors would rank before those of holders of UK retail member deposits, and the claims of holders of UK retail member deposits would rank before those of subordinated debt holders. The claims of holders of permanent interest bearing shares rank behind those of all other creditors, including subordinated debt holders.
- (2) This includes an aggregate of £4.0 billion in securities guaranteed by HM Treasury under the Guarantee Scheme.
- (3) For consistency with other indebtedness, accrued interest of £34 million is included.
- (4) For consistency with other indebtedness, accrued interest of £16 million is included.
- (5) Our rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. Our Board of Directors (the "Board") has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.
- (6) The covered bond issues are our only secured debt. The covered bonds are secured on a ring-fenced section of our residential loans and advances to customers. As of September 30, 2011, the cover pool totaled £32,433 million.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalization, indebtedness, guarantees or contingent liabilities since September 30, 2011.

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been derived from our audited consolidated financial statements as of April 4, 2011, 2010 and 2009 for the financial years then ended and our unaudited consolidated financial statements as of and for the six months ended September 30, 2011 and 2010.

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

	For the six month period ended September 30,			For the financial year ended April 4,		
	2011 <sup>(1)</sup>	2011	2010	2011	2010	2009 <sup>(2)</sup>
	(\$ millions)	(£ millions)				
	(unaudited)			(audited)		
<b>Income Statement Data:</b>						
Interest receivable and similar income.....	3,924	2,518	2,218	4,643	4,568	9,250
Interest expense and similar charges.....	2,712	1,740	1,460	3,106	2,854	7,492
<b>Net interest income</b> .....	<b>1,212</b>	<b>778</b>	<b>758</b>	<b>1,537</b>	<b>1,714</b>	<b>1,758</b>
Fees and commission income .....	348	223	214	440	378	359
Fees and commissions expense.....	(2)	(1)	(2)	(4)	(5)	(4)
Income from investments.....	8	5	1	4	1	16
Other operating income .....	2	1	3	5	47	123
Gains/(losses) on derivatives and hedge accounting.....	111	71	118	120	34	10
<b>Total income</b> .....	<b>1,679</b>	<b>1,077</b>	<b>1,092</b>	<b>2,102</b>	<b>2,169</b>	<b>2,262</b>
Administrative expenses .....	(923)	(592)	(563)	(1,158)	(1,195)	(1,252)
Depreciation and amortization expenses..	(128)	(82)	(70)	(150)	(151)	(126)
Impairment losses on loans and advances to customers	(225)	(144)	(179)	(359)	(549)	(394)
Provisions for liabilities and charges .....	(23)	(15)	10	(52)	103	(249)
Impairment losses/(gain) on investment securities .....	(9)	(6)	(31)	(66)	(36)	(51)
<b>Profit before tax</b> .....	<b>371</b>	<b>238</b>	<b>259</b>	<b>317</b>	<b>341</b>	<b>190</b>
Analyzed as:						
- Profit before tax and the following items: .....	268	172	147	276	212	393
Financial Sector Compensation Scheme..	-	-	-	(50)	117	(241)
- Transformation costs .....	(8)	(5)	(6)	(29)	(62)	(107)
Gains from derivatives and hedge accounting.....	111	71	118	120	34	10
Gain on portfolio acquisitions <sup>(3)</sup> .....	-	-	-	-	40	135
Profit before tax .....	371	238	259	317	341	190
Taxation .....	(78)	(50)	(62)	(69)	(77)	(44)
<b>Profit</b> .....	<b>293</b>	<b>188</b>	<b>197</b>	<b>248</b>	<b>264</b>	<b>146</b>

Notes:

- (1) Dollar amounts are unaudited and have been derived from our unaudited financial statements for the six months ended September 30, 2011 using the exchange rate of U.S. \$1.5585 to £1.00.
- (2) On March 30, 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of the Dunfermline Building Society ("Dunfermline"). As the acquisition of the core parts of Dunfermline took place immediately prior to the April 4, 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in our audited financial statements for the year ended April 4,

2009. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline Building Society disclosed in our audited financial statements for the year ended April 4, 2009 have been recognized as if the accounting for the business combination had been completed at the acquisition date. Information for the year ended April 4, 2009 has thus been adjusted, with the effects being a reduction in reported profit before tax of £22 million, a reduction in taxation of £6 million and a reduction in profit after tax of £16 million.

- (3) Gains on business combinations for the year ended April 4, 2010 relate to the acquisition of the social housing portfolio from DBS Bridge Bank Limited on June 30, 2009, which was not part of the original purchase of core parts of the Dunfermline Building Society on March 30, 2009. Costs for the year ended April 4, 2009 relate to the acquisitions of the Cheshire Building Society (“**Cheshire**”) and the Derbyshire Building Society (“**Derbyshire**”) and core parts of the Dunfermline Building Society. Transformation costs relate to the restructuring of parts of our business.

	For the six month period ended September 30		For the financial year ended April 4,		
	2011 <sup>(1)</sup>	2011	2011 <sup>(4)</sup>	2010	2009 <sup>(2)</sup>
	(\$ millions)		(£ millions)		
	<i>(unaudited)</i>		<i>(audited)</i>		
<b>Balance Sheet Data</b>					
<b>Assets:</b>					
Cash .....	10,300	6,609	6,130	3,994	8,205
Loans and advances to banks .....	6,499	4,170	4,181	2,017	5,033
Investment securities-available for sale ...	35,182	22,574	21,540	23,385	21,223
Derivative financial instruments .....	7,828	5,023	3,961	4,852	5,859
Fair value adjustment for portfolio hedged risk .....	2,715	1,742	1,634	2,638	3,408
Loans and advances to customers <sup>(3)</sup> .....	236,237	151,580	149,417	152,429	155,469
Investments .....	48	31	103	86	81
Intangible assets .....	943	605	529	353	211
Property, plant and equipment .....	1,502	964	948	916	886
Investment properties .....	14	9	9	9	9
Accrued income and expenses prepaid ....	508	326	215	77	743
Deferred tax assets .....	359	230	182	357	866
Other assets .....	30	19	68	284	360
<b>Total assets</b> .....	<b>302,165</b>	<b>193,882</b>	<b>188,917</b>	<b>191,397</b>	<b>202,353</b>
<b>Liabilities:</b>					
UK retail member deposits .....	194,661	124,903	122,552	120,943	128,292
Deposits from banks .....	5,357	3,437	2,746	8,031	13,283
Other deposits .....	11,272	7,233	5,809	4,509	5,673
Due to customers .....	9,103	5,841	5,762	5,085	4,371
Debt securities in issue .....	56,492	36,248	37,808	36,802	34,794
Derivative financial instruments .....	7,197	4,618	3,234	4,942	5,986
Fair value adjustment for portfolio hedged risk .....	503	323	19	106	239
Other liabilities .....	859	551	376	529	671
Provisions for liabilities and charges .....	167	107	150	113	271
Accruals and deferred income .....	762	489	391	428	354
Subordinated liabilities .....	3,091	1,983	1,973	1,973	2,233
Subscribed capital .....	2,544	1,632	1,510	1,524	1,526
Current tax liabilities .....	3	2	45	42	51
Retirement benefit obligations .....	683	438	300	508	331
General reserve .....	10,194	6,541	6,659	6,363	6,218
Revaluation reserve .....	111	71	70	68	69
Available for sale reserve .....	(834)	(535)	(487)	(715)	(2,009)
<b>Total reserves and liabilities</b> .....	<b>302,165</b>	<b>193,882</b>	<b>188,917</b>	<b>191,397</b>	<b>202,353</b>

Notes:

(1) Dollar amounts are unaudited and have been derived from our unaudited financial statements for the six months ended September 30, 2011 using the exchange rate of U.S. \$1.5585 to £1.00.

- (2) On March 30, 2009 the Society acquired the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) of the Dunfermline Building Society. As the acquisition of the core parts of Dunfermline took place immediately prior to the April 4, 2009 year end, the information required to value the acquisition was incomplete. The initial accounting for Dunfermline was thus determined provisionally in our audited financial statements for the year ended April 4, 2009. In accordance with IFRS 3 (2008 Revised) adjustments to the initial provisional accounting for the Dunfermline Building Society disclosed in our audited financial statements for the year ended April 4, 2009 have been recognized as if the accounting for the business combination had been completed at the acquisition date. Information for the year ended April 4, 2009 has thus been adjusted, with the effects being a reduction in reported profit before tax of £22 million, a reduction in taxation of £6 million and a reduction in profit after tax of £16 million.
- (3) Loans and advances to customers include loans to corporate bodies, such as independent UK housing organizations registered with the Tenant Services Authority under the Housing Act 1996 (“Registered Social Landlords”), which are residential mortgage loans where the commitment was made prior to January 2, 1998. The classification of these assets is not consistent with the treatment of similar loans made after January 2, 1998, which are included in residential mortgage loans, but is necessary to comply with the requirements of the UK Building Societies Act 1997.
- (4) The opening reserves at April 5, 2010 have been adjusted to reflect a correction of an error in relation to hedge accounting; the impact of the correction as at April 5, 2010 has been to decrease the general reserve by £20 million and increase the AFS reserve by £8 million.

	For the six month period ended September 30,		For the financial year ended April 4,		
	2011	2010	2011	2010	2009 <sup>(1)</sup>
			<i>(unaudited)</i>		
<b>Other Financial Data:</b> .....					
Return on average total assets <sup>(2)</sup> .....	0.20%	0.21%	0.13%	0.13%	0.08%
Net interest margin <sup>(3)</sup> .....	0.85%	0.82%	0.81%	0.87%	0.93%
<b>Ratio of earnings to fixed charges<sup>(4)</sup></b> .....					
Including interest on retail deposits .....	1.14%	1.18%	1.10%	1.12%	1.03%
Excluding interest on retail deposits .....	1.69%	2.20%	1.62%	1.74%	1.08%
<b>Capital ratios</b> .....					
Tier 1 capital <sup>(5)</sup> .....	16.1%	15.8%	15.6%	15.3%	15.1%
Total capital <sup>(5)</sup> .....	19.9%	19.9%	19.5%	19.4%	19.5%
Ratio of administrative expenses to mean total assets <sup>(6)</sup> .....	0.70%	0.66%	0.69%	0.68%	0.72%

Notes:

- (1) Based on adjusted results for the year ended April 4, 2009. See Note 2 above under Income Statement Data and Note 2 above under Balance Sheet Data.
- (2) 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.
- (3) Net interest margin represents net interest income as a percentage of weighted average total assets.
- (4) For this purpose, earnings consist of profit on ordinary activities before tax and fixed charges. Fixed charges consist of interest expense including or excluding interest on retail deposits, as appropriate.
- (5) Throughout the years ended April 4, 2011 and April 4, 2010, and the six months ended September 30, 2011, the Group has complied with these rules which implement the EU Capital Requirements Directive (“Basel II”). As at April 4, 2009 capital requirements are calculated on the Internal Ratings Based (“IRB”) basis. The Group has also received Individual Capital Guidance based on IRB approaches. The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages and unsecured lending; Foundation IRB approach for treasury portfolios (excluding corporates); and the Standardized approach for all other credit risk exposures
- (6) This ratio represents administrative expenses plus depreciation as a percentage of the average of total assets at the start and end of each period.

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

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

### Overview

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

Although our business differs from that of a bank, we are committed to a business model that is competitive with our bank and other competitors in terms of product range, service, credit quality and profitability. Over the past five fiscal years, a number of initiatives have been undertaken to more deeply embed this competitive culture, and our focus on costs continues to be a priority.

The results for the six months ended September 30, 2011 continue the trend established last year, with growth across all of our principal product lines, and a 17% increase in underlying profit up to £172 million compared to £147 million for the six month period ended September 30, 2010.

There has been a 48% increase in our gross mortgage lending of £8.9 billion since April 4, 2011 in the six month period ended September 30, 2011. We believe this demonstrates our commitment to supporting growth in the economy as well as meeting the needs of our borrowers.

Our funding requirements have been satisfied by a 250% increase in the level of savings receipts to £1.4 billion since April 4, 2011 in the six month period ended September 30, 2011, which places Nationwide as the second largest savings provider in the UK as at September 30, 2011. We believe this is an endorsement of our brand and product propositions.

We continue to act as a 'challenger' to the established banks and have seen a 24% increase in the combined sales of new current accounts, credit cards and personal loans since April 4, 2011 in the six month period ended September 30, 2011.

Market conditions are likely to remain difficult until the economic outlook of the UK is more certain and the financial crisis in the eurozone is resolved. However, we believe that we are well placed to respond: our balance sheet is one of the strongest of its kind with a Core Tier 1 ratio of 12.7% and a core liquidity ratio of 13.5% as of September 30, 2011, diverse funding platforms and high quality assets.

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

The outlook for the UK economy has weakened over the last six months, and prospects for the remainder of the financial year ended April 4, 2012 and the 2012-2013 financial year appear very challenging. Uncertainty surrounding the future of the eurozone is increasing the risk of a significant slowdown in economic activity in the UK's principal export markets, which would have a corresponding effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures, and we face the risk of higher levels of unemployment combined with declines in real disposable incomes. We continue to expect the UK recovery to be maintained, but at a modest pace, and the downside risk of a return to recessionary conditions in 2012 cannot be ruled out.

The sovereign debt crisis in Europe, and the uncertainty of how this may be resolved, has led to an increase in the cost of funding. Whilst the initial impact of this has been felt in the wholesale markets, there has been a consequent increase in the cost of retail funding, with greater competition in a savings market which is growing only slowly by

historical standards. In the absence of a swift resolution of the crisis, this situation is likely to persist for the medium term, or could deteriorate further if the future of the eurozone is not secured.

With the recovery likely to remain sluggish, we believe that the consensus view is that UK interest rates are expected to remain at current levels for an extended period, with the first increase in the Bank Rate not expected until 2013. In the meantime, the low interest rate environment and pressure on retail funding costs will continue to exert downward pressure on our net interest income.

The UK housing market has remained stagnant throughout 2011, with transactions levels well below historic norms and with house prices essentially flat for the past eighteen months. We expect buyer activity to continue to be relatively subdued, with the potential to decline further should the labor market situation deteriorate markedly, or if strains in the financial system intensify and impair the flow of credit to the wider economy. We believe that prices may decline slightly over the next year, but we do not anticipate large falls given that mortgage arrears and distressed sales are likely to remain low, supported by a prolonged period of low interest rates. The Nationwide House Price Index recorded an annual change in house prices of 0.8% in October.

The outlook for the commercial property market continues to be uncertain in the light of the broader macroeconomic conditions. Potential for further weakening in tenant demand and investor appetite means the impairment outlook for our commercial lending business has become more uncertain in the last six months, and we retain our cautious approach to the market and associated provisioning.

Despite the deterioration in the economic outlook, we believe that we are well placed to meet the challenges we face. Our balance sheet remains amongst the strongest in the industry, supported by our prudent approach to lending, and we believe that we are making excellent progress in diversifying our business to provide a greater range of products to new and existing customers. As the deliveries from our transformation program gather pace, we will seek to deliver more value to more customers, diversify our income and continue our progress towards becoming the UK's leading provider of retail financial services."

### Net interest income

Net interest income of £778 million in the six month period ended September 30, 2011 was £20 million higher than the comparable period to September 30, 2010 and in line with the six months ended April 4, 2011.

	<b>For the six month period ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions, except percentages)</i>	
Net interest income .....	778	758
Weighted average total assets .....	192,847	189,984
<b>Net interest margin</b> .....	<b>0.81%</b>	<b>0.81%</b>

The Group's net interest margin for the six months ended September 30, 2011 remained stable at 0.81%. This includes £59 million of gains arising from the management of our liquidity portfolio (six months ended September 30, 2010: £24 million).

The cost of funding continues to be the main factor behind our subdued margins, reflecting heightened competition in the savings market that has been exacerbated by challenges within the wholesale funding market, which has been seriously affected by the uncertainty relating to the ongoing eurozone crisis. Strong new business asset margins, including the significant positive impact of deal maturities that re-price as customers either revert to our Base Mortgage Rate ("BMR") or opt to take a new product, have partially offset the high cost of retail funding.

### Interest Rate Management

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

The following table sets forth the daily average three-month sterling LIBOR rates (11:00 a.m. British Bankers Association fixing) and average BoE base rates for the six month period ended September 30, 2011 and the financial years ended April 4, 2011 and 2010:

	<b>For the six month period ended September 30, 2011</b>	<b>For the year ended April 4, 2011</b>	<b>For the year ended April 4, 2010</b>
Daily average three-month sterling LIBOR .....	<b>0.85%</b>	0.74%	0.85%
Average BoE base rate.....	<b>0.50%</b>	0.50%	0.50%

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

The contractual terms of products and transactions determine the flexibility to manage net interest margin. In the current low interest rate environment, this flexibility has been constrained by a natural floor, at zero percent, for banking and savings rates, and a contractual ceiling for BMR, relative to the base rate. New mortgages written by the Society do not contain a contractual cap relative to the base rate in order to increase our flexibility in this regard.

The Group's exposure to the mismatch between base rate and LIBOR-linked balances (basis risk) has changed during the six months ended September 30, 2011. At the start of the current financial year the position was a net LIBOR asset, reflecting fixed rate mortgages hedged to LIBOR and funded through variable savings linked to base rate. During the first half of the financial year, customer preference has moved towards variable rate mortgages and fixed rate savings bonds. These changes have resulted in a net base rate asset at September 30, 2011. A large element of the net basis position is driven by government funding schemes, which acts as a base rate asset due to the fee paid, but which will have fully reversed out by the end of the next financial year.

Swap spread risk is the risk of loss from changes in the relationship between swap rates and sovereign debt yields. Swap spread risk arises at Nationwide from long-dated sovereign debt that has been purchased for liquidity purposes. This fixed rate debt is swapped into LIBOR using an interest rate swap. After taking the swap into account, the mark-to-market value of the debt falls if the credit spread on sovereign debt increases relative to the credit spread on inter-bank borrowing. The risk is only crystallized if the sovereign debt and associated swap are sold ahead of maturity.

The lower interest rates have exposed us to changes in customer behavior, driven by associated changes in the financial dynamics of transactions, particularly with respect to early repayment of fixed rate mortgages. Some of this effect has been mitigated by the relative constriction of the mortgage market as well as increased early redemption fee income.

## **Results of Operations for the Six Month Period Ended September 30, 2011 Compared with the Six Month Period Ended September 30, 2010**

### ***Introduction***

We believe that our results indicate a strong performance for the half year ended September 30, 2011 despite the challenging economic environment. The Group has delivered an underlying profit of £172 million, and a statutory profit before tax of £238 million. This has been driven by a strong performance across Nationwide's entire range of personal financial products. Capital ratios continue to be amongst the best in the industry and demonstrate the Group's financial strength and robust balance sheet, with a Core Tier 1 ratio of 12.7%, and high levels of liquidity.

For the six month period ended September 30, 2011 compared to the six months ended September 30, 2010, there has been a 48% increase in gross mortgage lending of £8.9 billion and an underlying growth in mortgage assets of £1.4 billion, funded by new savings deposits of £1.4 billion and a growth in balances of £2.4 billion, up 250% and 167% respectively from the six month period ended September 30, 2010. We have continued to progress our strategy of expanding our market share in other areas, most notably banking products, in order to diversify income and satisfy more of our members' needs.

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

<b>For the six month period ended September 30, 2011</b>					
	<b>As reported</b>	<b>Fair value and other adjustments</b>	<b>FSCS cost</b>	<b>Transformation costs</b>	<b>Underlying profit before tax</b>
<i>(£ millions)</i>					
Net interest income .....	778	-	-	-	778
Other income .....	228	-	-	-	228
Fair value adjustments from derivatives and hedge accounting .....	71	(71)			
<b>Total income</b> .....	<b>1,077</b>	<b>(71)</b>	-	-	<b>1,006</b>
Administrative expenses .....	(592)	-	-	5	(587)
Depreciation and amortization .....	(82)	-	-	-	(82)
Impairment losses on loans and advances to customers .....	(144)	-	-	-	(144)
Provisions for liabilities and charges .....	(15)	-	-	-	(15)
Impairment losses on investment securities .....	(6)	-	-	-	(6)
<b>Profit before tax</b> .....	<b>238</b>	<b>(71)</b>	-	<b>5</b>	<b>172</b>

<b>For the six month period ended September 30, 2010</b>					
	<b>As reported</b>	<b>Fair value and other adjustments</b>	<b>FSCS cost</b>	<b>Transformation costs</b>	<b>Underlying profit before tax</b>
<i>(£ millions)</i>					
Net interest income .....	758	-	-	-	758
Other income .....	216	-	-	-	216
Fair value adjustments from derivatives and hedge accounting .....	118	(118)			
<b>Total income</b> .....	<b>1,092</b>	<b>(118)</b>	-	-	<b>974</b>
Administrative expenses .....	(563)	-	-	6	(557)
Depreciation and amortization .....	(70)	-	-	-	(70)
Impairment losses on loans and advances to customers .....	(179)	-	-	-	(179)
Provisions for liabilities and charges .....	10	-	-	-	10
Impairment losses on investment securities .....	(31)	-	-	-	(31)
<b>Profit before tax</b> .....	<b>259</b>	<b>(118)</b>	-	<b>6</b>	<b>147</b>

The following discussion considers our results for the six month period ended September 30, 2011 compared to our results for the six month period ended September 30, 2010:

### **Total income**

Our total income remained steady at £1,077 million in the six month period ended September 30, 2011 compared to £1,092 million in the six month period ended September 30, 2010. The following table sets forth the components of income for the six month periods ended September 30, 2011 and September 30, 2010, respectively:

	<b>For the six month period ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
Net interest income .....	778	758
Net fees and commissions .....	222	212
Income from investments .....	5	1
Other operating income .....	1	3
Gains/ (losses) from derivatives and hedge accounting .....	71	118
<b>Total</b>	<b><u>1,077</u></b>	<b><u>1,092</u></b>

### *Net interest income*

Net interest income increased by 2.6% to £778 million for the six month period ended September 30, 2011 compared with £758 million for the six month period ended September 30, 2010.

The following table sets forth the components of net interest income for the six month periods ended September 30, 2011 and 2010, respectively:

	<b>For the six month period ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
<b>Interest and similar income:</b>		
On residential mortgages .....	2,380	2,506
On other loans .....	563	559
On investment securities .....	548	601
On other liquid assets .....	19	14
Other interest receivable .....	5	1
Net (expense) on financial instruments hedging assets.....	(1,094)	(1,546)
Expected return on pension assets .....	97	83
<b>Total interest and similar income</b> .....	<b>2,518</b>	<b>2,218</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(1,356)	(1,207)
On subscribed capital .....	(47)	(47)
On deposits and other borrowings:		
Subordinated liabilities .....	(54)	(53)
Other .....	(126)	(132)
Debt securities in issue .....	(520)	(427)
Foreign exchange differences	(1)	-
Net income on financial instruments hedging liabilities .....	447	489
Pension interest cost .....	(83)	(83)
<b>Total interest expense and similar charges</b> .....	<b>(1,740)</b>	<b>(1,460)</b>
<b>Net interest income</b> .....	<b>778</b>	<b>758</b>

Interest and similar income increased by 13.5% to £2,518 million in the six month period ended September 30, 2011 from £2,218 million in the six month period ended September 30, 2010.

#### *On residential mortgages*

Interest on residential mortgages decreased by 5.0% to £2,380 million in the six month period ended September 30, 2011 from £2,506 million in the six month period ended September 30, 2010. The reduction in income is attributable to the combination of a 0.6% decrease in the size of our average residential mortgage portfolio to £134,981 million in the six month period ended September 30, 2011 from £135,843 million in the six month period ended September 30, 2010 and a small decrease in average interest rates between the two periods from 3.9% for the six month period ended September 30, 2010 to 3.7% for the six month period ended September 30, 2011. The decrease in the size of our average residential mortgage portfolio reflects active management of our balance sheet adjusting our business flows in response to the recessionary conditions and the significant contraction in the market.

#### *On other loans*

Interest on other loans includes interest income that we earn from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans remained relatively stable increasing by 0.7% to £563 million in the six month period ended September 30, 2011 from £559 million in the six month period ended September 30, 2010.

#### *On investment securities*

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

Interest and other income from investment securities decreased by 8.8% to £548 million for the six month period ended September 30, 2011 compared with £601 million for the six month period ended September 30, 2010. However, net of foreign exchange differences and net expenses on financial instruments hedging assets there has been an increase from £137 million for the six month period ended September 30, 2010 to £208 million for the six month period ended September 30, 2011. This net increase is due to an increase of 7.2% in the average balance of securities held in both the investment and liquidity portfolios to £23,308 million in the six month period ended September 30, 2011 from £21,743 million for the six month period ended September 30, 2010 combined with an increase in the average interest rate earned on such assets to 1.8% in the six month period ended September 30, 2011, compared to 1.3% in the six month period ended September 30, 2010. The increase in average interest rates is a direct result of increases in market rates between the two periods.

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

We use derivative instruments to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets”. In the six month period ended September 30, 2011, we incurred a net expense of £1,094 million on financial instruments used to hedge our fixed rate assets compared with a net expense of £1,546 million in the six month period ended September 30, 2010. As LIBOR rates have remained at very low levels seen during the six month periods ended September 30, 2011 and September 30, 2010, the floating rate income on these financial instruments has reduced, resulting in an increase to the Group.

#### *Expected return on pension assets*

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

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

Interest expense and similar charges increased by 19.2% in the six month period ended September 30, 2011 to £1,740 million from £1,460 million in the six month period ended September 30, 2010.

#### *On UK retail member deposits*

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits increased to £1,356 million in the six month period ended September 30, 2011 from £1,207 million in the six month period ended September 30, 2010.

This reflects an increase in the average interest rate that we paid to depositors to 2.2% for the six month period ended September 30, 2011 compared with 2.0% in the six month period ended September 30, 2010 and an increase of 2.4% in the average balance of UK retail member deposits held to £124,880 million in the six month period ended September 30, 2011 from £122,011 million in the six month period ended September 30, 2010.

The low rate environment that has supported mortgage holders continues to pose challenges for savers, but we have maintained our policy of offering excellent savings products to new and existing members. Our success is evident in our ability to attract new money into the Group: net receipts in the six months ended September 30, 2011 of £1.4 billion represent an increase of 250% as compared to the six months to September 30, 2010, while total balance growth of £2.4 billion is an increase of 167% as compared to the same period. This was achieved in a market where retail savings balances have grown £14.3 billion, giving us a market share of balance growth in the industry in the six months to September 30, 2011 of 16.4%. This success means that we have regained our position as the second largest savings provider in the UK market.

We have achieved this position by offering a range of market leading products covering all segments of the market, and focusing on maintaining our industry leading standards of savings transparency, manifested through our seven ‘Savings Promises’. By the end of November 2011, seven million members had received an annual statement showing the rate they are receiving on their savings, plus details of our full range of savings accounts, helping them to identify whether they have the most appropriate accounts for their needs.

ISA products remain particularly important to savers, and Nationwide continues to perform strongly in this market segment; during the core ISA period between April and June 2011, we believe our Group market share of ISA balance growth in the industry was 16.0%. We believe that this robust performance reflects both the quality of our products and our service.

#### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the six month period ended September 30, 2011 interest on subordinated liabilities remained broadly consistent, increasing to £54 million from £53 million in the six month period ended September 30, 2010. This increase is a result of changes in the mix of subordinated debt between the two periods. The interest rates on our subordinated liabilities are fixed and therefore not affected by changes in market interest rates.

Other interest expense on deposits and other borrowings includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the six month period ended September 30, 2011, other interest expense on deposits and other borrowings decreased by 4.5% to £126 million from £132 million in the six month period ended September 30, 2010. This small reduction is due to small decreases in market rates and a fall in the balance of deposits and other borrowings, excluding subordinated liabilities, to £15,500 million in the six month period ended September 30, 2011 compared with £15,689 million in the six month period ended September 30, 2010.

#### *Debt securities in issue*

Debt securities in issue includes interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the six month period ended September 30, 2011, interest expense on debt securities in issue increased by 21.8% to £520 million from £427 million in the six month period ended September 30, 2010. This increase reflects a 4.9% increase in the average monthly balance of debt securities in issue to £37,026 million in the six month period ended September 30, 2011, compared with £35,313 million in the six month period ended September 30, 2010. This change was due to changes in the internal liquidity requirements of the Group that were predominantly driven by changes in external market factors between the two periods. In addition, the average interest rate paid before adjusting for income/expense on financial instruments hedging liabilities increased slightly to 2.81% for the six month period ended September 30, 2011, compared with 2.42% for the six month period ended September 30, 2010.

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

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as “net income/expense on financial instruments hedging liabilities”. In the six month period ended September 30, 2011, net income on financial instruments used to hedge our fixed rate liabilities was £447 million, compared with a net income of £489 million in the six month period ended September 30, 2010.

#### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the six month periods ended September 30, 2011 and 2010 respectively:

	<b>For the six month period ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
<b>Fee and commission income:</b>		
Mortgage related fees .....	13	19
Banking and savings fees.....	96	80
General insurance fees.....	61	69
Other fees and commissions .....	53	46
<b>Total fee and commission income</b> .....	<b>223</b>	<b>214</b>
<b>Fee and commission expense:</b>		
Mortgage related fees .....	-	1
Other fees and commissions .....	1	1
<b>Total fee and commission expense</b> .....	<b>1</b>	<b>2</b>
<b>Net fee and commission income</b> .....	<b>222</b>	<b>212</b>

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

In the six month period ended September 30, 2011, net fees and commissions increased by 4.7% to £222 million compared with £212 million in the six month period ended September 30, 2010. This increase has been driven by strong income growth from current accounts and protection and investment products in the period, reflecting our strategic focus to grow the range and scale of our banking products and to diversify our income stream.

#### ***Other operating income***

In the six month period ended September 30, 2011, other operating income decreased to £1 million, compared with £3 million in the six month period ended September 30, 2010.

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

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives are only used to limit the extent to which we could be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. 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 zero over time.

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

Gains from derivatives and hedge accounting were £71 million in the six month period ended September 30, 2011 compared to £118 million in the six month period ended September 30, 2010.

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

Operating expenses and similar charges increased by 0.7% in the six month period ended September 30, 2011 to £839 million from £833 million in the six month period ended September 30, 2010. The following table sets forth the components of operating expenses and similar charges for the six month periods ended September 30, 2011 and 2010, respectively:

	For the six month period ended September 30,	
	2011	2010
	(£ millions)	
Administrative expenses .....	592	563
Depreciation and amortization.....	82	70
Impairment losses on loans and advances to customers .....	144	179
Provisions for liabilities and charges .....	15	(10)
Impairment losses on investment securities.....	6	31
<b>Total</b> .....	<b>839</b>	<b>833</b>

#### Administrative Expenses

Administrative expenses increased by 5.2% in the six month period ended September 30, 2011 to £592 million from £563 million in the six month period ended September 30, 2010. Included within the total of Administrative expenses is a £9 million charge for the bank levy. Bank levy costs are being reported for the first time in the six month period ended September 30, 2011. The bank levy was enacted on July 19, 2011 and has effect from January 1, 2011. The £9 million charge includes a charge of £3 million for the three months to April 4, 2011. This was not provided at April 4, 2011 because the legislation had not been substantially enacted. The rest of the charge at the half year reflects half of the estimated liability for the year end April 4, 2012. See "*Description of Business - Bank levy*" for further information concerning the bank levy.

We are now more than halfway through our three year cost optimization program and are aiming to deliver gross cost savings in excess of £200 million over the life of the project, with a number of new initiatives being identified. The program has enabled the business to absorb a significant proportion of the cost increases relating to strategic investment, inflationary pressures and organic growth associated with increased sales and servicing volumes. In addition, the VAT rise has resulted in estimated increased costs of £5 million.

The underlying cost income ratio for the period ended September 30, 2011 was 66.5% compared to 64.4% for the half year ended September 30, 2010. The increase reflects the continued pressure on income as a consequence of operating in a low interest rate environment in conjunction with the continued investment in our business.

The following table sets forth the components of administrative expenses for the six month periods ended September 30, 2011 and 2010, respectively:

	For the six month period ended September 30,	
	2011	2010
	(£ millions)	
Employee costs:		
Salaries and social security costs.....	266	249
Pension costs .....	29	42
Other administrative costs .....	297	272
<b>Total</b> .....	<b>592</b>	<b>563</b>

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

The Group operates final salary and career average revalued earnings ("**CARE**") defined benefit arrangements, primarily through the Nationwide Pension Fund (the "**Fund**"), as well as defined contribution arrangements. We have taken a number of steps to control the defined benefit liability over recent years, including the closure of the Fund to new entrants in 2007 and closure of the final salary section to existing members on March 31, 2011. From April 1, 2011 accrual in the CARE section continues for existing members, with a revised benefit structure in operation.

In the six month period ended September 30, 2011, salaries and social security costs increased by 6.8% to £266 million from £249 million in the six month period ended September 30, 2010. The increase is a result of typical annual salary increases and merit-based salary increases to some employees.

Within employee costs, the pension charge decreased by 31.0% to £29 million for the six month period ended September 30, 2011 from £42 million in the six month period ended September 30, 2010. The decrease in pension costs is due to a revised benefit structure being in place from April 1, 2011. The impact of the revised benefit structure is a reduction in both the service cost and in our contributions to the pension fund. In addition, there is a continuing shift in membership from defined benefit to cheaper defined contribution pension arrangements following the closure of the defined benefit sections to new entrants in 2007.

The Group's net retirement benefit liability, measured under IAS 19, was £438 million as at September 30, 2011 (April 4, 2011: £300 million). This change reflects a fall in the market values of Fund assets, following significant falls in equity markets, and an increase in the measurement of Fund liabilities. The Fund liabilities have increased due to a reduction in the discount rate used (which is based on AA long term corporate bond yields) to 5.1% (April 4, 2011: 5.6%), partly offset by a fall in the inflation assumptions. The impacts were partly offset by a special deficit contribution of £240 million made to the Fund in the period.

Other administrative costs increased by 9.2% to £297 million for the six month period ended September 30, 2011 from £272 million for the six month period ended September 30, 2010. The increase in other administrative expenses is as a result of the newly introduced bank levy charge of £9 million, the increase in VAT, and the continued investment in key transformation projects.

#### *Depreciation and amortization*

For the six month period ended September 30, 2011, depreciation and amortization expenses increased by £12 million to £82 million compared to £70 million for the six month period ended September 30, 2010. This is primarily driven by the continued investment in key transformation projects.

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

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

Impairment losses on loans and advances to customers for the six month period ended September 30, 2011 decreased by 19.6% to £144 million from £179 million for the six month period ended September 30, 2010.

The following table analyzes the impairment losses on loans and advances to customers for the six month periods ended September 30, 2011 and 2010, respectively:

	<b>For the six month period ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
Residential mortgages.....	42	45
Commercial lending.....	72	95
Unsecured lending .....	28	43
Other lending .....	2	(4)
<b>Total</b> .....	<b>144</b>	<b>179</b>

The charge for impairment losses on loans and advances of £144 million for the six months ended September 30, 2011 is 20% lower than the £179 million charge for the six months ended September 30, 2010, and the £180 million charge for the second half of the year ended April 4, 2011. The underlying quality of lending remains strong, but continues to be affected by higher levels of unemployment and challenges in the commercial sector.

The charge relating to residential mortgages for the six month period ended September 30, 2011 consists of £8 million relating to prime lending and £34 million relating to specialist lending, compared to £29 million and £16 million, respectively, for the six month period ended September 30, 2010.

The prime residential book performance has remained relatively stable throughout the period, with steady arrears and an essentially flat house price index ("HPI"). The overall prime residential provision charge remains very low at £8 million, due to stable arrears and the conservative loan to value ("LTV") profile of our portfolio.

The charge relating to specialist lending of £34 million is higher than the same period last year, primarily due to an increased level of repossessions, notably in Northern Ireland. At September 30, 2011, 798 properties were in possession across the originated specialist lending book compared with 453 at September 30, 2010. The repossessions in Northern Ireland relate to historic lending through our UCB subsidiary, which is now closed to new business, and we do not anticipate significant further increases in repossessions. Nationwide originated specialist lending balances more than 3 months in arrears have declined from 2.18% in the six months ended September 30, 2010 to 1.56% for the six months ended September 30, 2011.

Total residential impairment provisions are £218 million at September 30, 2011, compared with £201 million at April 4, 2011 and £176 million at September 30, 2010, giving a coverage ratio against total balances of 0.18% (April 4, 2011: 0.17%; September 30, 2010: 0.15%) and against balances more than three months in arrears of 18.8% (April 4, 2011: 17.6%; September 30, 2010: 15.5%).

In our commercial lending division, ongoing difficult market conditions resulted in further defaults in the Property Finance portfolio, giving rise to a charge of £72 million in the six months ended September 30, 2011 (September 30, 2010: £95 million), with defaults continuing to be driven principally by covenant breaches on LTVs, reduced tenant demand, and business failures. The number of Nationwide originated commercial property cases more than three months in arrears decreased from 235 cases at April 4, 2011 to 213 cases at September 30, 2011 (313 at September 30, 2010). This equates to 2.27% of commercial originated accounts compared to 2.41% at April 4, 2011 (3.15% at September 30, 2010).

The overall level of provision for commercial lending as a percentage of Nationwide originated assets is 2.28% at September 30, 2011 (April 4, 2011: 2.18%; September 30, 2010: 2.09%), and the provision coverage ratio against balances more than three months in arrears is 67% compared to 69% at April 4, 2011 and 51.5% at September 30, 2010.

The charge for consumer banking for the six month period ended September 30, 2011 reflects a decrease of £15 million compared with the six month period ended September 30, 2010. This is driven by both credit cards and current accounts, and principally relates to an overall reduction in the level of delinquent balances. Additionally, improved collection processes have increased the level of recoveries.

The charge for other lending for the six month period ended September 30, 2011 includes a net £1 million increase in provision for the secured European commercial loan portfolio and a £1 million increase in the provision for unsecured lending relating to the student loan portfolio.

#### *Provisions for liabilities and charges*

Provisions for liabilities and charges were £15 million for the six month period ended September 30, 2011 compared to a release of a provision of £10 million for the six month period ended September 30, 2010. Provisions for the six months ended September 30, 2011 relate entirely to PPI. The PPI provision follows significant developments since the initial PPI provision was estimated at the end of the financial year ended April 4, 2011. The Group has experienced a significant increase in complaints from PPI customers, fuelled by the outcome of a Judicial Review into FSA Policy Statement PS 10/12, media coverage of significant provisions raised by some of the larger banks and an increase in claims management company activity which is leading to a significant number of vexatious claims. In addition, the Group has received advice following a secondary legal review of the PPI root cause analysis prepared for the Group during the financial year ended April 4, 2011. This advice recommended that the review period for one of the two sales populations should be extended to also incorporate sales which arose during the period April 2006 to April 2007. In combination, these issues have led to a requirement to raise a PPI provision charge in the first half of the current financial year of £15 million, of which £10 million relates to the increased cost of processing the claims rather than to potential customer redress.

The release of other provisions in the period to September 30, 2010 related to a provision for historic customer bonus schemes which was no longer required.

### Impairment losses on investment securities

The £6 million treasury investments charge in the six month period ended September 30, 2011 is primarily in respect of our small private equity portfolio. The vast majority of this portfolio was disposed of in the period, realizing a gain of £3 million, and the two retained positions have now been fully provided for. The treasury investments impairment charge of £66 million in the six month period ended September 30, 2010 included £22 million for a small number of U.S. RMBS exposures, £15 million on a UK commercial mortgage backed security ("CMBS") and £11 million on notes of a restructured Structured Investment Vehicle ("SIV"). The remaining £18 million arose from a restructuring of subordinated debt from Irish banks (also acquired through SIV restructurings).

### Taxes

Tax on our profit on ordinary activities for the six month period ended September 30, 2011 amounted to £50 million based on our reported profit on ordinary activities before tax of £238 million, reflecting an effective tax rate of 21.0% as compared with the prevailing UK corporation tax rate of 26.0%.

For the six month period ended September 30, 2010, tax on our profit on ordinary activities amounted to £62 million based on our reported profit on ordinary activities of £259 million, reflecting an effective tax rate of 23.9% as compared with the prevailing UK corporation tax rate of 28.0%.

The lower effective tax rate is due principally to adjustments to amounts provided in respect of prior periods, lower overseas tax rates and the effect on deferred tax balances of applying the corporation tax rate change from 26.0% to 25.0%. This is partially offset by the effects of non-deductible expenditure, in particular bank levy charges.

### Balance Sheet Review

#### Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 83.4% of our total loans and advances to customers at September 30, 2011. The composition of lending has remained broadly consistent with that reported at April 4, 2011:

	As at September 30,		As at April 4,	
	2011		2011	
	<i>(£ billions, except percentages)</i>			
Prime residential mortgages.....	104.2	68.9%	104.3	69.7%
Specialist residential mortgages.....	21.9	14.5%	20.3	13.6%
<b>Total residential mortgages.....</b>	<b>126.1</b>	<b>83.4%</b>	<b>124.6</b>	<b>83.3%</b>
Commercial lending.....	21.9	14.5%	22.0	14.7%
Consumer banking .....	2.8	1.8%	2.5	1.7%
Other operations lending.....	0.4	0.3%	0.5	0.3%
<b>Gross balances.....</b>	<b>151.2</b>	<b>100.0%</b>	<b>149.6</b>	<b>100.0%</b>
Impairment provisions.....	(0.8)		(0.8)	
Fair value adjustments for micro hedged risk.....	1.2		0.6	
<b>Total.....</b>	<b>151.6</b>		<b>149.4</b>	

#### Residential mortgage portfolio

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet includes prime mortgages totaling £3.6 billion as at September 30, 2011 that were brought onto our balance sheet in prior years following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios, and a small element of prime residential lending originated through our specialist lending brand, The Mortgage Works (UK) plc ("TMW"). TMW gross advances over the six month period ended September 30, 2011 were £2.6 billion, double our lending in the same period last year (September 30, 2010: £1.3 billion).

Specialist residential mortgages are made up of £19.1 billion as at September 30, 2011 of advances made through our specialist lending brands, TMW and UCB Home Loans Corporation Limited ("UCB"), and £2.8 billion as at September 30, 2011 arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios. Loans were

advanced primarily in the Buy to Let and self-certification markets. As at September 30, 2011 Buy to Let mortgages make up 75% of total specialist lending, 17% relates to self-certification mortgages, 6% relates to near prime and just 2%, amounting to approximately £0.4 billion, relates to sub prime.

Gross prime lending in the six month period ended September 30, 2011 amounted to £6.6 billion compared to £4.7 billion in the six month period ended September 30, 2010. Gross specialist lending in the six month period ended September 30, 2011 of £2.3 billion was almost exclusively in the Buy to Let sector, with insignificant amounts of self-certified lending and no sub or near prime lending, which compares to £1.3 billion in the six month period ended September 30, 2010.

We have continued to focus on affordability and LTV ratios in underwriting loans during the period. The average LTV of residential mortgages completed has reduced to 62% from 66% at April 4, 2011 as we have increased our proportion of lending to the remortgage market. The average indexed LTV of residential mortgages at September 30, 2011 has also fallen slightly, to 48% from 49% at April 4, 2011.

	<b>As at September 30, 2011</b>	<b>As at April 4, 2011</b>
	<i>(percentages)</i>	
<b>Total portfolio of residential mortgages:</b>		
<50% .....	52	52
50% - 60% .....	10	9
60% - 70% .....	12	11
70% - 80% .....	12	11
80% - 90% .....	9	10
90% - 100% .....	4	5
> 100% .....	1	2
	<b>100</b>	<b>100</b>
Average loan to value of stock (indexed) .....	48	49
Average loan to value of new business .....	62	66
<b>New business profile:</b>		
First-time buyers .....	15	23
Home movers .....	26	34
Remortgagers .....	27	12
Buy-to-let .....	32	31
	<b>100</b>	<b>100</b>

The analysis of the new business profile excludes further advances, which were previously included in remortgages.

The table below shows that arrears on Nationwide originated prime lending remained stable, whilst there has been a reduction in specialist arrears as a result of reducing arrears volumes on the self originated books, and strong book growth in TMW. We continue to maintain our very favorable arrears position relative to the industry on both originated business and total lending including acquired loans. Our originated specialist mortgages continue to perform well, with arrears favorable to the overall industry measure that is inclusive of prime lending:

Cases three months or more in arrears as % of total book of residential mortgages	As at September 30, 2011	As at April 4, 2011
	<i>(percentages)</i>	
<b>Nationwide-originated residential mortgages:</b>		
Prime.....	0.53	0.53
Specialist.....	1.56	1.96
<b>Total Nationwide-originated residential mortgages .....</b>	<b>0.65</b>	<b>0.68</b>
<b>Group residential mortgages:<sup>(1)</sup></b>		
Prime.....	0.55	0.54
Specialist.....	2.16	2.47
<b>Total Group residential mortgages .....</b>	<b>0.76</b>	<b>0.77</b>
<b>Industry average .....</b>	<b>2.05</b>	<b>2.09</b>

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

Residential mortgage assets acquired with the Cheshire, Derbyshire and Dunfermline brands were fair valued at the time of acquisition on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £68 million of losses have been written off and, as reported at April 4, 2011, £33 million of surplus fair value credit risk adjustment on mortgage books has been released to margin. It is believed that the remaining £98 million is sufficient to cover all future losses. Accordingly, in evaluating the Group's exposure to losses, as well as the quality of its underwriting processes, it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

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

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

The number of properties in possession, including acquired loans, of 1,324 properties represents 0.096% of our book, which compares well with the industry measure of 0.123%. Excluding the impact of acquired loans, our position relative to the industry is even more favorable. The table below shows possessions as a percentage of book for both originated and acquired residential mortgages:

Possessions as % of total book of residential mortgages (number of properties)	As at September 30, 2011	As at April 4, 2011
	<i>(percentages)</i>	
<b>Nationwide-originated residential mortgages:</b>		
Prime.....	0.03	0.03
Specialist.....	0.47	0.34
<b>Total Nationwide-originated residential mortgages .....</b>	<b>0.09</b>	<b>0.06</b>
<b>Group residential mortgages:<sup>(1)</sup></b>		
Prime.....	0.03	0.03
Specialist.....	0.49	0.38
<b>Total Group residential mortgages .....</b>	<b>0.10</b>	<b>0.07</b>

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the six month period ended September 30, 2011, whilst the properties relating to Nationwide originated lending taken into possession has increased to 931, this still only represents 5.09% of properties taken in by the industry as a whole, against our par share of all cases of 11.58% (April 4, 2011: 11.40%).

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

	As at September 30, 2011				As at April 4, 2011					
	Prime lending	Specialist lending	Consumer banking	Total	Prime lending	Specialist lending	Consumer banking	Total		
	<i>(£ billions, except percentages)</i>									
<b>Not impaired:</b>										
Neither past due nor impaired.....	101.6	19.7	2.7	<b>124.0</b>	96%	101.8	18.2	2.3	<b>122.3</b>	96%
Past due up to 3 months but not impaired.	2.0	1.4	-	<b>3.4</b>	3%	1.9	1.4	0.0	<b>3.3</b>	3%
Impaired.....	0.6	0.9	0.1	<b>1.5</b>	1%	0.6	0.8	0.1	<b>1.5</b>	1%
<b>Total .....</b>	<b>104.2</b>	<b>21.9</b>	<b>2.8</b>	<b>128.9</b>	<b>100%</b>	<b>104.3</b>	<b>20.4</b>	<b>2.4</b>	<b>127.1</b>	<b>100%</b>

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

Loans in the analysis above which are less than 3 months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. Loans acquired from the Derbyshire, Cheshire and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for

anticipated losses over the remaining life of the loans. Impaired retail loans are broken down further in the following table:

	As at September 30, 2011				As at April 4, 2011					
	Prime lending	Specialist lending	Consumer banking	Total	Prime lending	Specialist lending	Consumer banking	Total		
<i>(£ millions, except percentages)</i>										
<b>Impaired status:</b>										
Past due 3 to 6 months .....	263	311	46	<b>620</b>	41%	271	290	50	<b>611</b>	41%
Past due 6 to 12 months .....	191	217	26	<b>434</b>	29%	187	228	44	<b>459</b>	30%
Past due over 12 months .....	85	146	-	<b>231</b>	15%	81	185	-	<b>266</b>	18%
Possessions .....	38	182	-	<b>220</b>	15%	33	130	-	<b>163</b>	11%
				<b>1,505</b>					<b>1,499</b>	
<b>Total .....</b>	<b>577</b>	<b>856</b>	<b>72</b>	<b>1,505</b>	<b>100%</b>	<b>572</b>	<b>833</b>	<b>94</b>	<b>1,499</b>	<b>100%</b>

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale.

£54 million of loans that would otherwise be past due or impaired have had their arrears capitalized in the six month period ended September 30, 2011 (year ended April 4, 2011: £276 million). Customers are only permitted to capitalize arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period or by over paying such that six months full payments are made over a four month period. Once capitalized the loans are categorized as not impaired as long as contractual repayments are maintained.

For the Nationwide prime portfolio, interest only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only and, if made, the arrears status of the account will not increase. As at September 30, 2011, 2,827 accounts were on an interest only concession, as compared to 2,802 at April 4, 2011.

Payment holidays allow non-arrears customers meeting required criteria to make reduced or nil payments. As at September 30, 2011, 1,954 accounts were on a payment holiday compared to 2,802 at April 4, 2011. We allow customers to extend their mortgage during the term of the mortgage where the extension meets our lending criteria.

For interest only customers who come to the end of their term and are unable to repay, term extensions will be considered on an individual basis after discussion with the customer. Such cases are typically low LTV and of limited exposure.

The provision methodology recognizes previous arrears as a driver of future default; therefore, capitalized accounts typically attract a higher provision than the rest of the not impaired portfolio for the 12 months following capitalization. The underlying performance of interest only concessions and payment holidays are also reflected in the provisioning methodology. For within term extensions, subsequent arrears performance is significantly better than for other concessions and therefore no specific provision is applied. Similarly, a provisions adjustment is not applied for end of term extensions which tend to be of limited exposure.

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

	As at September 30, 2011				As at April 4, 2011			
	Prime lending		Specialist lending		Prime lending		Specialist lending	
	<i>(£ million, except percentages)</i>							
Past due but not impaired.....	1,992	100%	1,352	99%	1,928	100%	1,334	99%
Impaired.....	535	99%	655	97%	535	99%	676	96%
Possessions .....	38	97%	157	86%	31	94%	116	89%
<b>Total .....</b>	<b>2,565</b>	<b>100%</b>	<b>2,167</b>	<b>97%</b>	<b>2,494</b>	<b>100%</b>	<b>2,126</b>	<b>97%</b>

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

The following table presents negative equity on residential mortgages:

	As at September 30, 2011		As at April 4, 2011	
	Prime lending	Specialist lending	Prime lending	Specialist lending
	<i>(£ million)</i>			
Past due but not impaired.....	3	13	6	14
Impaired.....	4	19	4	27
Possessions .....	-	25	2	14
<b>Total .....</b>	<b>7</b>	<b>57</b>	<b>12</b>	<b>55</b>

### Commercial loan portfolio

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under Private Finance Initiatives ("PFIs").

Our commercial lending portfolio of £21.9 billion as at September 30, 2011 (April 4, 2011: £22.0 billion) consists of £20.7 billion (April 4, 2011: £20.8 billion) of self originated lending and £1.2 billion (April 4, 2011: £1.2 billion) of assets acquired from the Derbyshire, Cheshire and Dunfermline building societies. Our originated portfolio comprises £11.7 billion secured on commercial property ('Property Finance'), £7.5 billion advanced to Registered Social Landlords and £1.5 billion advanced under Project Finance (principally via PFIs). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

On self originated lending we have only modest exposure to development finance, with total balances of £173 million as at September 30, 2011 which are due to reduce to £146 million during the quarter ended December 31, 2011 with one of the three high quality London Office projects we fund being scheduled to redeem in full, having already exchanged contracts. The non-UK self originated element of commercial property portfolio of £1.1 billion as at September 30, 2011 (April 4, 2011: £1.1 billion) does not contain any exposure to Greece, Italy, Portugal or Spain and only a single £14 million gross, £8 million net of provisions exposure to Ireland.

The number of Nationwide originated commercial property cases more than three months in arrears decreased from 235 cases at April 4, 2011 to 213 cases at September 30, 2011. This equates to 2.27% of commercial originated accounts as at September 30, 2011 (April 4, 2011: 2.41%). Total arrears balances on these cases at September 30, 2011 were £56 million (April 4, 2011: £48 million). Robust arrears management continues to focus on close and proactive management of arrears and loan maturities, and there are currently no arrears of three months or more on the Registered Social Landlord or PFI portfolios.

Commercial mortgage assets totaling £1.3 billion as at September 30, 2011 acquired through mergers with Cheshire and Derbyshire and the acquisition of the Dunfermline's social housing portfolio have been fair valued in the same way as described for residential assets above, including a credit risk adjustment at the time of the mergers of £179 million for anticipated losses over the remaining life of the loans, none of which relates to Dunfermline's social housing portfolio. A loan loss provision of £11 million has been raised since the mergers as 26 individually assessed cases have

an impairment provision requirement in excess of the original fair value adjustment. However, in most cases, the credit risk adjustment exceeds the current impairment provision requirement, and we continue to believe that acquired loans are unlikely to contribute any significant net losses to the Group over their lifetime.

Although there are increasing downside risks to the outlook for commercial property, with challenges arising due to weak UK economic performance combined with eurozone sovereign debt and banking concerns, we remain confident that our book, which is primarily focused on low risk lending, will still perform better than most.

### Other operations loan portfolio

Other lending operations as at September 30, 2011 include a secured European commercial loan portfolio of £192 million (April 4, 2011: £241 million) and unsecured lending of £236 million (April 4, 2011: £251 million) relating to a student loan portfolio. These investments were acquired by the Treasury division and are therefore held within the Head office functions business segment.

The tables below provide further information on commercial and other lending operations by payments due status:

	As at September 30, 2011				As at April 4, 2011			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired.....	19.7	90%	425	96%	20.2	92%	481	98%
Past due up to 3 months but not impaired.....	0.6	3%	7	2%	0.4	2%	4	1%
Impaired.....	1.6	7%	8	2%	1.4	6%	7	1%
<b>Total</b> .....	<b>21.9</b>	<b>100%</b>	<b>440</b>	<b>100%</b>	<b>22.0</b>	<b>100%</b>	<b>492</b>	<b>100%</b>

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

Loans in the analysis above which have not been individually assessed for impairment carry a collective impairment allowance to cover credit losses which have not yet been specifically identified. This analysis includes commercial mortgage assets totaling £1.2 billion as at September 30, 2011 (April 4, 2011: £1.2 billion) acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies. These loans were fair valued on a basis that made allowances for anticipated losses over the life of the loans. Impaired loans totaling £130 million as at September 30, 2011 (April 4, 2011: £141 million) in the above analysis have thus been fair valued and are therefore unlikely to contribute any significant further losses to the Group.

Within other lending operations there are £15 million as at September 30, 2011 (April 4, 2011: £11 million) past due or impaired balances, all of which relate to the unsecured student loan portfolio.

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

	As at September 30, 2011				As at April 4, 2011			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ million, except percentages)</i>							
<b>Impaired status:</b>								
Past due 0 to 3 months.....	679	43%	-	-	695	49%	-	-
Past due 3 to 6 months.....	205	13%	2	25%	111	8%	1	14%
Past due 6 to 12 months.....	277	18%	2	25%	235	16%	3	43%
Past due over 12 months.....	404	26%	4	50%	378	27%	3	43%
Possessions.....	1	-	-	-	1	-	-	-
<b>Total</b> .....	<b>1,566</b>	<b>100%</b>	<b>8</b>	<b>100%</b>	<b>1,420</b>	<b>100%</b>	<b>7</b>	<b>100%</b>

Commercial assets totaling £1,253 million as at September 30, 2011 (April 4, 2011: £1,152 million) not subject to fair value adjustments have individual provisions against them. Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale

The following table presents collateral held against past due or impaired commercial loans:

	<b>As at September 30, 2011</b>		<b>As at April 4, 2011</b>	
	<i>(£ million, except percentages)</i>			
Past due but not impaired.....	529	89%	363	93%
Impaired.....	1,110	64%	1,050	74%
<b>Total</b> .....	<b>1,639</b>	<b>71%</b>	<b>1,413</b>	<b>78%</b>

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The percentages in the table above represent the cover over the impaired asset. No collateral is held against the commercial property held in possession.

The following table presents negative equity on commercial and other operations loans:

	<b>As at September 30, 2011</b>	<b>As at April 4, 2011</b>
	<i>(£ million)</i>	
Past due but not impaired.....	35	28
Impaired.....	455	369
Possessions .....	1	1
<b>Total</b> .....	<b>491</b>	<b>398</b>

### Consumer banking

In consumer banking, the balance of accounts more than 30 days in arrears has shown an improvement in both personal loans and credit cards this half year, and where available our performance compared with the industry remains favorable. For FlexAccount, the increase in the percentage of accounts more than 30 days in arrears reflects a reduction in absolute arrears in conjunction with a more significant reduction in total overdraft balances as at September 30, 2011. The following table presents the percentage of FlexAccounts, personal loans and credit card accounts more than 30 days in arrears:

	<b>September 30, 2011</b>	<b>April 4, 2011</b>
	<i>%</i>	
FlexAccount.....	12.19	10.46
Personal loans .....	3.44	5.45
Credit Cards <sup>(1)</sup> .....	2.95	3.36

Note:

(1) The credit card figure quoted relates to August 2011, as the calculation is based on industry comparable calculations.

## ***Funding and Liquidity***

### *Overview*

The Society has a strong and well diversified funding base, which continues to be predominantly comprised of retail savings. Over the course of the half year, we have continued to actively manage our balance sheet in response to conditions in both the retail and wholesale markets.

As a building society, we have always maintained a high level of unencumbered liquid assets relative to our banking peers, and our core liquidity remains strong at 13.5% (April 4, 2011: 13.8%).

### *Liquidity*

Liquidity, together with funding and capital, represents the cornerstone of financial risk management in a financial institution.

We have a comprehensive Liquidity Risk Management Framework for managing the Group's liquidity risk. Stress tests applied under this Framework consider a range of possible wholesale and retail factors leading to loss of financing. Since June 2010, we have reported our liquidity position against backstop Individual Liquidity Guidance ("**ILG**") provided by the FSA. Calibration of the Group's Liquidity Risk Management Framework anticipated the final FSA rules and is therefore broadly consistent with current FSA standards.

In December 2010, the Basel Committee on Banking Supervision issued its proposals for liquidity risk management, standards and monitoring. These included a short term liquidity stress metric, the Liquidity Coverage Ratio ("**LCR**"), and a longer term liquidity metric, the Net Stable Funding Ratio ("**NSFR**"). These proposals are subject to ongoing refinement and have not yet been enacted into UK or European law. The Group monitors compliance against these internal metrics, and as at September 30, 2011 the LCR was estimated at 119% and the NSFR at 112%. Estimations are made using our interpretation of the draft directive, which has yet to be incorporated into the European and UK regulatory framework and therefore remains subject to change. The FSA is expected to bring its ILG metrics into line with the Basel Liquidity Coverage Ratio over time.

Liquid assets generally comprise cash deposits held with Central Banks or unencumbered securities that may be freely sold or are capable of financing through repurchase ('repo') agreements or other similar arrangements, either direct with those Central Banks to which the Group has access, or with market counterparties. The stock of liquid assets managed by Nationwide's Treasury division fall into the following four categories:

### *Core Liquidity*

The Group has continued to focus on the growth and diversification of its core liquidity portfolio through investing in a greater volume of highly liquid sovereign securities. The core portfolio is aligned to the 'Liquid Assets Buffer' defined by the FSA in BIPRU 12 and comprises:

- Deposits held at, and securities issued by, the BoE;
- Highly rated debt securities of varying maturities issued by governments or multi-lateral development banks.

In line with other major UK institutions, the Group made use of the BoE Special Liquidity Scheme ("**SLS**") facility at the height of the market dislocation in 2008. As at September 30, 2011 we had substantially repaid our SLS drawings.

As at September 30, 2011, the core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 13.5% (April 4, 2011: 13.8%). This calculation is made net of any core liquidity holdings that are subject to repo arrangements and includes assets held under reverse repo arrangements and Treasury bills held under the SLS.

### *Other Eligible Central Bank Assets*

In addition to the core portfolio, as at September 30, 2011 the Group held a stock of unencumbered securities (excluding self-issuance) that are eligible collateral for either the European Central Bank's ("**ECB**") repo operations, for the BoE extended collateral repo operations or the BoE discount window facility. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

### Other Securities

Nationwide holds other third party liquid assets (such as Floating Rate Notes) that are not eligible at either the BoE's or the ECB's operations but may be capable of financing through third party repo agreements.

### Self Issued RMBS and Covered Bonds

The Group holds a stock of self-issued AAA RMBS and covered bonds. These self issued securities are capable of repo financing either directly with the market or with central banks to which the Group has direct access, and therefore represent contingent liquidity available to the Group if necessary.

The table below sets out the fair value – before any 'haircut' deduction – of each of the above liquidity types as at September 30, 2011. The table includes off balance sheet liquidity (including treasury bills held under the Special Liquidity Scheme, reverse repos, self issued RMBS and covered bonds) but excludes any encumbered assets:

	<b>As at September 30, 2011</b>	<b>As at April 4, 2011</b>
	<i>(£ billion)</i>	
Core liquidity .....	23.7	23.5
Other central bank eligible assets .....	3.6	5.6
Other securities .....	4.4	3.2
Self-issued RMBS and covered bonds.....	16.9	18.3
<b>Total</b> .....	<b>48.6</b>	<b>50.6</b>

### Wholesale funding

An analysis of the Group's wholesale funding (made up of deposits from banks, other deposits and debt securities in issue as disclosed on the balance sheet) is set out in the table below:

	<b>As at September 30, 2011</b>		<b>As at April 4, 2011</b>	
	<i>(£ billion, except percentages)</i>			
Repo and other secured agreements.....	3.2	6.8%	2.7	5.9%
Deposits .....	8.8	18.7%	6.9	15.0%
Certificates of deposit .....	5.4	11.5%	4.7	10.2%
Commercial paper.....	3.0	6.4%	6.2	13.4%
Covered bonds .....	12.6	26.9%	12.3	26.7%
Medium term notes .....	8.0	17.1%	8.4	18.2%
Securitizations.....	3.7	7.9%	3.7	8.0%
Other non-retail.....	2.2	4.7%	1.2	2.6%
<b>Total</b> .....	<b>46.9</b>	<b>100.0%</b>	<b>46.1</b>	<b>100.0%</b>

Included in the other category above are hedging adjustments and accrued interest. Stripping out the increases in these items, the absolute amount of wholesale funding has marginally decreased over the six months ended September 30, 2011, with the wholesale funding ratio decreasing to 25.6% as at September 30, 2011 compared to 25.9% as at April 4, 2011.

During the year ended April 4, 2011 we were particularly active in the long term debt markets issuing £5.8 billion against our £1.8 billion of maturing long term debt. In the current financial year we have £3.5 billion of long term debt maturing, and we have already re-financed this through a combination of a covered bond and RMBS issuances in October 2011 (see below) and £1.0 billion of private placements in the period to September 30, 2011. The Group can therefore be selective in accessing public long term funding markets

throughout the remainder of this financial year but will continue to do so where it is appropriate and cost efficient.

The following public issuances in October 2011 demonstrate the strength of institutional support for Nationwide:

- A €1.5 billion 5 year covered bond. This was the first benchmark UK issuance since August 2011.
- An RMBS issuance through our Silverstone Master Trust vehicle raising £2.25 billion Sterling equivalent in US dollars and Sterling. This was the first fully public asset backed securities deal since the re-emergence of the European sovereign debt concerns. Issuance was in 3 tranches with maturities of 3, 5 and 9 years, respectively.

In addition to the public transactions, we also issued £0.6 billion of long term private placements to institutional investors in the first half of the current financial year with a weighted life of 8 years.

We have reduced the amount of short term instruments we hold to £13.4 billion as at September 30, 2011 (April 4, 2011: £14.8 billion) from a high of £19.6 billion as at April 4, 2009. We have maintained good and ready access to short term markets during the period – albeit at shorter average terms of issuance – despite the re-emergence of European sovereign concerns but have been selective in our usage of the different markets.

The table below summarizes the residual maturity of the wholesale funding book at September 30, 2011 (and therefore does not include the covered bond and RMBS term issuances in October as noted above). The balances due in more than one year have decreased over the period as a consequence of the pre-funding in the year ended April 4, 2011 and no public issuances in the period to September 30, 2011, but are still only just below 50.0% – taking into account the long term issuance in October 2011 referred to above, this proportion has now returned to 55.0% and is therefore broadly in line with prior year end:

	As at September 30, 2011		As at April 4, 2011	
	<i>(£ billion, except percentages)</i>			
Less than one year .....	23.8	51.0%	20.0	43.3%
One to two years .....	1.8	3.9%	4.9	10.6%
Two to five years .....	12.8	27.4%	13.6	29.5%
More than five years .....	8.3	17.7%	7.6	16.5%
<b>Total</b>	<b>46.7</b>	<b>100.0%</b>	<b>46.1</b>	<b>100.0%</b>

Our short and long term credit ratings from the major rating agencies as at November 21, 2011 are as follows:

	<u>Long Term</u>	<u>Short Term</u>	<u>Subordinated</u>	<u>Date of last rating action<sup>(1)</sup></u>
S&P.....	A+	A-1	BBB+	December 2011
Moody's.....	A2	P-1	Baa3	October 2011
Fitch.....	A+	F1	A-	November 2011
DBRS.....	AA	R-1 (middle)	AA (low)	December 2010

Note:

- (1) The current outlook from Moody's and S&P is stable. The outlook from Fitch and DBRS, Inc. ("DBRS") is negative.

On October 7, 2011 Moody's announced that it was downgrading the senior debt and deposit ratings of 12 UK financial institutions and confirming the ratings of one institution, following its review of systemic support assumptions from the UK government for these institutions, which it initiated on May 24, 2011. The ratings actions announced

included a two-notch downgrade of our long-term debt rating from Aa3 to A2. See "*Risk Factors – Rating downgrade and/or market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on our performance and/or the marketability and liquidity of the Notes*".

On November 3, 2011, Fitch announced that it was downgrading the long-term and short-term ratings of the Issuer and its debt and that such rating actions were consistent with Fitch's broad review of European banks. The ratings actions announced included a downgrade of the Issuer's long-term debt rating from AA- to A+. See "*Risk Factors – Rating downgrade and/or market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on our performance and/or the marketability and liquidity of the Notes*".

#### *Treasury Assets*

The amount of on balance sheet treasury assets, viewed from an asset quality perspective, is different to the amount from a liquidity perspective, in that the former excludes off balance sheet liquidity but includes encumbered assets that do not count for liquidity purposes.

Group treasury assets at September 30, 2011 were £33.3 billion (April 4, 2011: £31.9 billion) and are held in two separate portfolios: the treasury liquidity portfolio (previously known as the prudential portfolio) and the investment portfolio. At September 30, 2011, the treasury liquidity portfolio totaled £30.2 billion (April 4, 2011: £28.6 billion) with the investment portfolio totaling £3.1 billion (April 4, 2011: £3.3 billion).

We have continued to manage the treasury liquidity portfolio to increase the quality and liquidity of the assets, with 70% of the portfolio held in sovereign and supranational exposures (April 4, 2011: 65%). The £1.6 billion increase in the portfolio comprises high quality, predominantly sovereign or government backed assets. 97% of the portfolio is rated A or better with 86% rated AA or above (April 4, 2011: 99% rated A or better, 86% rated AA or better).

The following tables show the breakdown of the prudential portfolio at September 30, 2011 and April 4, 2011 by credit rating and geography:

As at September 30, 2011

Liquidity Portfolio (£ billion)	Credit Rating				Geography				
	AAA	AA	A	Other	UK	US	Europe	Other	
Cash .....	6.3	100	-	-	-	100	-	-	-
Loans to financial institutions .....	3.7	-	49	50	1	38	15	24	23
Other (including items in transit and clearing accounts) .....	0.7	100	-	-	-	100	-	-	-
<b>Non AFS Assets .....</b>	<b>10.7</b>								
Gilts .....	11.9	100	-	-	-	100	-	-	-
Non Domestic Government Bonds .....	1.5	47	53	-	-	-	53	47	-
Supranational bonds .....	1.4	100	-	-	-	-	-	100	-
RMBS .....	2.0	54	22	18	6	36	-	58	6
Covered bonds .....	0.7	68	11	12	9	-	4	87	9
Floating rate notes .....	2.0	10	16	56	18	14	13	58	15
<b>AFS Assets .....</b>	<b>19.5</b>								
<b>Total liquidity portfolio .....</b>	<b>30.2</b>	<b>75</b>	<b>11</b>	<b>11</b>	<b>3</b>	<b>71</b>	<b>5</b>	<b>20</b>	<b>4</b>

As at April 4, 2011

Liquidity Portfolio (£ billion)	Credit Rating				Geography				
	AAA	AA	A	BBB	UK	US	Europe	Other	
BoE .....	6.1	100	-	-	-	100	-	-	-
Loans to financial institutions .....	3.7	-	44	56	-	73	-	15	12
Other (including items in transit and clearing accounts) .....	0.6	-	-	-	-	100	-	-	-
<b>Non AFS Assets .....</b>	<b>10.4</b>								
Gilts .....	8.6	100	-	-	-	100	-	-	-
Non domestic government bonds .....	2.2	100	-	-	-	-	40	60	-
Supranational bonds .....	1.8	100	-	-	-	-	-	100	-
RMBS .....	2.3	85	11	2	2	43	-	52	5
Covered bonds .....	0.7	67	18	8	7	-	4	88	8
Floating rate notes .....	2.6	13	18	49	20	18	11	58	13
<b>AFS Assets .....</b>	<b>18.2</b>								
<b>Total liquidity portfolio .....</b>	<b>28.6</b>	<b>77</b>	<b>9</b>	<b>13</b>	<b>1</b>	<b>71</b>	<b>4</b>	<b>22</b>	<b>3</b>

Ratings are obtained from S&P in the majority of cases, or from Moody's if there is no S&P rating available, with internal ratings used if neither is available.

The Group has continued to increase the quality of the Treasury liquidity portfolio, with 70% (April 4, 2011: 65%) of assets as at September 30, 2011 held in sovereign and supranational exposures and 97% (April 4, 2011: 99%) of the portfolio rated A or better, with 86% (April 4, 2011: 86%) rated AA or above.

The treasury investment portfolio was originally established to generate additional income for the Group. As at September 30, 2011, 85% of the investment portfolio is rated A or better (April 4, 2011: 84%) with 60% rated AA or better (April 4, 2011: 63%). The reduction in the investment portfolio from £3.3 billion as at April 4, 2011 to £3.1 billion as at September 30, 2011 has been predominately driven by paydowns received relating to the asset and mortgage backed securities and maturing investments. We are managing the existing portfolio to minimize potential risk whilst reinvesting some of the paydowns into high quality asset backed securities, mainly RMBS. The portfolio has experienced some negative rating migration as a result of the ongoing implementation of rating agency methodology changes and continued asset quality deterioration, particularly for CMBS and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

We have no direct sovereign exposure to peripheral eurozone countries (Portugal, Ireland, Italy, Greece and Spain). Within the treasury assets as at September 30, 2011 we have £1.9 billion fair value of non-sovereign securities issued in these countries as detailed below. Of this, 57% is rated AA or above (April 4, 2011: 59%) and 75% is rated A or above (April 4, 2011: 72%). This exposure has reduced by 18% over the first half of the current financial year, and a further £547 million nominal, primarily senior bank debt, matures over the next 12 months.

The following tables show the breakdown of the investment portfolio at September 30, 2011 and April 4, 2011 by credit rating and geography:

	As at September 30, 2011								
	Investment Portfolio – all AFS assets (£ billion)	Credit Rating				Geography			
		AAA	AA	A	Other	UK	US	Europe	Other
					(percentages)				
Collateralized debt obligations ("CDO").....	0.1	-	-	-	100	-	100	-	-
Collateralized loan obligations – ("CLO").....	0.6	6	80	14	-	32	68	-	-
CMBS .....	0.5	6	34	41	19	66	17	17	-
Corporate bond portfolio .....	0.1	-	39	-	61	61	39	-	-
Credit card backed securities .....	0.1	100	-	-	-	27	73	-	-
Financial institutions including subordinated debt....	0.3	-	25	51	24	37	9	43	11
RMBS .....	0.6	10	49	28	13	80	17	1	2
US student loan.....	0.7	68	6	17	9	-	100	-	-
Other investments .....	<b>0.1</b>	<b>18</b>	<b>32</b>	<b>27</b>	<b>23</b>	<b>16</b>	<b>48</b>	<b>23</b>	<b>13</b>
<b>Total .....</b>	<b>3.1</b>	<b>24</b>	<b>36</b>	<b>25</b>	<b>15</b>	<b>40</b>	<b>50</b>	<b>8</b>	<b>2</b>

**As at April 4, 2011**

Investment Portfolio – all AFS assets (£ billion)	Credit Rating				Geography				
	AAA	AA	A	Other	UK	US	Europe	Other	
	(percentages)								
CDO.....	0.1	-	-	-	100	-	100	-	-
Collateralized loan.....	0.6	6	82	12	-	26	74	-	-
CMBS.....	0.6	39	23	16	22	66	14	20	-
Corporate bond portfolio.....	0.1	-	40	-	60	60	40	-	-
Credit card backed securities.....	0.2	100	-	-	-	17	83	-	-
Financial institutions including subordinated debt.....	0.4	-	21	61	18	32	15	42	11
Other corporate bonds.....	-	-	36	-	64	100	-	-	-
RMBS.....	0.5	31	30	19	20	76	22	1	1
US student loan.....	0.7	68	6	17	9	-	100	-	-
Other investments.....	0.1	22	21	31	26	28	44	19	9
<b>Total.....</b>	<b>3.3</b>	<b>35</b>	<b>28</b>	<b>21</b>	<b>16</b>	<b>37</b>	<b>51</b>	<b>10</b>	<b>2</b>

Nationwide has £135 million of exposure to monoline insured transactions. Three holdings totaling £11 million were impaired in the year ended April 4, 2011 following coupon deferral (not covered by the terms of the insurance). The Group is reliant on the monoline insurance provider for one further holding (exposure £2 million) but in all other cases anticipates full repayment without any assistance from the insurance provider. This is mainly as a result of the approach taken upon investment, where no reliance is placed on the monoline insurance, requiring the investment to stand up to credit analysis in its own right.

Collateral held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets. In addition, collateral is held under sale and reverse sale and repurchase agreements.

An independent monthly review is undertaken by Risk Management Division on the current and expected future performance of all treasury assets. A governance structure exists to identify and review under-performing assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are impaired where there is objective evidence that current events and/or performance will result in a loss. None of our exposures to the peripheral eurozone countries are in default, and we have not incurred any impairment on these assets in the period, but an impairment charge of £18 million was recognized in the year ended April 4, 2011 from a restructuring of Irish banks' subordinated debt. We continue to monitor closely the exposures to these countries.

*Available for sale reserve*

Out of a total of £33.3 billion of treasury assets held in the treasury liquidity and investment portfolios as at September 30, 2011, £22.6 billion are held as AFS. Under IFRS they are marked to market through other comprehensive income, and fair value movements are accumulated in reserves. The non-AFS assets are predominantly short term loans to financial institutions or deposits with the BoE. Of the £22.6 billion of AFS assets, only £132 million are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7.

The assets have been carefully reviewed based upon the latest performance data, but no impairment charge has been booked during the six month period ended June 30, 2011 against the AFS assets shown below. The fair value movement of AFS assets that are not impaired has no effect on the Group's profit for the period or its regulatory capital.

As at September 30, 2011, the balance on the AFS reserve has increased to £535 million negative, net of tax (April 4, 2011: £487 million negative). This deterioration is a reflection of escalating European sovereign concerns and reduced liquidity in the period.

The following table shows the breakdown of AFS reserves as at September 30, 2011 and April 4, 2011:

	<u>As at September 30, 2011</u>		<u>As at April 4, 2011</u>	
	<u>Cumulative AFS Reserve</u>	<u>Fair Value on balance sheet</u>	<u>Cumulative AFS Reserve</u>	<u>Fair Value on balance sheet</u>
		<i>(£ billion)</i>		
Gilts and Supranational bonds .....	(1.0)	14.8	(0.1)	12.6
RMBS .....	0.2	2.0	0.1	2.3
Covered bonds and floating rate notes.....	0.1	2.7	0.3	3.3
<b>Liquidity portfolio .....</b>	<b>(0.7)</b>	<b>19.5</b>	<b>0.3</b>	<b>18.2</b>
CDO.....	0.1	0.1	0.1	0.1
CLO .....	-	0.6	-	0.6
CMBS .....	0.1	0.5	0.1	0.6
Corporate bond portfolio .....	-	0.1	-	0.1
Credit card backed securities .....	-	0.1	-	0.2
Financial institutions including sub debt .....	-	0.3	-	0.4
RMBS .....	0.1	0.6	0.1	0.5
US student loan.....	0.1	0.7	0.1	0.7
Other investments .....	-	0.1	-	0.1
<b>Investment Portfolio .....</b>	<b>0.4</b>	<b>3.1</b>	<b>0.4</b>	<b>3.3</b>
<b>Negative AFS reserve before hedge accounting and taxation.....</b>	<b>(0.3)</b>		<b>0.7</b>	
<b>AFS Assets .....</b>		<b>22.6</b>		<b>21.5</b>
Hedge accounting adjustment for interest rate risk...	1.0		-	
Taxation .....	(0.2)		(0.2)	
<b>Negative AFS reserve.....</b>	<b>0.5</b>		<b>0.5</b>	

The following table provides an analysis of financial assets and liabilities held on our balance sheet at fair value, grouped in levels 1 to 3 based on the degree to which the fair value is observable:

	As at September 30, 2011			Total
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	
	<i>(£ million)</i>			
Investment securities – AFS .....	14,542	7,900	132	<b>22,574</b>
Investments in equity shares .....	6	-	25	<b>31</b>
Derivatives financial instruments .....	-	4,917	106	<b>5,023</b>
<b>Financial assets</b> .....	<b>14,548</b>	<b>12,817</b>	<b>263</b>	<b>27,628</b>
Derivative financial instruments .....	-	(4,545)	(73)	<b>(4,618)</b>
Other deposits – PEB.....	-	-	(2,611)	<b>(2,611)</b>
<b>Financial liabilities</b> .....	-	<b>(4,545)</b>	<b>(2,684)</b>	<b>(7,229)</b>
	As at April 4, 2011			
	Level 1	Level 2	Level 3	Total
	<i>(£ million)</i>			
Investment securities – AFS .....	12,319	9,126	95	21,540
Investments in equity shares .....	5	-	98	103
Derivatives financial instruments <sup>(4)</sup> .....	-	3,873	88	3,961
<b>Financial assets</b> .....	<b>12,324</b>	<b>12,999</b>	<b>281</b>	<b>25,604</b>
Derivative financial instruments <sup>(4)</sup> .....	-	(3,158)	(76)	(3,234)
Other deposits – PEB.....	-	-	(2,125)	(2,125)
<b>Financial liabilities</b> .....	-	<b>(3,158)</b>	<b>(2,201)</b>	<b>(5,359)</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, asset backed securities, 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 asset backed securities and bonds.

There were no transfers between level 1 and level 2 assets, and the increase in level 1 assets primarily reflects the increase in the gilt portfolio over the period.

The increase in level 3 assets from £95 million as at April 4, 2011 to £132 million as at September 30, 2011 is due predominantly to the transfer of three AFS holdings from level 2 to level 3 with a small offset for other fair value movements.

Level 3 investments in equity shares have reduced from £98 million as at April 4, 2011 to £25 million as at September 30, 2011 primarily as a consequence of the disposal of substantially all of the Group's small private equity portfolio. The increase in level 3 other deposits – PEB and the related derivative balances reflects the growth of the PEB portfolio and other market movements impacting valuation.

## Results of Operations for the Year Ended April 4, 2011 Compared with the Year Ended April 4, 2010

### Introduction

We believe that our results indicate a strong performance from Nationwide, with underlying profit before tax up 30% when compared with the year ended April 4, 2010. We have maintained our strong balance sheet, excellent capital ratios and strong consumer franchise. Our focus on the needs of our members has resulted in us performing well in our core markets. Underlying profit before tax equates to reported profit before tax adjusted for the add back of movements

in the value of derivatives and hedge accounting, FSCS levy releases, transformation costs and gains on business combinations.

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

<b>For the year ended April 4, 2011</b>					
	<b>As reported</b>	<b>Fair value and other adjustments</b>	<b>FSCS cost</b>	<b>Transformation costs</b>	<b>Underlying profit before tax</b>
	<i>(£ millions)</i>				
Net interest income .....	1,537	-	-	-	1,537
Other income .....	445	-	-	-	445
Fair value adjustments from derivatives and hedge accounting .....	120	(120)	-	-	-
<b>Total income</b> .....	<b>2,102</b>	<b>(120)</b>	<b>-</b>	<b>-</b>	<b>1,982</b>
Administrative expenses .....	1,158	-	-	(29)	1,129
Depreciation and amortization.....	150	-	-	-	150
Impairment losses on loans and advances to customers .....	359	-	-	-	359
Provisions for liabilities and charges .....	52	-	(50)	-	2
Impairment losses on investment securities .....	66	-	-	-	66
<b>Profit before tax</b> .....	<b>317</b>	<b>(120)</b>	<b>(50)</b>	<b>(29)</b>	<b>276</b>

<b>For the year ended April 4, 2010</b>					
	<b>As reported</b>	<b>Fair value and other adjustments</b>	<b>FSCS cost</b>	<b>Transformation and business combinations</b>	<b>Underlying profit before tax</b>
	<i>(£ millions)</i>				
Net interest income .....	1,714	-	-	-	1,714
Other income .....	421	-	-	(40)	381
Fair value adjustments from derivatives and hedge accounting .....	34	(34)	-	-	-
<b>Total income</b> .....	<b>2,169</b>	<b>(34)</b>	<b>-</b>	<b>(40)</b>	<b>2,095</b>
Administrative expenses .....	1,195	-	-	(62)	1,133
Depreciation and amortization.....	151	-	-	-	151
Impairment losses on loans and advances to customers .....	549	-	-	-	549
Provisions for liabilities and charges .....	(103)	-	117	-	14
Impairment losses on investment securities .....	36	-	-	-	36
<b>Profit before tax</b> .....	<b>341</b>	<b>(34)</b>	<b>(117)</b>	<b>22</b>	<b>212</b>

The following discussion considers our results for the year ended April 4, 2011 compared to our results for the year ended April 4, 2010.

### **Total income**

Our total income has decreased by 3% to £2,102 million in the year ended April 4, 2011 compared to £2,169 million in the year ended April 4, 2010. The following table sets forth the components of income for the years ended April 4, 2011 and April 4, 2010, respectively:

	<b>For the year ended April 4,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
Net interest income .....	1,537	1,714
Net fees and commissions .....	436	373
Income from investments .....	4	1
Other operating income .....	5	47
Gains/ (losses) from derivatives and hedge accounting .....	120	34
<b>Total</b> .....	<b>2,102</b>	<b>2,169</b>

### **Net interest income**

Net interest income decreased by 10.3% to £1,537 million for the year ended April 4, 2011 compared with £1,714 million for the year ended April 4, 2010.

The following table sets forth the components of net interest income for the years ended April 4, 2011 and 2010, respectively:

	<b>For the year ended April 4,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
<b>Interest and similar income:</b>		
On residential mortgages .....	5,004	5,289
On other loans .....	1,148	1,150
On investment securities .....	1,029	1,056
On other liquid assets .....	32	47
Net (expense) on financial instruments hedging assets.....	(2,738)	(3,116)
Expected return on pension assets .....	168	122
Foreign exchange difference.....	-	20
<b>Total interest and similar income</b> .....	<b>4,643</b>	<b>4,568</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(2,510)	(2,326)
On subscribed capital .....	(96)	(96)
On deposits and other borrowings:		
Subordinated liabilities .....	(110)	(95)
Other .....	(258)	(384)
Debt securities in issue .....	(918)	(884)
Net income on financial instruments hedging liabilities .....	952	1,077
Pension interest cost .....	(166)	(146)
<b>Total interest expense and similar charges</b> .....	<b>(3,106)</b>	<b>(2,854)</b>
<b>Net interest income</b> .....	<b>1,537</b>	<b>1,714</b>

### ***Interest and similar income***

Interest and similar income increased by 1.6% to £4,643 million in the year ended April 4, 2011 from £4,568 million in the year ended April 4, 2010.

#### ***On residential mortgages***

Interest on residential mortgages decreased by 5.4% to £5,004 million in the year ended April 4, 2011 from £5,289 million in the year ended April 4, 2010. The reduction in income is attributable to the combination of a 2% decrease in the size of our average residential mortgage portfolio to £135,256 million in the year ended April 4, 2011 from £138,005 million in the year ended April 4, 2010 and a small decrease in average interest rates between the two periods to 3.70% for the year ended April 4, 2011 from 3.83% for the year ended April 4, 2010. The decrease in the size of our average residential mortgage portfolio reflects active management of our balance sheet, adjusting our business flows in response to the continuing difficult market conditions.

#### ***On other loans***

Interest on other loans includes interest income that we earned from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans was stable at £1,148 million in the year ended April 4, 2011 compared to £1,150 million in the year ended April 4, 2010.

#### ***On investment securities***

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

Interest and other income from investment securities decreased by 2.6% to £1,029 million for the year ended April 4, 2011 compared with £1,056 million for the year ended April 4, 2010. However, net of foreign exchange differences and net expenses on financial instruments hedging assets, there has been a decrease to £314 million for the year ended April 4, 2011 from £527 million for the year ended April 4, 2010. This decrease is due to a fall of 7% in the average balance of securities held in both the investment and liquidity portfolios to £22,123 million in the year ended April 4, 2011 from £23,780 million for the year ended April 4, 2010 combined with a decrease in the average interest rate earned on such assets to 1.42% in the year ended April 4, 2011, compared to 2.22% for the year ended April 4, 2010. The decrease in average interest rates is a direct result of decreases in market rates between the two periods.

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

We use derivative instruments to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets”. In the year ended April 4, 2011, we incurred a net expense of £2,738 million on financial instruments used to hedge our fixed rate assets compared with a net expense of £3,116 million in the year ended April 4, 2010. As LIBOR rates have remained at very low levels seen during the years ended April 4, 2011 and April 4, 2010, the floating rate income on these financial instruments has reduced, resulting in an increased expense to the Group.

#### ***Expected return on pension assets***

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

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

Interest expense and similar charges increased by 8.8% in the year ended April 4, 2011 to £3,106 million from £2,854 million in the year ended April 4, 2010.

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

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits increased by 8.0% at £2,510 million in the year ended April 4, 2011 from £2,326 million in the year ended April 4, 2010.

This results from an increase in the average interest rate that we paid to depositors to 2.05% for the year ended April 4, 2011 compared with 1.9% in the year ended April 4, 2010, which was marginally offset by a 0.6% reduction in the average balance of UK retail member deposits held to £122,259 million in the year ended April 4, 2011 from £122,999 million in the year ended April 4, 2010. In the current low interest rate environment the UK savings market remains subdued. We have actively managed our flow of retail savings to achieve a balance between securing funds at an economic rate and providing long term good value to our members.

#### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the year ended April 4, 2011, interest on subordinated liabilities increased by 15.8% to £110 million from £95 million in the year ended April 4, 2010. The increase was partially a result of refinancing subordinated debt: we issued €750 million of new subordinated debt on July 2010 with a coupon of 6.75% and redeemed in August 2010 our existing issue of the same size that had a coupon of 3.375%. The remaining increase in the interest expense was a result of exchange rate movements as all interest rates on our subordinated liabilities are fixed and therefore not affected by changes in market interest rates.

Other interest expense on deposits and other borrowings includes the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended April 4, 2011, other interest expense on deposits and other borrowings decreased by 32.8% to £258 million from £384 million in the year ended April 4, 2010. This reduction is due to a combination of the fall in market interest rates together with a decrease in the average monthly balance of deposits and other borrowings, excluding subordinated liabilities, of 26.5% to £15,140 million in the year ended April 4, 2011 compared with £20,609 million in the year ended April 4, 2010.

#### *Debt securities in issue*

Debt securities in issue include interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the year ended April 4, 2011, interest expense on debt securities in issue increased by 3.5% to £915 million from £884 million in the year ended April 4, 2010. This increase, reflecting an increase in the average interest rate paid before adjusting for income/expense on financial instruments hedging liabilities, increased slightly to 2.55% for the year ended April 4, 2011, compared with 2.33% for the year ended April 4, 2010, the effect of which was partially offset by a 5.5% decrease in the average monthly balance of debt securities in issue to £35,834 million in the year ended April 4, 2011, compared with £37,937 million in the year ended April 4, 2010. The decrease in the amount of debt security was due to changes in our internal liquidity requirements that were predominantly driven by changes in external market factors between the two periods.

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

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as “net income/expense on financial instruments hedging liabilities”. In the year ended April 4, 2011, net income on financial instruments used to hedge our fixed rate liabilities was £952 million, compared with a net income of £1,077 million in the year ended April 4, 2010. The decrease was a result of the performance of derivatives in the market.

#### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the years ended April 4, 2011 and 2010 respectively:

	<b>For the year ended April 4,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
<b>Fee and commission income:</b>		
Mortgage related fees .....	36	28
Banking and savings fees.....	166	149
General insurance fees.....	142	128
Other fees and commissions .....	96	73
<b>Total fee and commission income.....</b>	<b>440</b>	<b>378</b>
<b>Fee and commission expense:</b>		
Mortgage related fees .....	1	1
Other fees and commissions .....	3	4
<b>Total fee and commission expense.....</b>	<b>4</b>	<b>5</b>
<b>Net fee and commission income .....</b>	<b>436</b>	<b>373</b>

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

In the year ended April 4, 2011, net fees and commissions increased by 16.9% to £436 million compared with £373 million in the year ended April 4, 2010.

The increase in other fees and commissions income reflects our strategic focus to diversify our income base. The increase in banking and savings fees includes increased VISA interchange income on current accounts following the introduction of point of sale access for our basic bank account customers and overseas commission charges. There also has been a strong growth in investment income in the year ended April 4, 2011, driven by increased sales of long term investments. In addition, profit share from mortgage payment protection insurance policies increased in the year ended April 4, 2011, as a result of lower unemployment claims compared with the previous year. A further increase in mortgage related fee income has been derived from the commercial lending portfolio as a number of loans have been progressively restructured on maturity or on renegotiation of terms with borrowers.

#### ***Other operating income***

In the year ended April 4, 2011, other operating income decreased by 89% to £5 million, compared with £47 million in the year ended April 4, 2010. This was due to the inclusion in other operating income for the year ended April 4, 2010 of a one-time £40 million gain on the Dunfermline Social Housing portfolio which was acquired from DBS Bridge Bank Limited on June 30, 2009.

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

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives are only used to limit the extent to which we could be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. 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 fair value of the underlying asset or liability being hedged. Any ineffectiveness arising from different movements in fair value will likely trend to zero over time.

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

Gains from derivative and hedge accounting were £120 million in the year ended April 4, 2011 compared to gains of £34 million in the year ended April 4, 2010. The £120 million credit in the year ended April 4, 2011 (year ended April 4, 2010: £34 million) represents the change during such period in the fair value of exposure-limiting derivative

instruments that are matching risk exposures on an economic basis. offset, where applicable, by the change in fair value of the underlying asset or liability attributable to the hedged risk. Even though the Group uses derivatives exclusively for risk management purposes, income statement volatility arises due to accounting ineffectiveness of designated hedges, as a result of strategy changes or because hedge accounting has not been adopted or is not achievable.

In the year ended April 4, 2010 we recorded gains from fair valuation of mortgage commitments of £108 million. As a result of structural changes in our balance sheet, this practice was ended with effect from July 1, 2010 (see note 2 to our audited consolidated financial statements for the year ended April 4, 2011 incorporated by reference herein). We enter into derivatives to economically hedge forecast fixed rate savings.

### *Operating expenses and similar charges*

Operating expenses and similar charges decreased by 2.4% in the year ended April 4, 2011 to £1,785 million from £1,828 million in the year ended April 4, 2010. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2011 and 2010, respectively:

	<b>For the year ended April 4,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
Administrative expenses .....	1,158	1,195
Depreciation and amortization.....	150	151
Impairment losses on loans and advances to customers .....	359	549
Provisions for liabilities and charges .....	52	(103)
Impairment losses on investment securities.....	66	36
<b>Total</b> .....	<b>1,785</b>	<b>1,828</b>

### *Administrative Expenses*

Administrative expenses decreased by 3.1% in the year ended April 4, 2011 to £1,158 million compared to £1,195 million in the year ended April 4, 2010. On-going administrative expenses as an annualized percentage of total average assets remained unchanged at 0.61% in the year ended April 4, 2011 from 0.61% in the year ended April 4, 2010.

The following table sets forth the components of administrative expenses for the years ended April 4, 2011 and 2010, respectively:

	<b>For the year ended April 4,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
<b>Employee costs:</b>		
• Salaries and social security costs.....	501	513
• Pension costs .....	82	71
Other administrative costs .....	575	611
<b>Total</b> .....	<b>1,158</b>	<b>1,195</b>

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

In the year ended April 4, 2011, salaries and social security costs decreased by 2.3% to £501 million from £513 million in the year ended April 4, 2010. This decrease reflects the impacts of synergies and our ongoing focus on efficiency savings which have enabled some reductions in headcount across the Group. The impact of the reduction in headcount will have been partly offset by typical annual salary increases and merit-based salary increases to some employees.

Within employee costs, the pension charge increased by 15.5% to £82 million for the year ended April 4, 2011 from £71 million in the year ended April 4, 2010. The increase in pension costs is due to a decrease in the AA bond rates used to discount the pension costs to 5.6% for the year ended April 4, 2011 from 6.5% for the year ended April 4, 2010 and an increase in the inflation assumptions to 3.6% for the year ended April 4, 2011 from 3.4% for the year ended April 4, 2010, partly offset by a continued shift in membership from defined benefit to cheaper defined contribution pension arrangements and a reduction in past service costs. In addition, a revised benefit structure was put in place with effect from April 1, 2011 that is expected to result in a reduction in the pension costs for the year ended April 4, 2012 and subsequent years.

The Group operates both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund. This is a contributory defined benefit arrangement, with both final salary and CARE sections. This fund was closed to new entrants in 2007. Since that date new employees have been able to join a defined contribution arrangement. The final salary section of the fund was closed to future service on March 31, 2011. Service already built up in the final salary section will continue to be linked to final salary, while future benefits will accrue within the CARE section. A separate pension fund is operated for one subsidiary company.

The Group's net retirement benefit liability with respect to the Nationwide Pension Fund was £300 million as at April 4, 2011 (April 4, 2010: £508 million). In addition to the contributions made during the year ended April 4, 2011, the decrease in the net liability of the fund also reflects an actuarial gain of £152 million in the measurement of the liabilities, partly offset by a £38 million actuarial loss on fund assets. The actuarial gain in liabilities reflect a reduction in the inflation and salary increase assumptions and a switch to the use of the consumer price index (CPI) from the retail price index (RPI) in measuring the liability to deferred pensioners. These impacts were partially offset by an increase in the mortality assumptions which has increased the value of the liabilities.

We have been actively managing our retirement benefit liability and have taken a number of steps to contain and reduce the deficit over time:

- Final Salary arrangements closed to new members since 2001 and CARE arrangements closed in May 2007. Furthermore, following the triennial valuation of the fund at March 31, 2010 and following agreement with the relevant unions, the final salary section was closed on March 31, 2011. From April 1, 2011, accrual in the CARE section continues for existing members, with a revised benefit structure in operation. The impact of the changes will be a reduction in both the future service charge and in the future employer contributions to the fund;
- Employee contributions (final salary arrangements) increased from 5% to 7% on July 1, 2006;
- Special contributions of £200 million were paid in the period 2005/06 – 2007/08;
- Transfers in and new additional voluntary contribution arrangements were stopped from December 31, 2009; and
- The Pension Trustees continue to work closely with their advisors to optimize the investment strategy for the schemes' assets.

We will continue to review our options to manage the pension schemes in a responsible way.

Other administrative costs decreased by 5.9% to £575 million for the year ended April 4, 2011 from £611 million for the year ended April 4, 2010. The expenses for the years ended April 4, 2011 and April 4, 2010 include £29 million and £62 million, respectively, of transformation costs relating to the restructuring of parts of our business, which are "one off" in nature and therefore excluded from the calculation of underlying profit/ expenses. Expenses of an ongoing nature included are advertising and marketing, postage and communications, rent and associated taxes, computer hardware maintenance, property maintenance, ATM costs and equipment leasing.

Ongoing other administration costs have remained broadly flat at £546 million for the year ended April 4, 2011 compared to £549 million for the year ended April 4, 2010. This reflects our commitment and ability to manage our cost base. Cost control has been achieved through a number of measures including cost synergies and an ongoing focus on efficiency savings across the Group.

### Depreciation and amortization

For the year ended April 4, 2011, depreciation and amortization expenses decreased by £1 million to £150 million compared to £151 million for the year ended April 4, 2010.

### Impairment losses on loans and advances to customers

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

Impairment losses on loans and advances to customers for the year ended April 4, 2011 decreased by 34.6% to £359 million from £549 million for the year ended April 4, 2010.

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2011 and 2010, respectively:

	For the year ended April 4,	
	2011	2010
	( <i>£ millions</i> )	
Residential mortgages.....	101	89
Commercial lending.....	175	299
Unsecured lending.....	83	126
Other secured lending.....	-	35
<b>Total</b> .....	<b>359</b>	<b>549</b>

The impairment loss on loans to customers of £359 million for the year ended April 4, 2011 has decreased by 35% compared to the £549 million charge for the year ended April 4, 2010. We believe that the underlying quality of our lending remains strong but is inevitably affected by recessionary conditions and falling asset values in the commercial sector.

While the total charge for residential impairments for the year ended April 4, 2011 of £101 million is £12 million higher than the charge for the year ended April 4, 2010 of £89 million, the underlying arrears rate has remained stable at 0.68%. The increase in residential charge in the year is wholly driven by the charge for prime mortgages which has increased to £32 million for the year ended April 4, 2011 compared to £10 million for the year ended April 4, 2010 and is largely attributable to more conservative default assumptions reflecting the current macro economic environment. In addition, impairment calculations have been updated to include a provision in relation to forbearance cases. The charge for specialist lending has reduced to £69 million for the year ended April 4, 2011 compared to £79 million for the year ended April 4, 2010 reflecting an improvement in the arrears rate to 1.96% compared to the arrears rate of 2.28% for the year ended April 4, 2010 as a result of continuing stability in payment performance supported by the low interest rate environment.

Residential impairment provisions held on the balance sheet increased by 26% to £201 million at April 4, 2011 compared to £160 million at April 4, 2010, giving a coverage ratio (solely with respect to Nationwide-originated assets) against total balances at April 4, 2011 of 0.17% compared to 0.13% at April 4, 2010 and against balances more than three months in arrears of 17.6% at April 4, 2011 compared to 13.7% at April 4, 2010. In the same period balances more than three months in arrears decreased by 2%.

Nationwide recognize that arrears are typically caused by temporary changes in customer circumstances, and therefore offer a range of forbearance and account management options to customers. On secured lending, options include payment holidays, temporary conversion to interest only, term extension and arrears capitalization. With respect to unsecured lending, credit card customers meeting required criteria may make reduced payments as part of an agreed payment plan or have their arrears consolidated.

Across both the secured and unsecured portfolios, all account management/forbearance options are low in materiality and fully recognized within provisioning.

In our Commercial Lending division, ongoing difficult market conditions resulted in further commercial loan defaults and a charge for the year ended April 4, 2011 of £175 million. Signs of improvement have been seen as the growth in impairments began to slow, resulting in a charge of £80 million in the second half of the year ended April 4, 2011, which was moderately lower than the £95 million in the first half of the year and 33% lower than the £119 million reported for the second half of the year ended April 4, 2010. Defaults continue to be triggered by tenant failures and our borrowers' subsequent inability to service loans, along with covenant breaches on LTV and business failures on owner occupied properties.

The overall level of provision for commercial lending as a percentage of solely Nationwide originated assets is 2.18% at April 4, 2011 compared to 1.97% at April 4, 2010, and the provision coverage ratio against balances more than three months in arrears is 69% at April 4, 2011 compared to 48% at April 4, 2010.

#### *Provisions for liabilities and charges*

The following table sets forth the components of provisions for contingent liabilities and commitments for the years ended April 4, 2011 and 2010, respectively:

	<b>For the year ended April 4,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(£ millions)</i>	
FSCS.....	50	(117)
Other provisions.....	2	14
<b>Total</b> .....	<b>52</b>	<b>(103)</b>

The FSCS provision is to meet expected levies payable on the Group's estimated share of interest on loans received by the FSCS from HM Treasury in respect of scheme years ending on and before March 31, 2011.

During the year ended April 4, 2011, an impairment loss of £52 million was recognized compared with a release of £103 million in the year ended April 4, 2010. The impairment provision charge for the year ended April 4, 2011 consists of £50 million impairment on FSCS levies and £2 million on other provisions. For further information on the FSCS see "*Description of Business—Financial Services Compensation Scheme*".

#### *Impairment losses on investment securities*

Under IAS 39: Financial Instruments: Recognition and Measurement ("**IAS 39**"), provisions against investment securities are made where there is objective evidence of impairment at the balance sheet date. For the year ended April 4, 2011, we made £66 million in provisions against investment securities, compared to £36 million for the year ended April 4, 2010.

The impairment charge on investment securities of £66 million for the year ended April 4, 2011 includes £22 million for a small number of US RMBS exposure, £15 million on a UK CMBS and £11 million on notes of a restructured SIV. The remaining £18 million has arisen from restructuring of subordinated debt from Irish banks (also acquired through SIV restructurings). The charge of £36 million for the year ended April 4, 2010 was driven by a £29 million impairment of a number of US RMBS exposure and £7 million in respect of our private equity portfolio.

#### *Taxes*

Tax on our profit on ordinary activities for the year ended April 4, 2011 amounted to £69 million based on our reported profit on ordinary activities before tax of £317 million, reflecting an effective tax rate of 21.8% as compared with the prevailing UK corporation tax rate of 28%. For the year ended April 4, 2010, tax on our profit on ordinary activities amounted to £77 million based on our reported profit on ordinary activities of £341 million, reflecting an effective tax rate of 22.6% as compared with the prevailing UK corporation tax rate of 28%. The lower effective tax rate reflects the recognition of previously unrecognized losses, lower overseas tax rates and the effect through the income statement on deferred tax of the change in corporation tax rate to 26%. This has been partially offset by the effects of non-deductible expenditure and tax paid in respect of our Irish branch.

## Balance Sheet Review

### Loans and advances to customers

Our lending remains predominantly concentrated on prime quality, secured products, with residential mortgages (both prime and specialist) accounting for 83.2% of our total loans and advances to customers, commercial lending 14.8% and consumer banking 1.7% as at April 4, 2011. The mix of lending as at April 4, 2011 has remained broadly consistent with that reported as at April 4, 2010. The following table sets forth the breakdown of loans and advances to customers as at April 4, 2011 and April 4, 2010:

	As at April 4,			
	2011		2010	
	<i>(£ billions, except percentages)</i>			
Prime residential mortgages.....	104.2	69.6%	108.7	71.3%
Specialist residential mortgages.....	20.4	13.6%	18.7	12.2%
<b>Total residential mortgages.....</b>	<b>124.6</b>	<b>83.2%</b>	<b>127.4</b>	<b>83.5%</b>
Commercial lending.....	22.1	14.8%	22.2	14.6%
Consumer banking .....	2.5	1.7%	2.3	1.5%
Other operations lending.....	0.5	0.3%	0.6	0.4%
<b>Gross balances.....</b>	<b>149.7</b>	<b>100.0%</b>	<b>152.5</b>	<b>100.0%</b>
Impairment provisions.....	(0.8)		(0.8)	
Fair value adjustments for micro hedged risk.....	0.5		0.7	
<b>Total.....</b>	<b>149.4</b>		<b>152.4</b>	

### Residential mortgage portfolio

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels but also includes prime advances made through TMW and £3.9 billion through our regional building society brands Derbyshire, Cheshire and Dunfermline.

Specialist residential mortgages as at April 4, 2011 are made up of £17.5 billion of advances made through our Specialist Lending brands, TMW and UCB, and £2.8 billion through our regional building society brands Derbyshire, Cheshire and Dunfermline. Loans were advanced primarily in the buy-to-let and self-certification markets although no self-certification products were offered during the year ended April 4, 2010. Buy-to-let mortgages make up 72% of total specialist lending, 20% relates to self-certification mortgages, 6% relates to near prime, and just 2%, amounting to approximately £0.4 billion, relates to sub-prime, which was primarily acquired as part of the mergers with Derbyshire and Cheshire and has been subject to rigorous fair value assessment at acquisition.

Gross prime lending in the year ended April 4, 2011 amounted to £9.8 billion compared to £10.3 billion in the year ended April 4, 2010, which includes £0.2 billion advanced through TMW. Gross specialist lending in the year ended April 4, 2011 was £3.0 billion compared to £1.7 billion in the year ended April 4, 2010, all of which related solely to the buy-to-let sector, and was advanced primarily through TMW.

Residential mortgages are only secured against UK properties. The Group operates across the whole of the UK with a bias towards the South East of England and Greater London, reflecting the concentration of branches in that region and historically higher asset value growth trends. We continued to focus on affordability and LTV ratios in underwriting residential mortgages during the year ended April 4, 2011. Although the average LTV of the portfolio increased slightly in the year ended April 4, 2011, it still remains very low at 49%, with 83% of the book under 80% LTV and only 2% in negative equity. The average LTV of new residential mortgages completed in the year ended April 4, 2011 marginally increased to 66% from 63% in the year ended April 4, 2010.

The following table sets forth a breakdown of the LTV analysis of our residential mortgage portfolio as at April 4, 2011 and April 4, 2010:

	As at April 4, 2011	As at April 4, 2010
	<i>(percentages)</i>	
<b>Total portfolio of residential mortgages:</b>		
<50%.....	52	54
50% - 60% .....	9	10
60% - 70% .....	11	10
70% - 80% .....	11	10
80% - 90% .....	10	8
90% - 100% .....	5	6
> 100%.....	2	2
	<b>100</b>	<b>100</b>
Average loan to value of stock (indexed) .....	49	48
Average loan to value of new business.....	66	63
<b>New business profile:</b>		
First-time buyers.....	23	26
Home movers.....	34	38
Remortgagers.....	12	18
Buy-to-let.....	31	18
	<b>100</b>	<b>100</b>

The analysis of the new business profile excludes further advances, which were previously included in remortgages.

The table below shows that, on Nationwide originated lending, we have seen a small increase in prime arrears and a reduction in specialist arrears at April 4, 2011, though we continue to maintain our very favorable position to the industry on both originated business and lending including acquired loans. The modest increase in prime arrears at April 4, 2011 has been driven primarily by book contraction, with the underlying volume of cases in arrears actually reducing by 3% over the year. Our originated specialist mortgages continue to perform well and remain broadly in line with the industry measure that includes prime:

**Cases three months or more in arrears as % of total book of residential mortgages**

	As at April 4, 2011	As at April 4, 2010
	<i>(percentages)</i>	
<b>Nationwide-originated residential mortgages:</b>		
Prime.....	0.53	0.52
Specialist.....	1.96	2.28
<b>Total Nationwide-originated residential mortgages .....</b>	<b>0.68</b>	<b>0.68</b>
<b>Group residential mortgages:<sup>(1)</sup></b>		
Prime.....	0.54	0.54
Specialist.....	2.47	3.37
<b>Total Group residential mortgages .....</b>	<b>0.77</b>	<b>0.82</b>
<b>Industry average .....</b>	<b>2.09</b>	<b>2.27</b>

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

Residential mortgage assets acquired with the Derbyshire, Cheshire and Dunfermline brands were fair valued on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £65 million of losses have been written off, and during the year ended April 4, 2010 £33 million of surplus fair value credit risk adjustment on mortgage books has been released into margin. It is believed that the remaining £101 million is sufficient to cover all future losses. Accordingly, in evaluating the Group's exposure to losses, as well as the quality of its underwriting processes, we believe that it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

We maintain close relationships with customers experiencing financial difficulties and work with them to agree the most appropriate course of action. In the case of short term difficulty, we will seek to agree revised payment schedules with the customer which may include a reduction to the contractual payment due. However, where revised payment schedules are not at a level sufficient to meet normal contractual terms (e.g. a currently available interest only mortgage) or where a customer fails to meet the revised payment schedule, the case will continue to accrue arrears and be included in arrears numbers reported above.

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

The number of Group borrowers in possession at 4 April 2011, including acquired societies, of 938 (April 4, 2010: 967) represents 0.07% of the total portfolio (April 4, 2010: 0.07%). As buy-to-let landlords may have more than one property, possession measures are slightly higher on a property basis but, at 989 (April 4, 2010: 1,088) properties, representing 0.07% of our book (April 4, 2010: 0.08%), this still compares favorably with the industry measure of 0.12% (April 4, 2010: 0.13%) (source: Council of Mortgage Lenders). Excluding the impact of acquired societies, our position relative to the industry is even more favorable. The table below shows possessions as a percentage of our book for both originated and acquired residential mortgages:

**Possessions as % of total book of residential mortgages (number of borrowers)**

	<b>As at April 4, 2011</b>	<b>As at April 4, 2010</b>
	<i>(percentages)</i>	
<b>Nationwide-originated residential mortgages:</b>		
Prime.....	0.03	0.02
Specialist.....	0.34	0.46
<b>Total Nationwide-originated residential mortgages .....</b>	<b>0.06</b>	<b>0.06</b>
<b>Group residential mortgages:<sup>(1)</sup></b>		
Prime.....	0.03	0.02
Specialist.....	0.38	0.53
<b>Total Group residential mortgages .....</b>	<b>0.07</b>	<b>0.08</b>

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is demonstrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2011, 1,264 Nationwide-originated properties were taken into possession representing only 3.58% of properties taken in by the industry as a whole against our residential mortgage market share of 11.40%.

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

	As at April 4, 2011					As at April 4, 2010				
	Prime lending	Specialist lending	Consumer banking	Total	%	Prime lending	Specialist lending	Consumer banking	Total	%
	<i>(£ billions, except percentages)</i>									
<b>Not impaired:</b>										
Neither past due nor impaired.....	101.8	18.2	2.3	<b>122.3</b>	96%	106.3	16.5	2.1	<b>124.9</b>	96%
Past due up to 3 months but not impaired.	1.9	1.4	0.0	<b>3.3</b>	3%	1.9	1.2	0.0	<b>3.1</b>	3%
Impaired.....	0.6	0.8	0.1	<b>1.5</b>	1%	0.5	1.0	0.2	<b>1.7</b>	1%
<b>Total .....</b>	<b>104.3</b>	<b>20.4</b>	<b>2.4</b>	<b>127.1</b>	<b>100%</b>	<b>108.7</b>	<b>18.7</b>	<b>2.3</b>	<b>129.7</b>	<b>100%</b>

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

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on such loans, with the amount of such allowances determined by us based on our expectation of the proportion that are likely to be repaid. Loans acquired from the Derbyshire, Cheshire and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for anticipated losses over the remaining life of the loans. Impaired retail loans are broken down further in the following table:

	As at April 4, 2011					As at April 4, 2010				
	Prime lending	Specialist lending	Consumer banking	Total	%	Prime lending	Specialist lending	Consumer banking	Total	%
	<i>(£ millions, except percentages)</i>									
<b>Impaired status:</b>										
Past due 3 to 6 months .....	271	290	50	<b>611</b>	41%	280	342	60	<b>682</b>	39%
Past due 6 to 12 months ...	187	228	44	<b>459</b>	30%	174	282	67	<b>523</b>	30%
Past due over 12 months ..	81	185	-	<b>266</b>	18%	81	222	45	<b>348</b>	20%
Possessions .	33	130	-	<b>163</b>	11%	30	160	-	<b>190</b>	11%
<b>Total .....</b>	<b>572</b>	<b>833</b>	<b>94</b>	<b>1,499</b>	<b>100%</b>	<b>565</b>	<b>1,006</b>	<b>172</b>	<b>1,743</b>	<b>100%</b>

Possession balances represent properties of which Nationwide has taken ownership pending their sale.

Nationwide offer secured customers in financial difficulty a range of account management and forbearance options including capitalization, interest only concessions, payment holidays and terms extensions.

£276 million of retail loans that would otherwise be categorized as past due or impaired have had their terms renegotiated or have been capitalized in the year ended April 4, 2011. Customers with loans in arrears are only permitted to renegotiate where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period. Once renegotiated the loans are categorized as not impaired as long as contractual repayments are maintained.

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

	As at April 4, 2011				As at April 4, 2010			
	Prime lending	%	Specialist lending	%	Prime lending	%	Specialist lending	%
	<i>(£ million, except percentages)</i>							
Past due but not impaired.....	1,928	100%	1,334	99%	1,884	100%	1,159	99%
Impaired.....	535	99%	676	96%	532	99%	829	98%
Possessions .....	31	94%	116	89%	29	97%	150	94%
<b>Total .....</b>	<b>2,494</b>	<b>100%</b>	<b>2,126</b>	<b>97%</b>	<b>2,445</b>	<b>100%</b>	<b>2,138</b>	<b>98%</b>

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

The following table presents negative equity on residential mortgages:

	As at April 4, 2011		As at April 4, 2010	
	Prime lending	Specialist lending	Prime lending	Specialist lending
	<i>(£ million)</i>			
Past due but not impaired.....	6	14	5	10
Impaired.....	4	27	3	17
Possessions .....	2	14	1	10
<b>Total</b>	<b>12</b>	<b>55</b>	<b>9</b>	<b>37</b>

#### *Commercial loan portfolio*

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under Government supported Private Finance Initiatives (“PFIs”).

Our commercial lending portfolio reduced slightly to £22.0 billion at April 4, 2011 compared to £22.2 billion at April 4, 2010 and consists of £20.8 billion (April 4, 2010: £20.9 billion) of self-originated lending and £1.2 billion (April 4, 2010: £1.3 billion) of assets acquired from the Derbyshire, Cheshire and Dunfermline building societies. Our originated portfolio at April 4, 2011 comprises £11.9 billion secured on commercial property (“**Property Finance**”), £7.4 billion advanced to Registered Social Landlords and £1.5 billion advanced under the PFI. There are currently no arrears of three months or more on the Registered Social Landlord and PFI portfolios and our Property Finance portfolio is well diversified by industry type and by borrower.

On self-originated lending we have only modest exposure to development finance with total balances of £172 million, and a total further commitment of £29 million, to three high quality office developments in the centre of London, at April 4, 2011. Of these, one development case with a total balance of £26 million, at April 4, 2011 is in the course of being sold with contracts exchanged in March 2011 and completion set for October 2011 which will result in full repayment of all debt. Another development case has been restructured with improved terms and an equity injection from the sponsors resulting in an improved security position for lenders.

The number of Nationwide originated commercial property cases more than three months in arrears decreased from 285 cases as at April 4, 2010 to 235 as at 4 April 2011. This equates to 2.41% of commercial originated accounts (April 4, 2010: 2.77%). Total arrears balances on these cases at April 4, 2011 were £48 million (April 4, 2010: £42 million). Robust arrears management is carried out by dedicated teams who, supported by daily arrears reporting, maintain a focus on early intervention to maximize economic value and mitigate losses.

Commercial mortgage assets originally totaling £1.3 billion acquired through mergers with Derbyshire and Cheshire and the acquisition of the Dunfermline’s social housing portfolio have been fair valued in the same way as described for residential assets above, including a credit risk adjustment of £179 million for anticipated losses over the remaining life of the loans, none of which relates to Dunfermline’s social housing portfolio. A loan loss impairment charge of £3 million has been raised in the year ended April 4, 2011 (£4 million since acquisition) as a number of

individually assessed cases have an impairment provision requirement in excess of the original fair value adjustment. To date, £37 million of losses have been written off and £4 million of surplus fair value credit risk adjustment on repaid facilities has been released. We continue to believe that the remaining acquired loans are unlikely to contribute any significant net losses to the Group over their lifetime.

Although we continue to expect difficult market conditions in the commercial property sector, and further impairment provisions, we remain confident that our book, which is primarily focused on low risk lending, will perform better than most. We believe that this, combined with proactive management including progressive re-pricing of facilities as they mature or experience technical covenant breaches, should ensure continued improvements in contribution in the coming years.

#### *Other operations loan portfolio*

As at April 4, 2011, balances for other operations lending include a secured European commercial loan portfolio of £235 million (April 4, 2010: £299 million) and unsecured lending of £246 million (April 4, 2010: £277 million) relating to a student loan portfolio. These investments were acquired by Treasury Division and are therefore held within the Head Office functions.

As at April 4, 2011, there are £11 million (April 4, 2010: £38 million) past due or impaired balances classified above as other operations. All of the £11 million (April 4, 2010: £11 million) relates to the unsecured student loan portfolio.

The table below provides further information on the commercial and other operations loan portfolio by payment due status:

	<b>As at April 4, 2011</b>				<b>As at April 4, 2010</b>			
	<b>Commercial</b>		<b>Other operations</b>		<b>Commercial</b>		<b>Other operations</b>	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired.....	20.2	92%	481	98%	20.6	93%	0.6	93%
Past due up to 3 months but not impaired.....	0.4	2%	4	1%	0.3	1%	-	1%
Impaired.....	1.4	6%	7	1%	1.4	6%	-	6%
<b>Total</b> .....	<b>22.0</b>	<b>100%</b>	<b>492</b>	<b>100%</b>	<b>22.2</b>	<b>100%</b>	<b>0.6</b>	<b>100%</b>

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

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. This analysis includes commercial mortgage loans totaling £1.2 billion acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies. These loans were fair valued on a basis which made allowances for anticipated losses over the life of the loans. Impaired loans totaling £141 million as at April 4, 2011 (April 4, 2010: £141 million) in the above analysis have thus been fair valued. We therefore believe these loans should not contribute any significant losses to the Group for the foreseeable future.

Impaired commercial and other operations loans are further analyzed in the following table:

	As at April 4, 2011				As at April 4, 2010			
	Commercial		Other operations		Commercial		Other operations	
	( <i>£ million, except percentages</i> )							
<b>Impaired status:</b>								
Past due 0 to 3 months .....	695	49%	-	-	408	30%	-	-
Past due 3 to 6 months .....	111	8%	1	14%	291	22%	14	42%
Past due 6 to 12 months .....	235	16%	3	43%	397	30%	15	46%
Past due over 12 months .....	378	27%	3	43%	238	18%	4	12%
Possessions .....	1	-	-	-	-	-	-	-
<b>Total</b> .....	<b>1,420</b>	<b>100%</b>	<b>7</b>	<b>100%</b>	<b>1,334</b>	<b>100%</b>	<b>33</b>	<b>100%</b>

Commercial loans totaling £1,152 million as at April 4, 2011 (April 4, 2010: £960 million) not subject to fair value adjustments have individual provisions against them. This includes cases which are not more than three months past due. Possession balances represent properties of which Nationwide has taken ownership pending their sale.

A number of commercial property finance loans, characterized by either a covenant breach, payment default or loan maturity were restructured during the year ended April 4, 2011. Of these loans, £745 million had debt restructure terms which fell outside our current lending policy or credit appetite, or the loan exposure post restructure generates a sub-optimal return on risk weighted capital. Once renegotiated the restructured loans include a contractual capital amortization profile or a full cash sweep of surplus rental income to pay-down debt after permitted deductions for asset management fees and irrecoverable property costs and are categorized as not impaired as long as contractual repayments are maintained. In the year ended April 4, 2010 there were £806 million of loans that were restructured due to covenant breaches or distress. Total loan exposures at April 4, 2011 of £167 million (April 4, 2010 £39 million) restructured during the year carry observed credit impairment provisions of £36 million at April 4, 2011 (April 4, 2010 £19 million). In addition loans at April 4, 2011 of £62 million (April 4, 2010 £135 million) reported as up to date have been renegotiated through repayment plans offering a concessionary payment to genuinely distressed borrowers or by consolidating arrears on to the balance of the loan.

The following table presents collateral held against past due or impaired commercial loans:

	As at April 4, 2011		As at April 4, 2010	
		( <i>£ million, except percentages</i> )		
Past due but not impaired.....	363	93%	292	98%
Impaired.....	1,050	74%	1,161	87%
<b>Total</b> .....	<b>1,413</b>	<b>78%</b>	<b>1,453</b>	<b>89%</b>

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis. The percentages in the table above represent the cover over the impaired asset. No collateral is held against the commercial property held in possession.

The following table presents negative equity on commercial loans:

	As at April 4, 2011	As at April 4, 2010
		( <i>£ million</i> )
Past due but not impaired.....	28	5
Impaired.....	369	173
Possessions .....	1	-
<b>Total</b> .....	<b>398</b>	<b>178</b>



holdings that are subject to repo arrangements and includes assets held under reverse repo arrangements and Treasury bills held under the Special Liquidity Scheme.

*Other eligible central bank assets*

In addition to the core portfolio, as at April 4, 2011 the Group held a stock of unencumbered securities (excluding self-issuance) that are eligible collateral for either the European Central Bank (“**ECB**”) repo operations or for the BoE extended collateral repo operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

*Other securities*

Nationwide holds other third party liquid assets (such as Floating Rate Notes) that are not eligible at either the BoE’s or the ECB’s operations, but may be capable of financing through third party repo agreements.

*Self- issued RMBS and covered bonds*

The Group holds a stock of self-issued AAA RMBS and covered bonds. These self-issued securities are capable of repo financing either directly with the market or with central banks to which the Group has direct access, and therefore represent contingent liquidity available to the Group if necessary.

The table below sets out the fair value – before any “haircut” deduction – of each of the above liquidity types as at April 4, 2011. The table includes off balance sheet liquidity (including treasury bills held under the Special Liquidity Scheme and self-issued RMBS and covered bonds) but excludes any encumbered assets:

	<b>As at April 4, 2011</b>	<b>As at April 4, 2010</b>
	<i>(£ billion)</i>	
Core liquidity .....	23.5	23.4
Other central bank eligible assets .....	5.6	4.7
Other securities .....	3.2	3.4
Self-issued RMBS and covered bonds.....	18.3	11.8
<b>Total</b> .....	<b>50.6</b>	<b>43.3</b>

*Funding Profile*

The retail savings market in the UK has been relatively subdued in the year ended April 4, 2011, with market growth in balances of £18.6 billion driven mainly by interest capitalized. This contrasts with the extremely competitive conditions in the financial year ended April 4, 2010, where a lack of access to wholesale markets led some institutions to compete aggressively for retail deposits by offering attractive rates to generate demand, resulting in market balance growth of £30.6 billion in the year ended April 4, 2011.

We have continued to actively manage our flow of retail savings in order to secure funds at an economic rate whilst offering long term good value products to our members. In the year ended April 4, 2011, we have attracted a positive inflow of funds, and retail savings balances have increased by £1.6 billion to £122.6 billion at April 4, 2011. This compares with a net reduction in retail savings balances of £7.3 billion in the year ended April 4, 2010.

The increase in retail savings balances combined with a marginal decrease in balance sheet size has resulted in a reduction in wholesale funding balances such that the wholesale funding level reduced to 25.9% as at April 4, 2011 compared to 27.8% at April 4, 2010.

An analysis of our wholesale funding (made up of deposits from banks, other deposits and debt securities in issue as disclosed on the balance sheet) is set out in the following table:

	<b>As at April 4, 2011</b>		<b>As at April 4, 2010</b>	
	<i>(£ billion, except percentages)</i>			
Repo and other secured agreements.....	2.7	5.9%	7.9	16.0%
Deposits .....	6.9	15.0%	6.1	12.4%
Certificates of deposit.....	4.7	10.2%	6.1	12.4%
Commercial paper.....	6.2	13.4%	6.4	13.0%
Covered bonds .....	12.3	26.7%	9.1	18.4%
Medium term notes.....	8.4	18.2%	10.1	20.5%
Securitized.....	3.7	8.0%	2.2	4.5%
Other non-retail.....	1.2	2.6%	1.4	2.8%
<b>Total</b> .....	<b>46.1</b>	<b>100.0%</b>	<b>49.3</b>	<b>100.0%</b>

The reduction in the absolute amount of wholesale funding and in the wholesale funding ratio at April 4, 2011 is a function of the overall management of the Group's balance sheet, as we have controlled the level and quality of lending undertaken. However, we have seen much improved access to wholesale funding as general market uncertainty has eased.

Following the increase in retail and long term wholesale funding balances, we reduced short term repo transactions and repaid central bank facilities. We continue to attract funds into PEBs and during the year ended April 4, 2011 we received new investment premiums of £1.0 billion, increasing total PEB balances to £2.1 billion as at April 4, 2011 (April 4, 2010: £1.1 billion).

During the 2010/11 financial year we remained active in the long term debt markets utilising all of our debt issuance programs and issuing £5.8 billion (including €750 million lower Tier 2 subordinated notes), far in excess of our more modest £1.8 billion equivalent of maturing long term debt. The focus has provided breadth and diversification to the previous year's unsecured issuances.

We believe that the following long-term wholesale debt issuances during the year demonstrate both the strength of institutional support, and this breadth of funding diversity, for Nationwide:

- In September 2010 a €1.25 billion 5 year covered bond, our first external covered bond since September 2007;
- In October 2010, \$0.9 billion and €1.1 billion (£1.52 billion equivalent) funding through the issue of floating rate residential mortgage backed securities (RMBS) through the Silverstone Master Trust vehicle;
- £0.75 billion 15 year landmark covered bond in January 2011, which successfully reopened the Sterling benchmark covered bond market;
- €1.25 billion 10 year covered bond in February 2011;
- In addition to the foregoing public transactions we also issued £0.8 billion of long term private placements to institutional investors with a weighted average life of 9 years.

In addition, the Group issued €750 million of lower Tier 2 subordinated notes. This issuance refinanced the subordinated notes that we repaid in August 2010 and further demonstrates the strength of institutional support for the Group. On December 17, 2010, we also repaid £100 million of subordinated notes.

In the year ended April 4, 2011, the Group reduced the amount of short term funding outstanding to £15 billion (April 4, 2010: £16 billion and April 4, 2009: £20 billion), but still enjoys a strong franchise in these markets, which is reflected in the average term at issuance of the short term funding book, being 156 days at April 4, 2011 (April 4, 2010: 155 days).

In the year ended April 4, 2011, the Group extended the residual maturity profile of its wholesale funding portfolio from 26 months at April 4, 2010 to 33 months at April 4, 2011 and increased the split between short and long term with a further reduction in the less than one year maturity category to 43.4% at April 4, 2011 (April 4, 2010: 49.7%).

The table below sets out the residual maturity of the wholesale funding book:

	As at April 4, 2011		As at April 4, 2010	
	(£ billion, except percentages)			
Less than one year .....	20.0	43.4%	24.5	49.7%
One to two years .....	4.9	10.6%	4.3	8.8%
Two to five years .....	13.6	29.5%	11.7	23.6%
More than five years .....	7.6	16.5%	8.8	17.9%
<b>Total</b> .....	<b>46.1</b>	<b>100.0%</b>	<b>49.3</b>	<b>100.0%</b>

Our short and long term credit ratings from the major rating agencies as at February 22, 2012 are as follows:

	Long Term	Short Term	Subordinated	Date of last rating action <sup>(1)</sup>
S&P.....	A+	A-1	BBB+	December 2011
Moody's.....	A2	P-1	Baa3	October 2011
Fitch.....	A+	F1	A-	November 2011
DBRS.....	AA	R-1 (middle)	AA (low)	December 2010

Note:

(1) The current outlook from Moody's and S&P is stable. The outlook from Fitch and DBRS is negative.

On October 7, 2011 Moody's announced that it was downgrading the senior debt and deposit ratings of 12 UK financial institutions and confirming the ratings of one institution, following its review of systemic support assumptions from the UK government for these institutions, which it initiated on May 24, 2011. The ratings actions announced included a two-notch downgrade of our long-term debt rating from Aa3 to A2. See "*Risk Factors – Rating downgrade and/or market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on our performance and/or the marketability and liquidity of the Notes*".

On November 3, 2011, Fitch announced that it was downgrading the long-term and short-term ratings of the Issuer and its debt and that such rating actions were consistent with Fitch's broad review of European banks. The ratings actions announced included a downgrade of the Issuer's long-term debt rating from AA- to A+. See "*Risk Factors – Rating downgrade and/or market sentiment with respect to Nationwide, the sector, the UK and/or other sovereign issuers may have an adverse effect on our performance and/or the marketability and liquidity of the Notes*".

Each of Moody's, S&P and Fitch is established in the European Union and is registered under the CRA Regulation. As such, each of Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. DBRS is not established in the European Union, and has not applied for registration under the CRA Regulation. However, the application for registration under the CRA Regulation of DBRS Rating Limited, which is established in the European Union and is registered under the CRA Regulation (and, as such is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation), disclosed the intention to endorse credit ratings of DBRS. While notification of the corresponding endorsement decision has not yet been provided by the relevant competent authority, the European Securities and Markets Authority has indicated that ratings issued in third countries may continue being used in the EU by relevant market participants for a transitional period ending on January 31, 2012 (which may be extended to April 30, 2012). 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 organization.

#### Treasury Assets

Group treasury assets at April 4, 2011 were £31.9 billion compared with £29.4 billion at April 4, 2010 and are held in two separate portfolios: the treasury liquidity portfolio (previously known as the prudential portfolio) and the investment portfolio. At April 4, 2011, the treasury liquidity portfolio totaled £28.6 billion compared with £25.7 billion at April 4, 2010 with the investment portfolio totaling £3.3 billion compared with £3.7 billion at April 4, 2010.

We have continued to manage the treasury liquidity portfolio to increase the quality and liquidity of the assets with over 65% of the portfolio held in sovereign and supranational exposures compared with 63% as at April 4, 2010. Over 99% of the portfolio is rated A or better with 86% rated AA or above at April 4, 2011 compared with 99% rated A or better and 85% rated AA or better at April 4, 2010.

The following tables show the breakdown of the liquidity portfolio at April 4, 2011 and April 4, 2010 by credit rating and geography:

<b>As at April 4, 2011</b>									
<b>Liquidity Portfolio</b>	<b>Credit Rating</b>				<b>Geography</b>				
	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Other</b>	<b>UK</b>	<b>US</b>	<b>Europe</b>	<b>Other</b>	
<i>(£ billion)</i>	<i>(percentages)</i>								
Bank of England .....	6.1	100	-	-	-	100	-	-	-
Loans to financial institutions .....	3.7	-	44	56	-	73	-	15	12
Other (including items in transit and clearing accounts).....	0.6	-	-	-	-	100	-	-	-
<b>Non AFS Assets .....</b>	<b>10.4</b>								
Gilts .....	8.6	100	-	-	-	100	-	-	-
Non Domestic Government Bonds .....	2.2	100	-	-	-	-	40	60	-
Supranational bonds.....	1.8	100	-	-	-	-	-	100	-
Residential mortgage backed securities .....	2.3	85	11	2	2	43	-	52	5
Covered bonds .....	0.7	67	18	8	7	-	4	88	8
Medium term notes /floating rate notes .....	2.6	13	18	49	20	18	11	58	13
<b>AFS Assets .....</b>	<b>18.2</b>								
<b>Total liquidity portfolio</b>	<b>28.6</b>	<b>77</b>	<b>9</b>	<b>13</b>	<b>1</b>	<b>71</b>	<b>4</b>	<b>22</b>	<b>3</b>

As at April 4, 2010

	Liquidity Portfolio (£ billion)	Credit Rating				Geography			
		AAA	AA	A	BBB	UK	US	Europe	Other
Bank of England .....	4.0	100	-	-	-	100	-	-	-
Loans to financial institutions .....	1.7	-	36	59	5	78	1	5	16
Other (including items in transit and clearing accounts).....	0.3	-	-	-	-	100	-	-	-
<b>Non AFS Assets.....</b>	<b>6.0</b>								
Gilts .....	6.4	100	-	-	-	100	-	-	-
Non domestic government bonds .....	3.9	100	-	-	-	-	43	57	-
Supranational bonds.....	2.0	100	-	-	-	-	2	98	-
Residential mortgage backed securities .....	2.7	96	4	-	-	43	-	52	5
Covered bonds .....	0.9	89	11	-	-	-	3	90	7
Floating rate notes.....	3.8	4	25	61	10	26	3	57	14
Certificates of deposit and commercial paper.....	-	-	-	-	-	-	-	-	-
<b>AFS Assets .....</b>	<b>19.7</b>								
<b>Total liquidity portfolio..</b>	<b>25.7</b>	<b>78</b>	<b>7</b>	<b>14</b>	<b>1</b>	<b>55</b>	<b>7</b>	<b>34</b>	<b>4</b>

Ratings are obtained from S&P in the majority of cases or from Moody's if there is no S&P rating available. Internal ratings are used if neither S&P nor Moody's ratings are available.

We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal and Spain ("GIIPS").

Within the treasury assets we have £2.1 billion of non-sovereign securities from issuers in GIIPS countries as detailed in the table below. Of this, 59% is rated AA or above and 72% is rated A or above. This exposure has reduced by 28% in the year ended April 4, 2011 and a further nominal £621 million, primarily senior debt, matures in the current financial year:

April 4, 2011	Greece £m	Ireland £m	Italy £m	Portugal £m	Spain £m	Total £m
Residential mortgage backed securities (RMBS)	-	155	149	64	442	810
Covered bonds	-	63	-	19	373	455
Senior debt	-	98	117	63	485	763
Subordinated bonds	-	-	11	17	-	28
Other assets	3	-	12	-	6	21
<b>Total</b>	<b>3</b>	<b>316</b>	<b>289</b>	<b>163</b>	<b>1,306</b>	<b>2,077</b>

<b>April 4, 2010</b>	<b>Greece £m</b>	<b>Ireland £m</b>	<b>Italy £m</b>	<b>Portugal £m</b>	<b>Spain £m</b>	<b>Total £m</b>
Residential mortgage backed securities (RMBS)	-	194	196	80	519	989
Covered bonds	-	100	-	23	405	528
Senior debt	20	208	221	101	710	1,260
Subordinated bonds	-	34	11	21	-	66
Other assets	3	-	18	-	12	33
<b>Total</b>	<b>23</b>	<b>536</b>	<b>446</b>	<b>225</b>	<b>1,646</b>	<b>2,876</b>

The treasury investment portfolio was originally established to generate additional income for the Group. Over 84% of the investment portfolio at April 4, 2011 is rated A or better (April 4, 2010: 87%) with over 63% rated AA or better (April 4, 2010: 69%). The reduction in the portfolio during the year ended April 4, 2011 has been predominately driven by paydowns received relating to the asset- and mortgage-backed securities and maturing investments. We are managing the existing portfolio to minimize potential risk while reinvesting some of the paydowns into high quality secured assets. The portfolio has experienced some negative rating migration as a result of the ongoing implementation of rating agency methodology changes and continued asset quality deterioration, particularly for financial institution subordinated debt, US student loans, CMBS and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

The following tables show the breakdown of the investment portfolio at April 4, 2011 and April 4, 2010 by credit rating and geography:

	<b>As at April 4, 2011</b>								
	<b>Investment Portfolio – all AFS assets (£ billion)</b>	<b>Credit Rating</b>				<b>Geography</b>			
		<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Other</b>	<b>UK</b>	<b>US</b>	<b>Europe</b>	<b>Other</b>
		<i>(percentages)</i>							
Collateralized debt obligations (CDO) .....	0.1	-	-	-	100	-	100	-	-
Collateralized loan obligations-(CLO).....	0.6	6	82	12	-	26	74	-	-
Commercial mortgage backed securities .....	0.6	39	23	16	22	66	14	20	-
Corporate bond portfolio .....	0.1	-	40	-	60	60	40	-	-
Credit card backed securities ..	0.2	100	-	-	-	17	83	-	-
Financial institutions including subordinated debt....	0.4	-	21	61	18	32	15	42	11
Other corporate bonds	-	-	36	-	64	100	-	-	-
Residential mortgage backed securities.....	0.5	31	30	19	20	76	22	1	1
US student loan.....	0.7	68	6	17	9	-	100	-	-
Other investments .....	0.1	22	21	31	26	28	44	19	9
<b>Total .....</b>	<b>3.3</b>	<b>35</b>	<b>28</b>	<b>21</b>	<b>16</b>	<b>37</b>	<b>51</b>	<b>10</b>	<b>2</b>

**As at April 4, 2010**

	<b>Investment Portfolio – all AFS assets (£ billion)</b>	<b>Credit Rating</b>				<b>Geography</b>			
		<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Other</b>	<b>UK</b>	<b>US</b>	<b>Europe</b>	<b>Other</b>
		<i>(percentages)</i>							
Collateralized debt obligations (CDO) .....	0.1	-	-	-	100	-	100	-	-
Collateralized loan .....	0.6	33	59	8	-	25	75	-	-
Commercial mortgage backed securities .....	0.6	60	19	11	10	47	14	39	-
Corporate bond portfolio ....	0.1	-	13	17	70	36	28	36	-
Credit card backed securities .....	0.3	99	-	-	1	42	58	-	-
Financial institutions including subordinated debt .....	0.7	-	22	64	14	21	33	39	7
Other corporate bonds.....	-	-	34	66	-	100	-	-	-
Retail mortgage backed securities .....	0.3	24	23	23	30	61	36	3	-
US student loan.....	0.8	98	1	1	-	-	100	-	-
Other investments .....	0.2	38	21	15	26	11	47	33	9
<b>Total .....</b>	<b>3.7</b>	<b>49</b>	<b>20</b>	<b>18</b>	<b>13</b>	<b>27</b>	<b>55</b>	<b>16</b>	<b>2</b>

An independent monthly review is coordinated by our Commercial and Treasury Credit Committee and undertaken by our Risk Management Division on the current and expected future performance of all treasury assets. A governance structure exists to identify and review underperforming assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are considered impaired where there is objective evidence that current events and/or performance trends will result in a loss. For information regarding the monitoring of credit exposures, see the section entitled “*Financial Risk Management—Credit risk*”.

Nationwide has £95 million of exposure to monoline insured transactions at April 4, 2011. Three holdings totaling £11 million were impaired in the year ended April 4, 2011 following coupon deferral (not covered by the terms of the insurance). We are reliant on the monoline insurance provider for one further holding (with an exposure of £2 million) but in all other cases we anticipate full repayment without any assistance from the insurance provider. This is mainly as a result of the approach taken upon investment, where we placed no reliance on the monoline insurance, requiring the investment to stand up to credit analysis in its own right.

In assessing impairment, the Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. An impairment loss of £66 million at April 4, 2011 (April 4, 2010: £29 million) has been recognized in the income statement in respect of the treasury liquidity and investment portfolios. In addition, in the year ended April 4, 2010 impairments of £7 million were recognized on investments in equity shares.

The impairment loss on investment securities of £66 million in the year ended April 4, 2011 relates entirely to available for sale assets. The loss of £36 million in the year ended April 4, 2010 included a £29 million charge on investment securities available for sale and £7 million in respect of other securities managed by our Treasury Division. The charge in the year ended April 4, 2011 on investment securities available for sale relates to a small number of US RMBS (£22 million), restructured Structured Investment Vehicle notes (£11 million), UK CMBS (£15 million) and Irish bank subordinated debt (£18 million). The prior year charge of £29 million was in respect of a small number of US Alt A RMBS exposures.

Collateral held as security for Treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and

similar instruments, which are secured by pools of financial assets. In addition, the Group holds collateral of £1.5 billion under reverse sale and repurchase agreements at April 4, 2011 (April 4, 2010 nil).

*Available for sale reserve*

Out of a total of £31.9 billion of treasury assets held in the prudential and investment portfolios as at April 4, 2011, £21.5 billion are held as AFS and under IFRS they are marked to market though other comprehensive income and fair value movements are accumulated in reserves. The non AFS assets are predominantly short term loans to financial institutions or deposits with the BoE. Of the £21.5 billion of AFS assets, only £95 million are classified as Level 3 (not based on observable market data) for the purposes of IFRS 7.

The fair value movements of AFS assets that are not impaired have no effect on the Group's profit for the period or its regulatory capital. The assets have been carefully reviewed based upon latest performance data and an impairment charge of £66 million has been booked against AFS assets in the year ended April 4, 2011.

As at April 4, 2011, the balance on the AFS reserve had improved to £495 million negative, net of tax compared with £715 million negative as at April 4, 2010 reflecting improved pricing as market sentiment has improved.

The following table shows the breakdown of AFS reserves as at April 4, 2011 and April 4, 2010:

	As at April 4, 2011		As at April 4, 2010	
	Cumulative AFS Reserve	Fair Value on balance sheet	Cumulative AFS Reserve	Fair Value on balance sheet
	(£ billion)			
Gilts and Supranational bonds .....	(0.1)	12.6	(0.3)	12.3
Residential mortgage backed securities .....	0.1	2.3	0.2	2.7
Covered bonds and floating rate notes.....	0.3	3.3	0.1	4.7
<b>Liquidity portfolio .....</b>	<b>0.3</b>	<b>18.2</b>	<b>-</b>	<b>19.7</b>
Collateralized debt obligations (CDO) .....	0.1	0.1	-	0.1
Collateralized loan obligations (CLO).....	-	0.6	0.1	0.6
Commercial mortgage backed securities .....	0.1	0.6	0.3	0.6
Corporate bond portfolio .....	-	0.1	-	0.1
Credit card backed securities .....	-	0.2	-	0.3
Financial institutions including sub debt .....	-	0.4	-	0.7
Residential mortgage backed securities .....	0.1	0.5	0.1	0.3
US student loan.....	0.1	0.7	0.1	0.8
Other investments .....	-	0.1	0.1	0.2
<b>Investment Portfolio .....</b>	<b>0.4</b>	<b>3.3</b>	<b>0.7</b>	<b>3.7</b>
<b>Negative AFS reserve before hedge accounting and taxation.....</b>	<b>0.7</b>		<b>0.7</b>	
<b>AFS Assets .....</b>		<b>21.5</b>		<b>23.4</b>
Hedge accounting adjustment for interest rate risk .....	-		0.3	
Taxation .....	(0.2)		(0.3)	
<b>Negative AFS reserve.....</b>	<b>0.5</b>		<b>0.7</b>	

The following table provides an analysis of financial assets and liabilities held on our balance sheet at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

	<b>As at April 4, 2011</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>			
Investment securities – AFS .....	12,319	9,126	95	21,540
Investments in equity shares .....	5	-	98	103
Derivatives financial instruments .....	-	3,873	88	3,961
<b>Financial assets</b> .....	<b>12,324</b>	<b>12,999</b>	<b>281</b>	<b>25,604</b>
Derivative financial instruments .....	-	(3,158)	(76)	(3,234)
Other deposits – PEB.....	-	-	(2,125)	(2,125)
<b>Financial liabilities</b> .....	<b>-</b>	<b>(3,158)</b>	<b>(2,201)</b>	<b>(5,359)</b>

	<b>As at April 4, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(£ million)</i>			
Investment securities – AFS .....	12,130	11,149	106	23,385
Investments in equity shares .....	-	7	79	86
Derivatives financial instruments <sup>(4)</sup> .....	-	4,814	38	4,852
<b>Financial assets</b> .....	<b>12,130</b>	<b>15,970</b>	<b>223</b>	<b>28,323</b>
Derivative financial instruments <sup>(4)</sup> .....	-	(4,860)	(82)	(4,942)
Other deposits – PEB.....	-	-	(1,128)	(1,128)
<b>Financial liabilities</b> .....	<b>-</b>	<b>(4,860)</b>	<b>(1,210)</b>	<b>(6,070)</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, asset backed securities, 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 asset backed securities and bonds.
- (4) The derivative financial instrument comparatives have been re-classified to conform to the current year's presentation. The adjustment does not affect total derivative financial assets and liabilities.

Level 2 investment securities –AFS assets are sourced from consensus pricing or other observable market prices. None of these Level 2 assets are priced off models. Level 2 derivative assets and liabilities are priced from discounted cash flow models using yield curves based on observable market data.

There were no significant transfers between the Level 1 and 2 portfolios during the year. Composition of and movements in the Level 3 portfolio are described below.

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

#### *Investment securities – AFS*

Of the £95 million level 3 investment securities at April 4, 2011, AFS CDOs account for approximately £60 million and £32 million are impaired UK CMBS assets, which are materially all priced from internal models based on observable and unobservable performance assumptions. The remaining £3 million is an illiquid security for which a single price was available.

Around half of the comparative level 3 securities totaling £106 million at April 4, 2011 were CDOs with the balance made up of investments in impaired Icelandic financial institutions and some other bonds and asset backed securities.

### *Investments in equity shares*

Investments in unquoted equity instruments. Valuations are subjective in nature but have been consistently applied over time. Full valuations are performed bi-annually using details of the underlying funds combined with earnings estimates and applicable discount rates at the reporting date.

### *Derivative financial instruments*

Equity linked derivatives with external counterparties which economically match the investment return payable by the Group to customers invested in the PEB product. The derivatives are linked to the performance of specified stock market indices and have been valued by an independent third party.

### *Other deposits – PEBs*

Deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEBs liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivative as valued by an independent third party:

	<b>As at April 4, 2011</b>	<b>As at April 4, 2010</b>
	<i>(£ millions, except percentages)</i>	
<b>Tier 1</b>		
General reserve .....	6,679	6,363
Permanent interest bearing shares <sup>(1)</sup> .....	1,510	1,524
Pension fund net deficit add back <sup>(2)</sup> .....	33	355
Intangible assets <sup>(3)</sup> .....	(529)	(353)
Deductions from Tier 1 capital <sup>(4)</sup> .....	(256)	(232)
	<u>7,437</u>	<u>7,657</u>
<b>Tier 2</b>		
Revaluation reserve .....	70	68
Subordinated debt <sup>(1)(5)</sup> .....	1,884	2,132
Collective impairment allowance .....	118	97
Deductions from Tier 2 capital <sup>(4)</sup> .....	(256)	(232)
	<u>1,816</u>	<u>2,065</u>
<b>Total capital</b> .....	<u><b>9,253</b></u>	<u><b>9,722</b></u>
<b>Risk weighted assets – Pillar 1<sup>(5)</sup></b>		
Retail mortgages .....	15,081	14,653
Commercial loans .....	17,610	18,316
Treasury .....	4,088	8,351
Other .....	6,420	4,375
Operational Risk .....	4,137	4,328
Market Risk .....	72	50
	<u>47,408</u>	<u>50,073</u>
<b>Key capital ratios:</b>		
Total capital .....	9,253	9,722
Core Tier 1 (%) <sup>(6)</sup> .....	12.5	12.2
Tier 1 ratio (%) <sup>(6)</sup> .....	15.7	15.3
Total capital (%) <sup>(6)</sup> .....	19.5	19.4
Tier 2 to Tier 1 ratio (%) <sup>(6)</sup> .....	<u>24.4</u>	<u>27.0</u>

Notes:

- (1) Permanent interest bearing shares and subordinated debt include any fair value adjustments arising from micro hedging and adjustments for unamortized premiums and discounts that are included in the consolidated balance sheet.
- (2) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.
- (3) Intangible assets do not qualify as capital for regulatory purposes.
- (4) Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitization positions. These are calculated in accordance with FSA guidance.
- (5) The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline Building Societies) and unsecured lending; Foundation IRB for treasury portfolios (other than corporates); and the Standardized approach for all other credit risk exposures.
- (6) Solvency ratios are calculated as relevant capital divided by Risk Weighted Assets. Core Tier 1 relates to Tier 1 capital excluding permanent interest bearing shares.



**For the year ended April 4, 2009**

	<b>As reported</b>	<b>Fair value and other adjustments</b>	<b>FSCS cost</b>	<b>Transformation and business combinations</b>	<b>Underlying profit before tax</b>
			<i>(£ millions)</i>		
Net interest income .....	1,758	-	-	-	1,758
Other income .....	494	-	-	(135)	359
Fair value adjustments from derivatives and hedge accounting .....	10	(10)	-	-	-
<b>Total income net of claims on insurance contracts .....</b>	<b>2,262</b>	<b>(10)</b>	<b>-</b>	<b>(135)</b>	<b>2,117</b>
Administrative expenses .....	1,252	-	-	(107)	1,145
Depreciation and amortization .....	126	-	-	-	126
Impairment losses on loans and advances to customers .....	394	-	-	-	394
Provisions for liabilities and charges .....	249	-	(241)	-	8
Impairment losses on investment securities .....	51	-	-	-	51
<b>Profit before tax .....</b>	<b>190</b>	<b>(10)</b>	<b>(241)</b>	<b>(28)</b>	<b>393</b>

The following discussion considers our results for the year ended April 4, 2010 compared to our results for the year ended April 4, 2009.

***Total income net of claims on insurance contracts***

Our total income decreased by 4.1% in the year ended April 4, 2010 to £2,169 million from £2,262 million in the year ended April 4, 2009. The following table sets forth the components of income for the years ended April 4, 2010 and April 4, 2009, respectively:

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(£ millions)</i>	
Net interest income .....	1,714	1,758
Net fees and commissions .....	373	355
Income from investments .....	1	16
Other operating income .....	47	123
Gains from derivatives and hedge accounting .....	34	10
<b>Total .....</b>	<b>2,169</b>	<b>2,262</b>

***Net interest income***

Net interest income decreased by 2.5% to £1,714 million for the year ended April 4, 2010 compared with £1,758 million for the year ended April 4, 2009.

The following table sets forth the components of net interest income for the years ended April 4, 2010 and 2009, respectively:

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(£ millions)</i>	
<b>Interest and similar income:</b>		
On residential mortgages .....	5,289	6,473
On other loans .....	1,150	1,526
On investment securities .....	1,056	1,249
On other liquid assets.....	47	261
Other interest receivable .....	-	-
Net (expense) on financial instruments hedging assets.....	(3,116)	(410)
Expected return on pension assets .....	122	151
Foreign exchange difference.....	20	-
<b>Total interest and similar income.....</b>	<b>4,568</b>	<b>9,250</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(2,326)	(4,724)
On subscribed capital. ....	(96)	(85)
On deposits and other borrowings: .....		
Subordinated liabilities .....	(95)	(93)
Other .....	(384)	(1,130)
Debt securities in issue .....	(884)	(1,376)
Net income on financial instruments hedging liabilities .....	1,077	61
Pension interest cost .....	(146)	(141)
<b>Total interest expense and similar charges .....</b>	<b>(2,854)</b>	<b>(7,492)</b>
<b>Net interest income .....</b>	<b>1,714</b>	<b>1,758</b>

#### ***Interest and similar income***

Interest and similar income decreased by 50.6% to £4,568 million in the year ended April 4, 2010 from £9,250 million in the year ended April 4, 2009.

#### ***On residential mortgages***

Interest on residential mortgages decreased by 18.3% to £5,289 million in the year ended April 4, 2010 from £6,473 million in the year ended April 4, 2009. The reduction in income is largely attributable to a decrease in average interest rates between the two periods from 5.24% for the year ended April 4, 2009 to 3.83% for the year ended April 4, 2010. This decrease in our average interest rates reflects the fall in the BoE base rate during the year ended April 4, 2009 to a historic low of 0.5%. The BoE base rate remained at 0.5% throughout the year ended April 4, 2010. The decrease in interest rates has been partly offset by a 4.6% increase in the size of our average residential mortgage portfolio to £138,005 million in the year ended April 4, 2010 from £131,982 million in the year ended April 4, 2009. The growth in residential mortgages reflects balances acquired on the acquisition of the Cheshire, Derbyshire and Dunfermline building societies countered by active management of the balance sheet in the year, adjusting our business flows in response to the recessionary conditions and the significant contraction in the market.

#### ***On other loans***

Interest on other loans includes interest income that we earned from commercial loans, credit card lending, unsecured personal loans and current account overdrafts. Interest on other loans decreased by 24.6% to £1,150 million in the year ended April 4, 2010 from £1,526 million in the year ended April 4, 2009. Again, decreases in interest rates as a result of reductions in the BoE base rate between the two periods have driven income down.

### *On investment securities*

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

Interest and other income from investment securities decreased by 15.5% to £1,056 million for the year ended April 4, 2010 compared with £1,249 million for the year ended April 4, 2009. This decrease is due to a fall of 3.0% in the average balance of securities held in both the investment and liquidity portfolios to £23,780 million in the year ended April 4, 2010 from £24,523 million for the year ended April 4, 2009 combined with a decrease in the average interest rate earned on such assets to 2.22% in the year ended April 4, 2010, compared to 4.99% for the year ended April 4, 2009. The decrease in average interest rates is a direct result of decreases in market rates between the two periods.

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

We use derivative instruments to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets”. In the year ended April 4, 2010, we incurred a net expense of £3,116 million on financial instruments used to hedge our fixed rate assets compared with net income of £410 million in the year ended April 4, 2009. As LIBOR rates have remained below the levels seen during the year ended April 4, 2009, the floating rate income on these financial instruments has reduced significantly resulting in an overall cost to the Group.

### *Expected return on pension assets*

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

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

Interest expense and similar charges decreased by 61.9% in the year ended April 4, 2010 to £2,854 million from £7,492 million in the year ended April 4, 2009.

### *On UK retail member deposits*

Interest on UK retail member deposits includes interest that we pay on UK savings and current accounts held by our members. Interest on UK retail member deposits decreased by 50.8% to £2,326 million in the year ended April 4, 2010 from £4,724 million in the year ended April 4, 2009.

This decrease was mainly due to a fall in the average interest rate that we paid to depositors to 1.9% for the year ended April 4, 2010 compared with 3.93% in the year ended April 4, 2009. This decrease was due to the fall in the BoE base rate. The decrease was partly offset by a 2.4% growth in the average balance of UK retail member deposits held to £122,999 million in the year ended April 4, 2010 from £120,139 million in the year ended April 4, 2009. The growth in UK retail member deposits reflects balances acquired on the acquisition of the Cheshire, Derbyshire and Dunfermline building societies totaling £9,986 million, countered by active management of the balance sheet to reflect the managed outflow of retail savings during the year ended April 4, 2010. We have actively managed our flow of retail savings during the year to achieve a balance between securing funds at an economic rate and providing value to our members. During the first half of the year, intense competition in a contracting market led to a decision to allow a £5.6 billion net outflow of funds. Overall, the year has seen a managed outflow from the savings book of £7.3 billion.

### *On deposits and other borrowings*

Interest expense on deposits and other borrowings includes interest that we pay on subordinated debt instruments and other deposits and borrowings. In the year ended April 4, 2010 interest on subordinated liabilities increased by 2.2% to £95 million from £93 million in the year ended April 4, 2009. Average balances were £2,144 million for the year ended April 4, 2010 and £1,936 million for the year ended April 4, 2009. The increase in both balance and interest was due to additional subordinated debt being taken on when Nationwide Building Society merged with Cheshire and Derbyshire building societies in December 2008. The interest rates on our subordinated liabilities are fixed and therefore not affected by changes in market interest rates.

Other interest expense on deposits and other borrowings include the interest that we pay on retail deposits by non-members, deposits from other banks and other money market deposits. In the year ended April 4, 2010, other interest

expense on deposits and other borrowings decreased by 66.0% to £384 million from £1,130 million in the year ended April 4, 2009. This reduction is due to a combination of the fall in market interest rates together with a decrease in the average monthly balance of deposits and other borrowings, excluding subordinated liabilities, of 14.9% to £20,609 million in the year ended April 4, 2010 compared with £24,227 million in the year ended April 4, 2009.

#### *Debt securities in issue*

Debt securities in issue include interest that we pay on certificates of deposit, time deposits, commercial paper and medium-term notes. In the year ended April 4, 2010, interest expense on debt securities in issue decreased by 35.8% to £884 million from £1,376 million in the year ended April 4, 2009. The average monthly balance of debt securities in issue increased by 16.1% to £37,937 million in the year ended April 4, 2010, compared with £32,663 million in the year ended April 4, 2009. However, the average interest rate paid before adjusting for income/expense on financial instruments hedging liabilities reduced to 1.14% for the year ended April 4, 2010, compared with 4.33% for the year ended April 4, 2009.

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

We use derivative instruments to synthetically convert fixed rate liabilities to floating rate liabilities. The floating rate expense and fixed rate income on these derivatives are included as “net income/expense on financial instruments hedging liabilities”. In the year ended April 4, 2010, net income on financial instruments used to hedge our fixed rate liabilities was £1,077 million, compared with a net income of £61 million in the year ended April 4, 2009.

#### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the year ended April 4, 2010 and 2009 respectively:

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(£ millions)</i>	
<b>Fee and commission income:</b>		
Mortgage related fees .....	28	24
Banking and savings fees.....	153	161
General insurance fees.....	124	124
Other fees and commissions .....	73	50
<b>Total fee and commission income</b> .....	<b>378</b>	<b>359</b>
<b>Fee and commission expense:</b>		
Mortgage related fees .....	1	1
Other fees and commissions .....	4	3
<b>Total fee and commission expense</b> .....	<b>5</b>	<b>4</b>
<b>Net fee and commission income</b> .....	<b>373</b>	<b>355</b>

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

In the year ended April 4, 2010, net fees and commissions increased by 5.1% to £373 million compared with £355 million in the year ended April 4, 2009. Other fees and commissions increased to £73 million in the year ended April 4, 2010 compared to £50 million in the year ended April 4, 2009. This increase is due to higher levels of income from the sale of insurance and investment products as in the current low interest rate environment customers have turned to equity-based products for higher returns. Overall unit sales of protection and investment products have increased by almost 60% in the year ended April 4, 2010 compared with the previous year.

#### *Other operating income*

In the year ended April 4, 2010, other operating income decreased by 61.8% to £47 million, compared with £123 million in the year ended April 4, 2009. Other operating income for the year ended April 4, 2010 includes a £40

million gain on the Dunfermline Social Housing portfolio which was acquired from DBS Bridge Bank Limited on June 30, 2009. Other operating income for the year ended April 4, 2009 includes £89 million gain on acquisition of the Cheshire Building Society and £46 million gain on acquisition of core parts of the Dunfermline Building Society

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

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives are only used to limit the extent to which we could be affected by changes in interest rates, exchange rates or other factors specified in building society legislation. 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 fair value of the underlying asset or liability being hedged. Any ineffectiveness arising from different movements in fair value will likely trend to zero over time.

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

Gains from derivative and hedge accounting were £34 million in the year ended April 4, 2010 compared to gains of £10 million in the year ended April 4, 2009.

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

Operating expenses and similar charges decreased by 11.8% in the year ended April 4, 2010 to £1,828 million from £2,072 million in the year ended April 4, 2009. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2010 and 2009, respectively:

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(£ millions)</i>	
Administrative expenses .....	1,195	1,252
Depreciation and amortization .....	151	126
Impairment losses on loans and advances to customers .....	549	394
Provisions for liabilities and charges .....	(103)	249
Impairment losses on investment securities .....	36	51
<b>Total</b> .....	<b>1,828</b>	<b>2,072</b>

#### ***Administrative Expenses***

Administrative expenses decreased by 4.6% in the year ended April 4, 2010 to £1,195 million from £1,252 million in the year ended April 4, 2009. Administrative expenses as a percentage of total average assets decreased to 0.61% in the year ended April 4, 2010 from 0.66% in the year ended April 4, 2009.

The following table sets forth the components of administrative expenses for the years ended April 4, 2010 and 2009, respectively:

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(£ millions)</i>	
<b>Employee costs:</b>		
• Salaries and social security costs .....	513	505
• Pension costs .....	71	94
Other administrative costs .....	611	653
<b>Total</b> .....	<b>1,195</b>	<b>1,252</b>

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

In the year ended April 4, 2010, salaries and social security costs increased by 1.6% to £513 million from £505 million in the year ended April 4, 2009. The increase was primarily due to typical annual salary increases and merit-based salary increases to some employees. In addition, during the second half of the financial year ended April 4, 2009, there was an increase in staff numbers caused by 1,895 staff that transferred to Nationwide on the acquisition of the Cheshire, Derbyshire and Dunfermline building societies. During the year ended April 4, 2010 synergies and our ongoing focus on efficiency savings have enabled some reductions in headcount across the Group.

Within employee costs, the pension charge decreased by 24.5% to £71 million for the year ended April 4, 2010 from £94 million in the year ended April 4, 2009. The decrease in pension costs is due to a decrease in past service costs, and a shift in membership from defined benefit to defined contribution arrangements, together with changes in actuarial assumptions.

The Group operates defined benefit arrangements and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund. This is a contributory defined benefit arrangement, with two main sections. The final salary section was closed to new entrants in 2001 and the career average revalued earnings (“**CARE**”) section was closed to new entrants on May 31, 2007. Since that date, new employees have the option of joining a new defined contribution arrangement.

The valuation of the Nationwide Pension Fund as at April 4, 2010 resulted in a deficit of £497 million (April 4, 2009: £282 million) using the methodology set out in IAS 19. Our total retirement benefit liability under IAS 19, including other schemes, was £508 million as at April 4, 2010 (April 4, 2009: £331 million). The Group did not take over the defined benefit arrangements of the Dunfermline Building Society and the Portman Building Society defined benefit scheme was merged into the Nationwide Pension Fund in October 2009. We have been actively managing our retirement benefit liability and have taken a number of steps to contain and reduce the deficit over time:

- Final Salary arrangements closed to new members since 2001 and CARE arrangements closed in May 2007;
- Employee contributions (final salary arrangements) increased from 5% to 7% on July 1, 2006;
- Special contributions of £200 million were paid in the period 2005/06 – 2007/08;
- Transfers in and new Additional Voluntary Contribution arrangements were stopped from December 31, 2009; and
- The Pension Trustees continue to work closely with their advisors to optimize the investment strategy for the schemes’ assets.

We will continue to review our options to manage the pension schemes in a responsible way. The next full triennial valuation of the Nationwide Pension Fund is expected to be carried out as at March 31, 2010. The results will not be available until later in the year, after which a plan will be agreed between the Pension Trustee board and the Group to manage the ongoing retirement benefit liability.

Other administrative costs decreased by 6.4% to £611 million for the year ended April 4, 2010 from £653 million for the year ended April 4, 2009. The expenses for the years ended April 4, 2010 and April 4, 2009 include £62 million and £107 million, respectively, of transformation costs relating to the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies and the restructuring of parts of our business. These costs are “one off” in nature and are therefore excluded from the calculation of underlying / ongoing profit. Other main categories of expenditure include advertising and marketing, postage and communications, rent and associated taxes, computer hardware maintenance, property maintenance, ATM costs and equipment leasing.

Ongoing other administration costs have remained broadly flat at £549 million for the year ended April 4, 2010 compared to £546 million for the year ended April 4, 2009. This reflects our commitment and ability to manage our cost base despite the increased administrative support required to address the growth in the average balance sheet of 3.7% to £197,428 million as at April 4, 2010 from £190,437 million as at April 4, 2009. Cost control has been achieved through a number of measures including cost synergies and an ongoing focus on efficiency savings across the Group.

### Depreciation and amortization

For the year ended April 4, 2010, depreciation and amortization expenses increased by £25 million to £151 million compared to £126 million for the year ended April 4, 2009. The increase results from the depreciation charged on assets acquired from the Cheshire, Derbyshire and Dunfermline building societies together with higher levels of spending on assets with shorter depreciable lives such as technology in recent years.

### Impairment losses on loans and advances to customers

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

Impairment losses on loans and advances to customers for the year ended April 4, 2010 increased by 39.3% to £549 million from £394 million for the year ended April 4, 2009.

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2010 and 2009, respectively:

	For the year ended April 4,	
	2010	2009
	(£ millions)	
Residential mortgages.....	89	91
Commercial lending.....	299	171
Unsecured lending .....	126	113
Other secured lending .....	35	19
<b>Total</b> .....	<b>549</b>	<b>394</b>

The impairment loss on loans to customers of £549 million for the year ended April 4, 2010 is significantly more than the £394 million charge for the year ended April 4, 2009, though the charge over the second half of the year ended April 4, 2010 of £232 million, is markedly less than the first half charge of £317 million in the first half of the year. We believe that the underlying quality of our lending remains strong but is inevitably affected by recessionary conditions and falling asset values in the commercial sector.

The charge of £89 million for the year ended April 4, 2010 on residential mortgages is primarily related to specialist lending and is slightly lower than the £91 million charge for the year ended April 4, 2009 as an increase in cases with longer dated arrears has been partly offset by lower early arrears and higher indexed property valuations. The charge on the prime book has increased to £10 million for the year ended April 4, 2010 from £4 million for the year ended April 4, 2009, with the high quality and low average LTV profile of our prime mortgages making them more resilient to external market conditions and unemployment than specialist and commercial mortgages. Residential mortgages impairment provisions held on balance sheet increased by 32% to £160 million for the year ended April 4, 2010 from £121 million for the year ended April 4, 2009, and the residential mortgages provision as a percentage of total residential mortgages increased to 0.13% as compared to 0.10% in the year ended April 4, 2009. In the same period residential mortgages balances more than three months in arrears increased by 4%.

In our commercial lending division, ongoing difficult market conditions resulted in an increase in commercial loan defaults and a charge of £299 million for the year ended April 4, 2010 compared with £171 million in the year ended April 4, 2009. Signs of improvement have been seen in the second half of the year ended April 4, 2010 as the growth in impairments began to slow, resulting in a charge of £119 million in the second half of the year ended April 4, 2010 compared with £180 million for the first half and £146 million in the second half of the year ended April 4, 2009. The increase in defaults in the year ended April 4, 2010 has been triggered by tenant failures and our borrowers' subsequent inability to service loans, along with covenant breaches on LTV requirements and business failures on owner occupied properties.

Our total commercial portfolio includes £266 million of subordinated exposures of which £124 million are provided for, and the Group's residual exposure to subordinated loans is therefore restricted to the unprovided balances of £142 million (consisting of 6 cases), which are currently fully performing. Within this portfolio, for loans that

Nationwide originated (i.e., excluding loans acquired via the mergers with the Cheshire and Derbyshire, and the Dunfermline acquisition), the subordinated exposure is £197 million, of which £88 million is now fully provided.

The overall level of provision for commercial lending as a percentage of Nationwide originated commercial lending loans has increased to 1.97% as at April 4, 2010 compared with 0.92% as at April 4, 2009.

The charge of £35 million for the year ended April 4, 2010 for other secured lending is in respect of a portfolio of European commercial loans acquired by our Treasury Division. The portfolio is managed on our behalf by a leading European investment manager.

The impairment charge for unsecured lending increased to £126 million for the year ended April 4, 2010 compared with £113 million for the year ended April 4, 2009. This increase is due to two specific changes that we made to our assessment of provisions, to better reflect prevailing conditions, rather than being due to a change in underlying performance of these assets. The charge for the year ended April 4, 2009 included the benefit of a one-time reduction to the provision for up to date assets and the charge for the year ended April 4, 2010 includes a significantly higher provision for cases subject to litigation. The underlying performance of unsecured lending remains strong and reflects our cautious approach and prudence in our underwriting.

#### *Provisions for liabilities and charges*

The following table sets forth the components of provisions for contingent liabilities and commitments for the years ended April 4, 2010 and 2009, respectively:

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(£ millions)</i>	
FSCS.....	(117)	241
Loyalty benefits .....	14	8
<b>Total</b> .....	<b>(103)</b>	<b>249</b>

Provisions of £117 million relating to the FSCS for contingent liabilities and commitments were released in the year ended April 4, 2010. This compares to a charge of £241 million in the year ended April 4, 2009. The FSCS provision is to meet expected levies payable on the Group's estimated share of interest on loans received by the FSCS from HM Treasury in respect of scheme years ending on and before March 31, 2011. During the year ended April 4, 2010 the FSCS provision calculation methodology has altered to align Nationwide's approach with emerging industry consensus. In addition there has been a significant reduction in the calculated provision due principally to interest rates being lower than previously anticipated.

For further information on the FSCS see "*Description of Business—Financial Services Compensation Scheme*".

#### *Impairment losses on investment securities*

Under IAS 39: Financial Instruments: Recognition and Measurement ("**IAS 39**"), provisions against investment securities are made where there is objective evidence of impairment at the balance sheet date.

During the year ended April 4, 2010, an impairment loss of £36 million was recognized compared with an impairment loss of £51 million in the year ended April 4, 2009. The impairment provision for the year ended April 4, 2010, consists of £29 million impairment on a small number of US RMBS exposures and £7 million in respect of a private equity portfolio. The impairment loss for the year ended April 4, 2009 included £34 million in respect of a senior unsecured exposure to Washington Mutual Bank which went into Federal Deposit Insurance Corporation ("**FDIC**") Receivership, £3 million in respect of Lehman Brothers and £12 million for Icelandic banks.

#### *Taxes*

Tax on our profit on ordinary activities for the year ended April 4, 2010 amounted to £77 million based on our reported profit on ordinary activities before tax of £341 million, reflecting an effective tax rate of 22.6% as compared with the prevailing UK corporation tax rate of 28%.

For the year ended April 4, 2009, tax on our profit on ordinary activities amounted to £44 million based on our reported profit on ordinary activities of £190 million, reflecting an effective tax rate of 23.1% as compared with the

prevailing UK corporation tax rate of 28%. The lower effective tax rate is due principally to adjustments to amounts provided in respect of prior periods.

### **Balance Sheet Review**

#### *Loans and advances to customers*

Our lending remains predominantly concentrated on prime quality, secured products, with residential mortgages (both prime and specialist) accounting for 83.5% of our total loans and advances to customers (April 4, 2009: 83.8%), commercial lending 14.6% (April 4, 2009: 14.2%), and consumer banking 1.5% (April 4, 2009: 1.6%). Sub prime lending within Specialist residential mortgages accounts for just 0.4% of all lending. The mix of lending as at April 4, 2010 has remained broadly consistent with that reported as at April 4, 2009. The following table sets forth the breakdown of loans and advances to customers as at April 4, 2010 and April 4, 2009:

	<b>As at April 4,</b>			
	<b>2010</b>	<b>2009</b>		
	<i>(£ billions, except percentages)</i>			
Prime residential mortgages.....	108.7	71.3%	111.9	72.1%
Specialist residential mortgages.....	18.7	12.2%	18.2	11.7%
<b>Total residential mortgages.....</b>	<b>127.4</b>	<b>83.5%</b>	<b>130.1</b>	<b>83.8%</b>
Consumer banking .....	2.3	1.5%	2.4	1.6%
<b>Retail loan portfolio .....</b>	<b>129.7</b>	<b>85.0%</b>	<b>132.5</b>	<b>85.4%</b>
Commercial lending.....	22.2	14.6%	22.1	14.2%
Other operations lending.....	0.6	0.4%	0.6	0.4%
<b>Gross balances.....</b>	<b>152.5</b>	<b>100.0%</b>	<b>155.2</b>	<b>100.0%</b>
Impairment provisions.....	(0.8)		(0.4)	
Fair value adjustments for micro hedged risk.....	0.7		0.7	
<b>Total.....</b>	<b>152.4</b>		<b>155.5</b>	

#### *Retail loan portfolio*

The retail loan portfolio is predominantly made up of £127.4 billion of residential mortgages (April 4, 2009: £130.1 billion) with £2.3 billion of consumer banking lending (April 4, 2009: £2.4 billion). By their nature, our retail lending books comprise a large number of smaller loans, have low volatility of credit risk outcomes and are intrinsically highly diversified.

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet includes prime residential mortgages totaling £4.5 billion which were brought on to our balance sheet following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios.

The make up of specialist residential lending is as follows:

	<b>For the year ended April 4,</b>			
	<b>2010</b>	<b>2009</b>		
	<i>(£ billions, except percentages)</i>			
Self-certified.....	4.5	24%	4.9	27%
Buy to let.....	12.3	66%	11.2	61%
Near prime.....	1.4	7%	1.6	9%
Sub prime.....	0.5	3%	0.5	3%
Specialist lending.....	18.7	100%	18.2	100%

Near prime is defined as a borrower with a County Court Judgment (“CCJ”) or default less than or equal to £1,000 or one missed mortgage payment in the last 12 months. Sub prime lending is defined as a borrower with a CCJ or default in excess of £1,000 or more than one missed mortgage payment in the last 12 months.

Specialist lending operates through TMW, primarily in the buy to let and self-certification markets with a very small exposure to the near prime sub prime markets. Just 3%, or approximately £0.5 billion, relates to sub-prime, of which £0.4 billion was acquired as part of the mergers with Cheshire, Derbyshire and Dunfermline building societies, and was subject to fair value assessment at acquisition. In addition, the portfolio contains other assets acquired from the Cheshire, Derbyshire and Dunfermline building societies along with assets originated under our UCB brand.

Specialist residential mortgages as at April 4, 2010 were made up of £15.7 billion of advances made through our specialist lending brands, TMW and UCB, and £3.0 billion arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline specialist lending brands.

Gross prime residential lending in the year ended April 4, 2010 amounted to £10.3 billion compared to £16.7 billion in the year ended April 4, 2009. Specialist residential lending in the years ended April 4, 2010 and April 4, 2009 of £1.7 billion and £2.2 billion, respectively, was almost exclusively in the buy to let sector with insignificant amounts of self-certified lending and no sub or near prime lending.

Residential mortgages are only secured against UK properties. The Group operates across the whole of the UK with a bias towards the South East of England and Greater London, reflecting the concentration of branches in that region and historically higher asset value growth trends. As at April 4, 2010, around 34% (April 4, 2009: 34%) of the residential mortgage book was made up of exposures concentrated in the South East and Greater London.

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(percentages)</i>	
South East England (excluding London) .....	12	12
Central England .....	22	22
Northern England.....	19	19
Greater London .....	22	22
South West England .....	9	9
Scotland .....	9	9
Wales and Northern Ireland.....	7	7
<b>Total</b> .....	<b>100</b>	<b>100</b>

We continued to focus on affordability and LTV ratios in underwriting residential mortgages during the year ended April 4, 2010. The average LTV of residential mortgages completed in the year ended April 4, 2010 was 63% (year ended April 4, 2009: 60%), whilst the average indexed LTV of residential mortgages as at April 4, 2010 has fallen to 48% from 52% as at April 4, 2009. The value of residential property is updated on a quarterly basis to reflect changes in the Nationwide house price index. The following table sets forth a breakdown of the LTV analysis of our residential mortgage portfolio as at April 4, 2010 and April 4, 2009:

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(percentages)</i>	
<b>Total portfolio of residential mortgages:</b>		
<50% .....	54	51
50% - 60% .....	10	9
60% - 70% .....	10	9
70% - 80% .....	10	9
80% - 90% .....	8	8
90% - 100% .....	6	8
> 100% .....	2	6
	<b>100</b>	<b>100</b>
Average loan to value of stock (indexed) .....	48	52
Average loan to value of new business .....	63	60
<b>New business profile:</b>		
First-time buyers .....	26	15
Home movers .....	38	27
Remortgagers .....	18	50
Buy to let .....	18	8
	<b>100</b>	<b>100</b>

The analysis of the new business profile as at April 4, 2009 has been amended to exclude further advances, which were previously included in remortgages. The analysis as at April 4, 2010 likewise excludes further advances. Further advances have also been excluded from the analyses of the average LTV of new business.

The table below presents residential mortgages three months or more in arrears as a percentage of our total residential mortgage portfolio, and shows a small increase in arrears in prime mortgages and a reduction in arrears in specialist mortgages with respect to Nationwide-originated mortgages at April 4, 2010 from April 4, 2009, compared with a broadly static industry measure. Overall, we have maintained our very favorable position compared to the industry on both Nationwide-originated business and lending including acquired loans. The modest increase in prime residential mortgage arrears has been driven by external pressures impacting customers' abilities to meet their mortgage repayments combined with our collections and forbearance strategies to work with customers to avoid possession where possible. Specialist residential mortgages originated by Nationwide continue to perform well and remain broadly in line with the industry measure (that includes prime residential mortgages):

## Cases three months or more in arrears as % of total book of residential mortgages

	<b>For the year ended April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(percentages)</i>	
<b>Nationwide-originated residential mortgages:</b>		
Prime.....	0.52	0.49
Specialist.....	2.28	2.45
<b>Total Nationwide-originated residential mortgages .....</b>	<b>0.68</b>	<b>0.64</b>
<b>Group residential mortgages:<sup>(1)</sup></b>		
Prime.....	0.54	0.51
Specialist.....	3.37	3.72
<b>Total Group residential mortgages .....</b>	<b>0.82</b>	<b>0.80</b>
<b>Industry average .....</b>	<b>2.22</b>	<b>2.41</b>

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

The percentage of cases three months or more in arrears as a percentage of the total book for prime mortgages is now based on the Council of Mortgage Lenders ("CML") definition, which calculates months in arrears by dividing the arrears balance by the latest contractual payment. Previously, our arrears had been based on the number of missed payments, and so comparative figures at April 4, 2009 have been restated accordingly. The effect of the restatements was to increase the April 4, 2009 figures for Nationwide-originated mortgages and Group mortgages by 4 basis points.

Residential mortgage assets acquired with Cheshire, Derbyshire, and Dunfermline's brands were fair valued at acquisition on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £49 million of losses have been written off and, as reported at April 4, 2009, we continue to believe it is unlikely that these loans will contribute any significant losses to the Group in excess of the fair value allowance made at the time of acquisition. Accordingly in evaluating the Group's exposure to losses, as well as the quality of its underwriting process, we believe that it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

The number of Group borrowers in possession, including borrowers under residential mortgages acquired from Cheshire, Derbyshire, and Dunfermline building societies, of 967 represented 0.069% of the total residential mortgage portfolio at April 4, 2010, compared to 1,248 Group borrowers in possession, or 0.087%, of the total residential mortgage portfolio at April 4, 2009. As buy to let borrowers may have more than one property, possession measures are slightly higher on a property basis but, at 1,088 properties, representing 0.077% of our book at April 4, 2010 compared with 1,441 properties representing 0.100% of the book at April 4, 2009, this compares very favorably with the industry measure of 0.127% at April 4, 2010 (April 4, 2009: 0.211%). Excluding the impact of residential mortgages from the acquired societies, our position relative to the industry is even more favorable. The table below shows possessions as a percentage of our residential mortgage portfolio for both Nationwide-originated and total Group residential mortgages:

Possessions as % of total book of residential mortgages (number of borrowers)	For the year ended April 4,	
	2010	2009
	<i>(percentages)</i>	
<b>Nationwide-originated residential mortgages:</b>		
Prime.....	0.021	0.021
Specialist.....	0.414	0.500
<b>Total Nationwide-originated residential mortgages .....</b>	<b>0.055</b>	<b>0.058</b>
<b>Group residential mortgages:<sup>(1)</sup></b>		
Prime.....	0.021	0.022
Specialist.....	0.497	0.741
<b>Total Group residential mortgages .....</b>	<b>0.069</b>	<b>0.087</b>

Note:

(1) Includes residential mortgages acquired from the Cheshire, Derbyshire, and Dunfermline building societies

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is demonstrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2010, 1,280 Nationwide-originated properties were taken into possession representing only 2.89% of properties taken in by the industry as a whole against our residential mortgage market share of 11.58%. This compares with the experience for the year ended April 4, 2009 when 941 properties, representing 2.10% of the total for the industry, were taken into possession compared with our share of 11.72%.

The table below provides further information on the retail loan portfolio (including residential mortgages and consumer banking) by payment due status:

	As at April 4,									
	2010					2009				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
	<i>(£ billions, except percentages)</i>									
<b>Not impaired:</b>										
Neither past due nor impaired.	106.3	16.5	2.1	<b>124.9</b>	96%	109.5	15.7	2.2	<b>127.4</b>	96%
Past due up to 3 months but not impaired.	1.9	1.2	0.0	<b>3.1</b>	3%	1.9	1.4	0.1	<b>3.4</b>	3%
Impaired.....	0.5	1.0	0.2	<b>1.7</b>	1%	0.5	1.1	0.1	<b>1.7</b>	1%
<b>Total .....</b>	<b>108.7</b>	<b>18.7</b>	<b>2.3</b>	<b>129.7</b>	<b>100%</b>	<b>111.9</b>	<b>18.2</b>	<b>2.4</b>	<b>132.5</b>	<b>100%</b>

The status "past due up to 3 months but not impaired" includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset balance rather than just the payment overdue.

Loans in the analysis above which are less than 3 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 Cheshire, Derbyshire and Dunfermline building societies have been fair valued on a basis which makes allowances for anticipated

losses over the remaining life of the loans. Impaired loans totaling £403 million in the above analysis at April 4, 2010 have thus been fair valued and are therefore unlikely to contribute any significant further losses to the Group.

Impaired retail loans are broken down further in the following table:

	As at April 4,									
	2010					2009				
	Prime lending	Specialist lending	Consumer banking	Total		Prime lending	Specialist lending	Consumer banking	Total	
	<i>(£ million, except percentages)</i>									
<b>Impaired status:</b>										
Past due 3 to 6 months .....	280	342	60	<b>682</b>	39%	262	443	61	<b>766</b>	44%
Past due 6 to 12 months .....	174	282	67	<b>523</b>	30%	147	320	66	<b>533</b>	30%
Past due over 12 months .....	81	222	45	<b>348</b>	20%	59	117	32	<b>208</b>	12%
Possession S.....	30	160	-	<b>190</b>	11%	34	215	-	<b>249</b>	14%
<b>Total .....</b>	<b>565</b>	<b>1,006</b>	<b>172</b>	<b>1,743</b>	<b>100%</b>	<b>502</b>	<b>1,095</b>	<b>159</b>	<b>1,756</b>	<b>100%</b>

Possession balances represent properties of which Nationwide has taken ownership pending their sale.

£329 million (April 4, 2009: £94 million) of retail loans that would otherwise be categorized as past due or impaired have had their terms renegotiated or capitalized in the last 12 months. Customers with arrears are only permitted to renegotiate where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period.

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

	As at April 4,							
	2010				2009			
	Prime lending	Specialist lending			Prime lending	Specialist lending		
	<i>(£ million, except percentages)</i>							
Past due but not impaired.....	1,884	100%	1,159	99%	1,904	100%	1,323	99%
Impaired.....	532	99%	829	98%	465	99%	862	98%
Possessions .....	29	97%	150	94%	33	97%	206	96%
<b>Total .....</b>	<b>2,445</b>	<b>100%</b>	<b>2,138</b>	<b>98%</b>	<b>2,402</b>	<b>100%</b>	<b>2,391</b>	<b>98%</b>

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

The following table presents negative equity on residential mortgages:

	<b>As at April 4,</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Prime lending</b>	<b>Specialist lending</b>
	<i>(£ million)</i>			
Past due but not impaired.....	5	10	7	17
Impaired.....	3	17	3	18
Possessions .....	1	10	1	9
<b>Total</b> .....	<b>9</b>	<b>37</b>	<b>11</b>	<b>44</b>

In consumer banking personal loans and credit cards have arrears levels significantly lower than averages for the industry (“FLA” and “APACS”) as shown in the table below, which presents the percentage of personal loans and credit card accounts more than 30 days in arrears:

	<b>2010 Nationwide</b>	<b>2010 Industry</b>	<b>2009 Nationwide</b>	<b>2009 Industry<sup>(1)</sup></b>
	<i>(percentages)</i>			
Personal loans.....	7.07	19.6	7.15	15.8
Credit card .....	5.15	6.64	5.70	8.06

Note:

(1) Industry numbers for Personal Loans and Credit Cards for the prior period have been restated by the FLA and APACS respectively.

#### *Commercial and other operations loan portfolio*

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under Government supported PFIs, with gross lending totaling £1.8 billion during the year. However, higher than expected capital repayments and redemptions have resulted in the size of the commercial loan portfolio remaining virtually unchanged during the year ended April 4, 2010, and all new lending was made in lower risk sectors on a very selective basis. During the year we also redefined our asset preferences to exclude housebuilder, equity, subordinated and/or European lending. Balances for other operations lending include a secured European commercial loan portfolio of £299 million (April 4, 2009: £369 million) and unsecured lending of £277 million (April 4, 2009: £311 million) relating to a student loan portfolio. These investments were acquired by Treasury Division and are therefore held within the Head office functions.

Our commercial loan portfolio of £22.2 billion (April 4, 2009: £22.1 billion) comprises the following:

	<b>As at April 4,</b>			
	<b>2010</b>		<b>2009</b>	
	<i>(£ billion, except percentages)</i>			
Property finance.....	13.0	58%	13.7	62%
Registered Social Landlords .....	7.9	36%	7.2	33%
Private Finance Initiative .....	1.3	6%	1.2	5%
<b>Total</b> .....	<b>22.2</b>	<b>100%</b>	<b>22.1</b>	<b>100%</b>

Loans to Registered Social Landlords are secured on residential property, and loans advanced under the PFI are secured on cash flows from Government backed contracts. We have never suffered losses on our lending in these markets, and there are currently no arrears of three months or more on these portfolios.

Property finance lending is well diversified by industry type and an analysis is provided in the following table:

	<b>As at April 4,</b>			
	<b>2010</b>		<b>2009</b>	
	<i>(£ billion, except percentages)</i>			
Retail.....	4.3	33%	4.1	30%
Office.....	3.0	23%	3.2	23%
Residential .....	2.0	15%	2.5	18%
Industrial and warehouse .....	2.0	15%	2.1	16%
Leisure and hotel.....	1.1	9%	1.0	7%
Owner occupied .....	0.3	3%	0.7	5%
Other .....	0.3	2%	0.1	1%
<b>Total</b> .....	<b>13.0</b>	<b>100%</b>	<b>13.7</b>	<b>100%</b>

In terms of counterparty concentration, the largest single commercial lending customer, including undrawn commitments, represents only 1% (April 4, 2009: 1%) of the total commercial loan portfolio.

Our commercial loan portfolio of £22.2 billion at April 4, 2010 (April 4, 2009: £22.1 billion) consists of £20.9 billion (April 4, 2009: £21.1 billion) of Nationwide-originated lending and £1.3 billion (April 4, 2009: £1.0 billion) of commercial loans acquired from Cheshire, Derbyshire and Dunfermline building societies. Our Nationwide-originated portfolio comprises £12.5 billion of property finance secured on commercial property, £7.1 billion advanced to Registered Social Landlords and £1.3 billion advanced under the PFI. The £0.3 billion increase in acquired assets arose on the post-merger acquisition of the social housing portfolio of the former Dunfermline Building Society, which occurred on June 30, 2009. There are currently no arrears of three months or more on the Registered Social Landlord and PFI portfolios and we believe that our property finance portfolio is well diversified by industry type and by borrower. In terms of Nationwide-originated lending, we have only modest exposure to development finance with total balances of £155 million, and a total further commitment of £47 million, relating to three office developments in the center of London.

The Nationwide-originated commercial loan portfolio includes £197 million of subordinated exposures, of which £88 million are impaired and fully provided for. The Group's residual exposure to these subordinated loans is therefore restricted to the unprovided balances of £109 million (which consist of 5 cases) which are currently fully performing.

The number of Nationwide-originated property finance loans more than three months in arrears increased from 179 loans at April 4, 2009 to 285 at April 4, 2010. This equates to 2.77% of Nationwide-originated commercial loans (April 4, 2009: 1.62%). Total arrears balances on these loans at 4 April 2010 were £42 million (4 April 2009: £17 million). Robust arrears management is carried out by dedicated teams who, supported by daily arrears reporting, maintain a focus on early intervention to maximize economic value and mitigate losses.

Commercial mortgage loans totaling £1.3 billion acquired through mergers with the Cheshire and Derbyshire building societies and the acquisition of the Dunfermline Building Society's social housing portfolio have been fair valued in the same way as described for residential assets above, including a credit risk adjustment of £179 million for anticipated losses over the remaining life of the loans, none of which relates to Dunfermline's social housing portfolio. A loan loss impairment charge of £10 million was raised in the year ended April 4, 2010 as 12 individually assessed cases had an impairment provision requirement in excess of the original fair value adjustment. However, in most cases, the credit risk adjustment exceeds the current impairment provision requirement and we continue to believe that acquired loans are unlikely to contribute any significant net losses to the Group over their lifetime.

Although we continue to expect difficult market conditions, and further impairment provisions, we remain confident that our commercial loan portfolio, which is primarily focused on what we believe is low risk lending, will perform better than most and this, combined with proactive management, should ensure that commercial lending continues to make a positive long term contribution to the Group.

The table below provides further information on the commercial and other operations loan portfolio by payment due status:

	As at April 4,							
	2010				2009			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired.....	20.9	94%	0.6	100%	21.1	95%	0.6	100%
Past due up to 3 months but not impaired.....	0.4	2%	-	-	0.6	3%	-	-
Impaired.....	0.9	4%	-	-	0.4	2%	-	-
<b>Total</b> .....	<b>22.2</b>	<b>100%</b>	<b>0.6</b>	<b>100%</b>	<b>22.1</b>	<b>100%</b>	<b>0.6</b>	<b>100%</b>

The status “past due up to 3 months but not impaired” includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.

Loans in the analysis above which are less than 3 months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. This analysis includes commercial mortgage loans totaling £1.3 billion acquired through the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies. These loans have been fair valued on a basis which makes credit loss adjustments, totaling £165 million, for anticipated losses over the remaining life of the loans. We therefore believe these loans should not contribute any significant losses to the Group for the foreseeable future.

Impaired commercial and other operations loans are further analyzed in the following table:

	As at April 4,							
	2010				2009			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ million, except percentages)</i>							
<b>Impaired status:</b>								
Past due 3 to 6 months.....	291	31%	14	42%	118	31%	6	40%
Past due 6 to 12 months.....	397	43%	15	46%	229	60%	4	27%
Past due over 12 months.....	238	26%	4	12%	21	6%	5	33%
Possessions.....	-	-	-	-	12	3%	-	-
<b>Total</b> .....	<b>926</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>380</b>	<b>100%</b>	<b>15</b>	<b>100%</b>

Commercial loans totaling £960 million (2009: £359 million) have individual provisions against them. This includes cases which are not more than 3 months past due. Otherwise Possession balances represent properties of which Nationwide has taken ownership pending their sale.

£175 million (2009: £257 million) of commercial and other operations loans that would otherwise be categorized as past due or impaired have had their terms renegotiated in the last 12 months. In addition, we may restructure maturing loans and those with actual or potential covenant breaches. In these cases, the renegotiated payments of capital and interest do not indicate impairment.

The following table presents collateral held against past due or impaired commercial loans:

	As at April 4,			
	2010		2009	
	<i>(£ million, except percentages)</i>			
Past due but not impaired.....	382	97%	521	94%
Impaired.....	834	90%	341	93%
Possessions.....	-	-	12	100%
<b>Total</b> .....	<b>1,216</b>	<b>92%</b>	<b>874</b>	<b>94%</b>

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

The following table presents negative equity on commercial and other operations loans:

	<b>As at April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(£ million)</i>	
Past due but not impaired.....	11	34
Impaired.....	92	27
Possessions .....	-	-
<b>Total</b> .....	<b>103</b>	<b>61</b>

There are £38 million (April 4, 2009: £21 million) past due or impaired balances classified above as other operations. Of this, £27 million (April 4, 2009: £6 million) relates to the European commercial loan portfolio which is secured on the business assets of the borrower. Collateral in respect of these assets is £25 million (April 4, 2009: £1 million).

#### *Funding*

The retail savings environment in the UK has become hugely competitive as many financial institutions sought to compensate for a lack of access in wholesale markets by focusing efforts on attracting retail deposits. Generally, this has been achieved by offering extremely attractive rates to generate demand. Nationwide has not responded in kind to this change in approach since the Group aims to offer good value over the longer term to its members. As a consequence, members' balances fell by £7.3 billion in the year ended April 4, 2010 to £120.9 billion and reliance on highly volatile rate sensitive retail balances was reduced. The reduction in share balances occurred predominantly over the first seven months of the financial year with balances then progressively stabilizing and then increasing over the last two months of the financial year.

Over the course of the year ended April 4, 2010, wholesale funding balances also decreased such that the wholesale funding level ended at 27.8% compared with 28.6% at April 4, 2009. The stronger second half performance in the second half of the year ended April 4, 2010 of retail funding and the reduction in the size of the balance sheet has prompted this decline, despite the small increase that we recorded at September 30, 2009.

Over the year ended April 4, 2010, the loan to deposit ratio increased to 116.8% (4 April 2009: 112.4%). However, the loan to deposit and long term funding ratio reduced over this same period, from 100.4% to 100.2%. Pending international consensus on an appropriate stable funding ratio definition, the Group does not set a target for either of these ratios but given that the former does not reflect the term of deposits, we believe the latter is a more appropriate representation of the structural development of the balance sheet during the year.

The following table shows the change in the makeup of our wholesale funding portfolio:

<b>Wholesale Funding portfolio mix</b>	<b>As at April 4,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(percentages)</i>	
Repo and other secured agreements.....	16.0	25.8
Deposits .....	12.4	12.4
Certificates of deposit.....	12.4	16.6
Commercial paper.....	13.0	9.9
Covered bonds .....	18.4	17.9
Medium term notes .....	20.5	16.1
Securitizations.....	4.5	-
Other non-retail.....	2.8	1.3
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>

The reduction in the absolute amount of wholesale funding and in the wholesale funding ratio in the year ended April 4, 2010 is a function of the overall management of the Nationwide's balance sheet, as we have controlled the level and quality of lending undertaken. However, we have also experienced much improved access to wholesale funding in the capital markets as market instability eased during the year ended April 4, 2010.

Over the course of the year ended April 4, 2010 the Group was active in the term debt capital markets and issued £8.5 billion equivalent of term unsecured and secured debt relative to £4 billion equivalent of maturing term debt. This has enabled the Group to both extend the maturity profile of its wholesale funding portfolio from 21 months to 26 months and to increase the split of the portfolio between short and long term (i.e., > 1 year remaining maturity – as illustrated in the wholesale funding residual maturity table below). Long term refinancing requirements for the Group remain modest for the current financial year ending April 4, 2011, with only £1.8 billion equivalent of wholesale debt maturing in that period.

The following term issuances during the year demonstrate both the strength of institutional support and the breadth of funding diversity for Nationwide:

- In August 2009, US\$4 billion of 3 year fixed and 2.75 year floating rate bonds under the Government's Credit Guarantee Scheme;
- In September 2009, £700 million 10 year fixed rate bonds, our longest ever sterling senior issue;
- In November 2009, £2.2 billion of 5 and 7 year funding through the issue of floating and fixed rate RMBS through the Silverstone Master Trust vehicle – the Group's first ever external securitization;
- In January 2010, €1.25 billion 5 year bonds, which ended the Group's absence since 2005 from the euro senior debt markets;
- In February 2010, US\$0.7 billion 5 year and US\$0.8 billion 10 year fixed rate bonds, which ended the Group's absence since 2005 from the unguaranteed US dollar fixed rate debt markets.

The Group has reduced the amount of short term funding it holds to £16 billion at April 4, 2010 compared to £20 billion at April 4, 2009, but still enjoys a strong franchise in these markets, which is reflected in the average term at issuance of the short term funding book, being 155 days at 4 April 2010 (4 April 2009: 125 days).

The table below sets out the residual maturity of the wholesale funding book:

Wholesale funding residual maturity	As at April 4,			
	2010		2009	
	<i>(£ billion, except percentages)</i>			
Less than one year .....	24.5	49.7%	34.0	63.3%
One to two years .....	4.3	8.8%	4.5	8.4%
Two to five years .....	11.7	23.6%	10.5	19.6%
More than five years .....	8.8	17.9%	4.7	8.7%
<b>Total</b> .....	<b>49.3</b>	<b>100.0%</b>	<b>53.7</b>	<b>100.0%</b>

Our short and long term credit ratings from the major rating agencies as at February 22, 2012 are as follows:

	Long Term	Short Term	Subordinated	Date of last rating action <sup>(1)</sup>
S&P.....	A+	A-1	BBB+	December 2011
Moody's.....	A2	P-1	Baa3	October 2011
Fitch.....	A+	F1	A-	November 2011
DBRS.....	AA	R-1 (middle)	AA (low)	December 2010

Note:

- (1) The current outlook from Moody's and S&P is stable. The outlook from Fitch and DBRS is negative.

## Treasury Assets

Group treasury assets at April 4, 2010 were £29.4 billion compared with £34.5 billion at April 4, 2009 and are held in two separate portfolios: the liquidity portfolio and the investment portfolio. At April 4, 2010, the liquidity portfolio totaled £25.7 billion compared with £31.1 billion at April 4, 2009 with the investment portfolio totaling £3.7 billion compared with £3.4 billion at April 4, 2009.

We have continued to manage the liquidity portfolio to increase the quality and liquidity of the assets with 63% of the portfolio held in sovereign and supranational exposures compared with 50% as at April 4, 2009. Over 99% of the portfolio is rated A or better with 85% rated AA or above compared with 99% rated A or better and 78% rated AA or better at April 4, 2009.

The following tables show the breakdown of the liquidity portfolio at April 4, 2010 and April 4, 2009 by credit rating and geography:

	As at April 4, 2010								
	Liquidity Portfolio (£ billion)	Credit Rating				Geography			
		AAA	AA	A	Other	UK	US	Europe	Other
		(percentages)							
Cash and balances with the Bank of England..	4.0	100	-	-	-	100	-	-	-
Loans to financial institutions .....	1.7	-	36	59	5	78	1	5	16
Other (including items in transit and clearing accounts).....	0.3	-	-	-	-	100	-	-	-
<b>Non AFS Assets .....</b>	<b>6.0</b>								
Gilts .....	6.4	100	-	-	-	100	-	-	-
Non Domestic Government Bonds.....	3.9	100	-	-	-	-	43	57	-
Supranational bonds.....	2.0	100	-	-	-	-	2	98	-
Residential mortgage backed securities.....	2.7	96	4	-	-	43	-	52	5
Covered bonds .....	0.9	89	11	-	-	-	3	90	7
Floating rate notes.....	3.8	4	25	610	10	26	3	57	14
Certificates of deposit and commercial paper	-	-	-	-	-	-	-	-	-
<b>AFS Assets .....</b>	<b>19.7</b>								
<b>Total liquidity portfolio</b>	<b>25.7</b>	<b>78</b>	<b>7</b>	<b>14</b>	<b>1</b>	<b>55</b>	<b>7</b>	<b>34</b>	<b>4</b>

As at April 4, 2009

Liquidity Portfolio (£ billion)	Credit Rating				Geography				
	AAA	AA	A	BBB	UK	US	Europe	Other	
	(percentages)								
Cash and balances with the Bank of England..	8.2	100	-	-	-	100	-	-	-
Loans to financial institutions .....	4.7	-	48	52	-	89	-	1	10
Other (including items in transit and clearing accounts).....	0.4	-	-	-	-	100	-	-	-
<b>Non AFS Assets.....</b>	<b>13.3</b>								
Gilts .....	4.7	100	-	-	-	100	-	-	-
Non domestic government bonds ....	0.6	-	-	-	-	-	-	-	-
Supranational bonds.....	1.9	100	-	-	-	5	95	-	-
Residential mortgage backed securities .....	2.7	99	1	-	-	40	-	53	7
Covered bonds .....	0.9	86	14	-	-	-	3	91	6
Floating rate notes.....	6.0	23	23	52	2	34	2	54	10
Certificates of deposit and commercial paper	1.0	-	25	75	-	100	-	-	-
<b>AFS Assets .....</b>	<b>17.8</b>								
<b>Total liquidity portfolio</b>	<b>31.1</b>	<b>64</b>	<b>14</b>	<b>22</b>	<b>0</b>	<b>70</b>	<b>1</b>	<b>25</b>	<b>4</b>

Ratings are obtained from S&P in the majority of cases or from Moody's if there is no S&P rating available. Internal ratings are used if neither S&P nor Moody's ratings are available.

We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal and Spain ("GIIPS").

Amounts shown above in respect of RMBS and covered bonds include securities collateralized on assets originated in GIIPS amounting in aggregate to £1.6 billion at April 4, 2010, of which 93% by value is secured on prime collateral, and 99% is rated AAA (89%) or AA (10%). As part of our normal credit risk management process we monitor all secured investments by reference to assumptions made on collateral performance at the time of investment. To date we have seen little evidence of deterioration in the performance of these investments, and we do not currently anticipate any impairments within this secured portfolio.

At April 4, 2010, we also had £1.2 billion of medium term note exposures to financial institutions based in GIIPS, including £20 million to institutions in Greece, £208 million to institutions in Ireland, £221 million to institutions in Italy, £101 million to institutions in Portugal and £692 million to institutions in Spain. 85% of these note exposures are rated A (63%) or AA (22%) and the weighted average maturity of these exposures is less than 3 years.

The treasury investment portfolio was originally established to generate additional income for the Group. Over 87% of the investment portfolio at April 4, 2010 is rated A or better (April 4, 2009: 97%) with over 69% rated AA or better (April 4, 2009: 76%). In light of current market conditions, we have not actively sought to expand the portfolio and we are managing the existing portfolio to minimize potential risk. During the year ended April 4, 2010, £0.5 billion of paydowns have been received relating to the asset and mortgage backed securities held by the Group. The increase in the fair value of the portfolio to £3.7 billion at April 4, 2010 (April 4, 2009: £3.4 billion) is therefore due to improved pricing reflecting market recovery.

The following tables show the breakdown of the investment portfolio at April 4, 2010 and April 4, 2009 by credit rating and geography:

## As at April 4, 2010

Investment Portfolio – all AFS assets (£ billion)	Credit Rating				Geography			
	AAA	AA	A	Other	UK	US	Europe	Other
Collateralized debt obligations (CDO) .....	0.1	-	-	100	-	100	-	-
Collateralized loan obligations (CLO).....	0.6	33	59	8	-	25	75	-
Commercial mortgage backed securities.....	0.6	60	19	11	10	47	14	39
Corporate bond portfolio ...	0.1	-	13	17	70	36	28	36
Credit card backed securities .....	0.3	99	-	-	1	42	58	-
Financial institutions including subordinated debt .....	0.7	-	22	64	14	21	33	39
Other corporate bonds.....	-	-	34	66	-	100	-	-
Residential mortgage backed securities.....	0.3	24	23	23	30	61	36	3
US student loan.....	0.8	98	1	1	-	-	100	-
Other investments .....	0.2	38	21	15	26	11	47	33
<b>Total</b> .....	<b>3.7</b>	<b>49</b>	<b>20</b>	<b>18</b>	<b>13</b>	<b>27</b>	<b>55</b>	<b>16</b>

## As at April 4, 2009

Investment Portfolio – all AFS assets (£ billion)	Credit Rating				Geography			
	AAA	AA	A	Other	UK	US	Europe	Other
Collateralized debt obligations (CDO) .....	0.1	5	-	-	95	-	100	-
Collateralized loan obligations (CLO).....	0.5	100	-	-	-	26	70	4
Commercial mortgage backed securities.....	0.6	92	7	1	-	50	11	39
Corporate bond portfolio ..	0.2	13	7	80	-	17	16	67
Credit card backed securities .....	0.3	97	3	-	-	47	53	-
Financial institutions including subordinated debt .....	0.6	-	26	69	5	22	35	36
Other corporate bonds.....	-	-	46	54	-	100	-	-
Retail mortgage backed securities .....	0.2	54	22	17	7	55	39	6
US student loan.....	0.7	98	1	1	-	-	100	-
Other investments .....	0.2	30	30	37	3	17	45	35
<b>Total</b> .....	<b>3.4</b>	<b>65</b>	<b>11</b>	<b>21</b>	<b>3</b>	<b>27</b>	<b>52</b>	<b>19</b>

Ratings are obtained from S&P in the majority of cases or from Moody's if there is no S&P rating available. Internal ratings are used if neither S&P nor Moody's ratings are available. Where exposures exist with a UK branch of a non-UK counterparty these have been recorded as UK exposures.

An independent monthly review is undertaken by our Risk Management Division on the current and expected future performance of all treasury assets. A governance structure exists to identify and review underperforming assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are considered impaired where there is objective evidence that current events and/or performance trends will result in a loss.

There have been no material changes in the profile of the investment portfolio over the course of the year ended April 4, 2010 and additional detail on the more significant exposures is set out below. The portfolio has experienced some negative rating migration as a result of the on-going implementation of rating agency methodology changes and continued collateral deterioration particularly for CMBS and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

Included under financial institutions, RMBS and other investments above are GIIPS-related exposures totaling £152 million as at April 4, 2010, of which £65 million relates to subordinated loans to financial institutions (£34 million to institutions in Ireland, £11 million to institutions in Italy and £20 million to institutions in Portugal). The remaining balance relates to secured or highly rated bank exposure.

At April 4, 2010, Nationwide had £100 million of exposure to monoline wrapped transactions, which are shown above under their underlying holdings. For all but £2 million of these holdings, we anticipate full repayment without any assistance from the wrap provider. This is mainly as a result of the approach taken upon investment, where we placed no reliance on the wrap, requiring the investment to stand up to credit analysis in its own right.

In addition, as shown in the table above, at April 4, 2010, CLOs comprise £575 million of senior positions. 92% of this portfolio retains a AA or AAA rating. Our focus on the selection of strong managers has provided some protection from downward rating migration. 60% of the CMBS portfolio is AAA rated. The portfolio consists of exposures to established commercial real estate markets with the bulk of our holdings in the UK and Germany. Underlying collateral consists of office, retail, industrial and warehouse exposures with experienced sponsors supporting the underlying loans. Included in the financial institutions portfolio are £462 million of subordinated lower tier two bonds that were acquired as part of the process of eliminating SIV capital note investments. Total investment holdings in RMBS are £338 million, and the £121 million of US exposure is made up of prime and Alt A RMBS. 17% of this US portfolio retains a AAA rating. The US student loan portfolio comprises 67% FFELP (Federal Family Education Loan Program) originated loans, which are 98% guaranteed by the US government, and 33% alternative student loans.

In assessing impairment, the Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. An impairment loss of £29 million (2009: £48 million) has been recognized in the income statement in respect of the prudential and investment portfolios. In addition, an impairment charge of £7 million (2009: nil) has been recognized on investments in equity shares.

Collateral held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets. In addition, in 2009, collateral, predominantly gilts, is held under reverse sale and repurchase agreements.

The fair value of derivative assets as at April 4, 2010 was £4.9 billion (2009: £5.9 billion). Additional information on these assets is set out in note 17 to our 2010 audited consolidated financial statements incorporated by reference herein). The International Swaps and Derivatives Association, Inc. (“ISDA”) Master Agreement is Nationwide’s preferred agreement for documenting derivative activity. It is common for a Credit Support Annex (“CSA”) to be executed in conjunction with the ISDA Master Agreement. Under a CSA, cash collateral is passed between parties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Where cash collateral is received to mitigate the risk inherent in amounts due to us, it is included as a liability within deposits from banks. Where cash collateral is given to mitigate the risk inherent in amounts due from us, it is included as an asset in loans and advances to banks.

Netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Group’s legal documentation for derivative transactions grants legal rights of set-off for those transactions. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market values on derivatives will offset positive mark to market values on derivatives in the calculation of credit risk, subject to an absolute exposure of zero.

Cash collateral on certain derivative assets with a fair value of £2.0 billion (2009: £2.3 billion) is only triggered when the counterparty rating falls to a specified rating level. These counterparties are all AA rated banks and therefore the credit risk attaching to these banks should materially already be factored into the LIBOR curve used to fair value those positions.

As a consequence of the above, no credit valuation adjustment is made on derivative assets nor has any debit valuation adjustment to reflect own credit risk been taken in our derivative liabilities.

*Available for sale reserve*

Out of a total of £29.4 billion of treasury assets held in the prudential and investment portfolios as at April 4, 2010, £23.4 billion are held as available for sale (“AFS”) and under IFRS they are marked to market though other comprehensive income and fair value movements are accumulated in reserves. The non AFS assets are predominantly short term loans to financial institutions or deposits with the BoE. Of the £23.4 billion of AFS assets, only £106 million are classified as Level 3 (not based on observable market data) for the purposes of IFRS 7.

The fair value movements of AFS assets that are not impaired have no effect on the Group’s profit for the period or its regulatory capital. The assets have been carefully reviewed based upon latest performance data and an impairment charge of £29 million has been booked against AFS assets with a further £7 million against private equity held as part of our small investment in an equity shares portfolio which has total outstandings of £58 million and further commitments of £47 million.

As at April 4, 2010, the balance on the AFS reserve had improved to £715 million negative, net of tax compared with £2,009 million negative as at April 4, 2009. The improvement in the AFS reserve is primarily a function of improvement in the pricing of RMBS, US student loans and financial institutions as market sentiment has improved.

The following table shows the breakdown of AFS reserves as at April 4, 2010 and April 4, 2009:

	<b>As at April 4,</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Cumulative AFS Reserve</b>	<b>Fair Value on balance sheet</b>	<b>Cumulative AFS Reserve</b>	<b>Fair Value on balance sheet</b>
	<i>(£ billion)</i>			
Gilts and Supranational bonds .....	(0.3)	12.3	(0.3)	7.2
Residential mortgage backed securities .....	0.2	2.7	0.7	2.7
Covered bonds and floating rate notes.....	0.1	4.7	0.3	6.9
Certificates of deposit and commercial paper .....	-	-	-	1.0
<b>Liquidity portfolio</b> .....	<b>-</b>	<b>19.7</b>	<b>0.7</b>	<b>17.8</b>
Collateralized debt obligations (CDO) .....	-	0.1	0.1	0.1
Collateralized loan obligations (CLO).....	0.1	0.6	0.2	0.5
Commercial mortgage backed securities .....	0.3	0.6	0.3	0.6
Corporate bond portfolio .....	-	0.1	-	0.2
Credit card backed securities .....	-	0.3	0.1	0.3
Financial institutions including sub debt .....	-	0.7	0.2	0.6
Residential mortgage backed securities .....	0.1	0.3	0.3	0.2
US student loan.....	0.1	0.8	0.3	0.7
Other investments .....	0.1	0.2	0.1	0.2
<b>Investment Portfolio</b> .....	<b>0.7</b>	<b>3.7</b>	<b>1.6</b>	<b>3.4</b>
<b>Negative AFS reserve before hedge accounting and taxation</b> .....	<b>0.7</b>		<b>2.3</b>	
<b>AFS Assets</b> .....		<b>23.4</b>		<b>21.2</b>
Hedge accounting adjustment for interest rate risk.....	0.3		0.5	
Taxation .....	(0.3)		(0.8)	
<b>Negative AFS reserve</b> .....	<b>0.7</b>		<b>2.0</b>	

In October 2008, the IASB issued an amendment to IAS 39, allowing assets to be reclassified from AFS to loans and receivables. The Group has not reclassified any assets in this way.

*Classification of financial assets and liabilities*

The tables below summarize the classification of carrying amounts of the Group's primary financial assets and liabilities:

<b>As at April 4, 2010</b>				
<b>Liabilities at amortized cost</b>	<b>Available for Sale</b>	<b>Loans and Receivables</b>	<b>Fair value through Income Statement (including Derivatives)</b>	<b>Total</b>
<i>(£ million)</i>				
<b>Financial Assets:</b>				
Cash and balances with the Bank of England ..	-	3,994	-	3,994
Loans and advances to banks .....	-	2,017	-	2,017
Investment securities .....	23,385	-	-	23,385
Derivative financial instruments .....	-	-	4,852	4,852
Loans and Advances to customers .....	-	152,429	-	152,429
Fair value adjustment for portfolio hedged risk .....	-	2,638	-	2,638
Investments in equity shares .....	86	-	-	86
Other financial assets <sup>(1)</sup> .....	-	-	167	167
<b>Total Financial Assets</b> .....	<b>23,471</b>	<b>161,078</b>	<b>5,019</b>	<b>189,568</b>
Other non-financial assets .....				1,829
<b>Total Assets</b> .....				<b>191,397</b>
<b>Financial Liabilities:</b>				
Shares .....	-	-	120,943	120,943
Deposits from banks .....	-	-	8,031	8,031
Other deposits .....	-	-	1,128	4,509
Due to customers .....	-	-	5,085	5,085
Debt securities in issue .....	-	-	36,802	36,802
Fair value adjustment for portfolio hedged risk .....	-	106	-	106
Derivative financial instruments .....	-	-	4,942	4,942
Subordinated liabilities .....	-	-	2,166	2,166
Subscribed capital .....	-	-	1,524	1,524
<b>Total Financial Liabilities</b> .....	<b>-</b>	<b>106</b>	<b>177,932</b>	<b>184,108</b>
Corporation tax .....				42
Other non financial liabilities .....				1,531
<b>Total Liabilities</b> .....				<b>185,681</b>

Note:

(1) Other financial assets represents fair value movement in mortgage commitments entered into where a loan has not yet been made.

**As at April 4, 2009 (as adjusted)**

	<b>Available for sale</b>	<b>Loans and receivables</b>	<b>Fair value through income statement</b>	<b>Liabilities at amortized cost</b>	<b>Total</b>
			<i>(£ millions)</i>		
<b>Financial assets:</b>					
Cash and balances with the Bank of England...	-	8,205	-	-	8,205
Loans and advances to banks.....	-	5,033	-	-	5,033
Investment securities .....	21,223	-	-	-	21,223
Derivative financial instruments.....	-	-	5,859	-	5,859
Loans and advances to customers.....	-	155,469	-	-	155,469
Fair value adjustment for portfolio hedged risk .....	-	3,408	-	-	3,408
Investments in equity shares.....	81	-	-	-	81
Other financial assets <sup>(1)</sup> .....	-	-	218	-	218
<b>Total financial assets.....</b>	<b>21,304</b>	<b>172,115</b>	<b>6,077</b>	<b>-</b>	<b>199,496</b>
Other non financial assets.....					2,857
<b>Total assets.....</b>					<b>202,353</b>
<b>Financial liabilities:</b>					
Shares.....	-	-	-	128,292	128,292
Deposits from banks .....	-	-	-	13,283	13,283
Other deposits .....	-	-	75	5,598	5,673
Due to customers .....	-	-	-	4,371	4,371
Debt securities in issue .....	-	-	-	34,794	34,794
Fair value adjustment for portfolio hedged risk .....	-	239	-	-	239
Derivative financial instruments.....	-	-	5,986	-	5,986
Subordinated liabilities .....	-	-	-	2,233	2,233
Subscribed capital.....	-	-	-	1,526	1,526
<b>Total financial liabilities .....</b>	<b>-</b>	<b>239</b>	<b>6,061</b>	<b>190,097</b>	<b>196,397</b>
Corporation tax .....					51
Other non financial liabilities .....					1,627
<b>Total liabilities.....</b>					<b>198,075</b>

Note:

(1) Other financial assets represents fair value movement in mortgage commitments entered into where a loan has not yet been made.

The Group has credit derivatives in place to cover the credit risk on a £88 million notional amount (2009: £153 million notional) of assets within the available for sale portfolio.

All of the credit derivatives have been undertaken with A+ or above rated US and European banking institutions.

## Financial Condition of the Group

### Capital Resources

Capital is held by the Group to protect its depositors, to cover its inherent risks, to provide a cushion for unexpected losses, and to support the development of the business. In assessing the adequacy of its capital resources, the Group considers its risk appetite, the material risks to which the Group is exposed, and appropriate management strategies required to manage those risks. The Group is required to manage its capital in accordance with the rules issued by its regulator, the FSA. Since January 1, 2008, the Group has complied with the EU Capital Requirements Directive (Basel II).

As at September 30, 2011, and throughout all periods described herein, the Group complied with the capital requirements that were in force. From April 4, 2009, the Group calculated its capital requirements using Internal Ratings Based (“**IRB**”) approaches for credit risks.

As at September 30, 2011, regulatory capital stood at £9.4 billion compared with £9.2 billion at April 4, 2011.

	As at September 30, 2011	As at April 4, 2011
	<i>(£ millions, except percentages)</i>	
<b>Tier 1</b>		
General reserve .....	6,541	6,659
Permanent interest bearing shares <sup>(1)</sup> .....	1,632	1,510
Pension fund net deficit add back <sup>(2)</sup> .....	319	33
Intangible assets <sup>(3)</sup> .....	(605)	(529)
Deductions from Tier 1 capital <sup>(4)</sup> .....	(238)	(256)
	<b>7,649</b>	<b>7,417</b>
<b>Tier 2</b>		
Revaluation reserve .....	71	70
Subordinated debt <sup>(1)(5)</sup> .....	1,851	1,884
Collective impairment allowance .....	113	118
Deductions from Tier 2 capital <sup>(4)</sup> .....	(238)	(256)
	<b>1,797</b>	<b>1,816</b>
<b>Total capital</b> .....	<b>9,446</b>	<b>9,233</b>
<b>Risk weighted assets – Pillar 1<sup>(5)</sup></b>		
Retail mortgages .....	15,323	15,081
Commercial loans .....	17,312	17,610
Treasury .....	4,273	4,088
Other .....	6,700	6,420
Operational Risk .....	3,760	4,137
Market Risk .....	35	72
	<b>47,403</b>	<b>47,408</b>
<b>Key capital ratios:</b>		
Total capital .....	9,446	9,233
Core Tier 1 (%) <sup>(6)</sup> .....	12.7	12.5
Tier 1 ratio (%) <sup>(6)</sup> .....	16.1	15.6
Total capital (%) <sup>(6)</sup> .....	19.9	19.5
Tier 2 to Tier 1 ratio (%) <sup>(6)</sup> .....	23.5	24.5

Notes:

- (1) Permanent interest bearing shares and subordinated debt include fair value adjustments related to changes in market interest rates, adjustments for unamortized premiums and discounts that are included in the consolidated balance sheet, and any amortization of the capital value of lower Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity.
- (2) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.
- (3) Intangible assets do not qualify as capital for regulatory purposes.
- (4) Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitization positions. These are calculated in accordance with FSA guidance.
- (5) The Basel II Pillar 1 capital requirements are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline Building Societies) and unsecured lending; Foundation IRB for treasury portfolios (other than corporates); and the Standardized approach for all other credit risk exposures.
- (6) Solvency ratios are calculated as relevant capital divided by Risk Weighted Assets. Core Tier 1 relates to Tier 1 capital excluding permanent interest bearing shares.

For further information and analysis of our capital resources, see “*Capitalization and Indebtedness*”.

### Short-Term Borrowings

Our short-term borrowings fluctuate considerably depending on our current operating needs. The terms of our short-term borrowings are less than one year.

**Contractual Commitments**

For details of the amounts of certain of our financial and other contractual liabilities and when payments are due, without taking into account customer deposits and deposits by other financial institutions, please see notes 38 and 39 to our 2011 audited consolidated financial statements incorporated by reference herein.

**Off-Balance Sheet Arrangements**

For a description of off-balance sheet commitment items under IFRS, see notes 41 and 42 to our 2011 audited consolidated financial statements incorporated by reference herein.

**Critical Accounting Policies**

For details on our critical accounting policies under IFRS please see note 1 to our 2011 audited consolidated financial statements incorporated by reference herein.

## DESCRIPTION OF BUSINESS

### Overview

We are a building society, incorporated in England and Wales under the UK Building Societies Act 1986, as amended, and regulated by the FSA. Our FSA Mutuals Public Register Number is 355B. Our principal office is Nationwide House, Pipers Way, Swindon SN38 1NW (phone number +44 (0) 1793 513 513). We are the largest building society in the United Kingdom in terms of total assets. Our core business is providing personal financial services, including:

- residential mortgage loans;
- retail savings;
- general retail banking services;
- personal investment products;
- insurance;
- personal secured and unsecured lending;
- secured commercial lending; and
- offshore deposit-taking.

In addition, we maintain an investment portfolio of debt securities for our own account.

As at September 30, 2011, we held an estimated 10.5% of total UK residential mortgage balances. We are the third largest residential mortgage lender in the United Kingdom and the second largest UK savings provider. On September 30, 2011, we held an estimated 11.2% of the total UK retail savings balances and had total assets of £194 billion.

As a mutual organization, we are managed for the benefit of our “members”, our retail savings and residential mortgage customers, rather than for equity shareholders. Our main focus is serving our members’ interests, while retaining sufficient profit to increase and further develop our business and meet regulatory requirements. We return value to our members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by our main competitors. This returned value is commonly referred to as our member value. As a result of returning value to our members, we earn lower pre-tax profits than our main competitors, which are typically banks or other non-mutual organizations.

Profits on ordinary activities after tax for the six months ended September 30, 2011 and the year ended April 4, 2011 were £188 million and £248 million, respectively. For the six months ended September 30, 2011 and the year ended April 4, 2011, 82.9% and 84.6%, respectively, of our interest income before net (expense)/income on financial instruments hedging assets was attributable to the portfolio of secured loans (predominantly residential mortgage loans). By comparison, our only other major category of interest earning assets consists of investments managed primarily by our Treasury Division from which we earned approximately 17.1% and 15.4% of our interest income before net (expense)/income on financial instruments hedging assets for the six months ended September 30, 2011 and the year ended April 4, 2011, respectively.

### History and Development

Building societies have existed in the United Kingdom for over 200 years. From the outset, they were community-based, cooperative organizations created to help people purchase homes. The main characteristic of building societies is their mutual status, meaning that they are owned by their members, who are primarily retail savings customers and residential mortgage customers. Our origins go back to the Northampton Freehold Land Society, which was founded in 1848. Over time, this entity merged with similar organizations to create Nationwide Building Society.

Over the past 25 years, many building societies have merged with other building societies or, in some cases, transferred their businesses to the subsidiary of another mutual organization or demutualized and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen, from 139 at the end of 1985 to 47 as at September 30, 2011. One consequence of this decrease is that the majority of our competitors are banks. We believe that our mutual status allows us to compete successfully with banks, and it is

our strategy to remain a building society. At our annual general meeting in 1998, our members voted against a proposal to demutualize and no subsequent motion to demutualize has since been proposed at a general meeting of the Society. However, it is possible that another motion to demutualize could be proposed and voted upon at a future general meeting. For a discussion of the risks associated with a demutualization, see the section entitled “*Risk Factors—Risks Related to Our Business—Demutualization, mutual society transfers and consequences of the UK Building Societies Act may have an adverse impact on the holders of notes.*”

In 1997, when many of our competitors that were building societies demutualized, we experienced a sharp increase in the number of new UK member retail savings accounts. We believe that many of these accounts were opened because customers expected us to demutualize and wanted to receive any associated windfall distributions. To prevent the disruption caused by speculative account opening, we have generally required all new members opening accounts with us since November 1997 to assign to charity any windfall benefits which they might otherwise have received as a result of a future demutualization.

We have been involved in a number of mergers and acquisitions in recent years. We merged with Portman Building Society in August 2007 and with Cheshire Building Society and Derbyshire Building Society in December 2008. In March and June 2009 we also acquired selected assets and liabilities of Dunfermline Building Society. In addition, Nationwide opened its first branch in the Republic of Ireland in March 2009. We believe these developments have added value to Nationwide, improved our distribution footprint and helped to grow the membership and are a testament to the strength of Nationwide and our ability to provide support to other building societies.

## **Strategy**

Our strategy remains largely unchanged from previous years as we believe it is a successful and sustainable strategy that provides us with the ability to adapt to changing market conditions.

We are committed to remaining a building society because we believe that this is in the best long-term interests of our current and future members. Our core business is providing retail personal financial services. This includes residential mortgage lending, general retail banking services, personal investment products, insurance products and personal lending. We also engage in non-retail business activities, namely commercial lending and treasury operations, to generate additional value for our members.

Our vision is to be the UK’s leading retail financial services provider. Our strategy has three core strands:

- (1) **Challenger Brand:** Be a national player with the size, scale and distribution capability and brand to compete with banks, together with a reputation of leading customer service, with industry leading infrastructure to support delivery;
- (2) **Mutual Delivery Model:** Provide long-term value to our membership through sustainable pricing and by adopting a low-risk appetite offering safety and security; and
- (3) **Diversified Business Model:** Offer a diversification of revenue and profit to cross-subsidize the mutual business, broadening the range of our specialist lender and exploring the opportunity to offer SME banking.

Our focus is on organic growth, but inorganic growth opportunities will be considered if they add value to members.

## **Strategic Focus**

In addition to these broader strategic goals, we have adopted strategic plans that focus on defined medium-term objectives. The current such plan (which covers the years 2011/2012 to 2015/2016) is focused on the following objectives:

- Customers

We intend to maintain a focus on customer satisfaction to ensure that our excellent customer service differentiates us from our banking competitors. We intend to also focus on delivering better long-term value to our customers. Our customer strategy seeks to deliver this long-term value via a cross-sales drive relationship strategy that rewards customers for the depth of their product holdings.

- Market Positioning

We will seek to maintain our top-three position in our core markets of savings and mortgages, whilst looking to significantly grow our share of other retail personal financial services markets, including current accounts. We intend to build our market share of current accounts to 10%, with 5% share targets for our general insurance, protection and investments, credit cards and personal loans businesses

- Efficiency

Our commercial drivers are the same as for public limited companies and we therefore need to be equally as efficient. Inefficiencies will dilute the benefits arising from our mutual status and ultimately could undermine the mutual model. We will focus on improving our sales performance and further income diversification as well as driving efficiency savings through operational change and technology improvements. We will focus on driving down our cost income ratio and delivering positive non-margin income growth at a rate greater than cost growth.

- Income

We will seek to improve the diversity and quality of earnings and intend to target significant growth in non-margin income. This will be driven by greater contributions from current accounts, personal loans, credit cards, protection & investments and general insurance products.

- Capital and Liquidity

We will seek to maintain a core tier 1 solvency ratio of at least 12% and intend to target optimal profits that would allow us to become self-sufficient in generating capital for ongoing organic expansion. We will seek to manage and maintain liquidity at an optimum level which will be determined as part of guidance received from the FSA about the quantity of our liquid asset buffer and funding profile (“**Individual Liquidity Guidance**”).

## **Lending**

Our lending activities are primarily concentrated on residential mortgage lending in the United Kingdom. We also engage in a limited amount of commercial secured lending and secured and unsecured consumer lending.

### ***UK Residential Mortgage Lending to Individuals***

The vast majority of our lending portfolio consists of UK residential mortgage loans to individuals. Residential mortgage loans to individuals are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower breaks the terms and conditions of the loan. Our policy is for all residential mortgage loans to individuals to be fully secured first priority loans on the mortgaged property, to ensure that our claim to the property, in the event of default, is senior to those of other potential creditors. As a result, our residential mortgage lending to individuals carries lower risk than many other types of lending.

As at September 30, 2011, we were the third largest mortgage lender in the United Kingdom (as measured by total lending outstanding). As at September 30, 2011, our total UK residential mortgage lending to individuals fully secured on residential property amounted to £126.1 billion (£124.6 billion as at April 4, 2011). During the six months ended September 30, 2011, our gross new prime lending amounted to £6.6 billion, compared to £12.8 billion for the year ended April 4, 2011. Our residential mortgages are generally for terms of 25 years, although their typical life is between five and seven years after drawdown due to the high level of early redemptions, characteristic of the UK residential mortgage markets. We also make residential mortgage loans for rental purposes as described in the subsection entitled “—Lending— Commercial Secured Lending”.

We have a national franchise within the United Kingdom, with a regional distribution of UK residential mortgage lending to individuals generally matching the regional Gross Domestic Product (“GDP”) distribution in the United Kingdom. Below is a table showing the geographical distribution of our UK residential mortgage loans as at September 30, 2011:

**% of UK residential mortgage lending to individuals as at September 30, 2011**

<b>Region</b>	<b>Nationwide only</b>	<b>Total Market</b>
South-east England (excluding London)	29%	26%
Central England	19%	16%
Northern England	16%	18%
Greater London	13%	19%
South-west England	9%	9%
Scotland	8%	6%
Wales and Northern Ireland	6%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(1) Source: CACI Limited

We offer fixed rate and tracker rate mortgages. These products establish a set rate or set methodology for determining a variable rate for a set term, after which the rate reverts to one of our two general variable rates. Our fixed-rate products currently offer a term of one, two, three, four or five years, but we have from time to time offered longer fixed terms, including 10 and 25 years. Our tracker rate products bear interest during the set term (currently two or three years) at a variable rate that is a fixed percentage above the BoE base rate. After the end of the set fixed rate or tracker period, the interest rate reverts to either our base mortgage rate (if the mortgage was originated on or before April 29, 2009) or our standard mortgage rate (if the mortgage was originated on or after April 30, 2009). Both our base mortgage rate and our standard mortgage rate are variable rates set at our discretion, except that our base mortgage rate is guaranteed not to be more than 2% above the BoE base rate.

To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, we impose early repayment charges on some products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed or tracker rate for the particular product.

The following table sets forth the total residential mortgage loans to individuals by product type that we had outstanding as at September 30, 2011 as a percentage of our total residential mortgage loans to individuals:

<b>Mortgage Type</b>	<b>As at September 30, 2011</b>
Base mortgage rate .....	53%
Fixed rate .....	35%
Tracker rate .....	12%
<b>Total</b> .....	<b>100%</b>

An analysis of our gross advances on UK residential mortgage loans to individuals by product type over the six months ended September 30, 2011 and the two financial years ended April 4, 2011 and April 4, 2010 is shown in the following table:

<b>Mortgage Type</b>	<b>For the six months ended September 30,</b>	<b>For the year ended April 4,</b>	
	<b>2011</b>	<b>2011</b>	<b>2010</b>
Base mortgage rate .....	6%	6%	6%
Fixed rate .....	58%	60%	63%
Tracker rate.....	36%	34%	31%
<b>Total</b> .....	<b>100%</b>	<b>100%</b>	<b>100%</b>

Our asset quality has remained strong as a result of our continued prudent approach to lending.. The average LTV of new residential lending is low at 62% (April 4, 2011: 66%) and the indexed LTV for the whole residential portfolio has reduced to 48% (April 4, 2011: 49%). The proportion of the Group’s originated mortgage accounts three months or more in arrears has reduced to 0.65% as at September 30, 2011 (April 4, 2011: 0.68%), significantly better and less than a third of the CML industry average of 2.05%. The proportion of Nationwide originated prime mortgage accounts three months or more in arrears has remained stable at an even lower level of 0.53% (April 4, 2011: 0.53%).

The following table compares our loans in arrears against the UK industry average:

	<b>Nationwide<sup>(1)</sup></b>	<b>UK Industry Average<sup>(2)</sup></b>
<b>Arrears</b>		
3-6 months .....	0.38%	0.88%
6-12 months .....	0.25%	0.66%
Over 12 months.....	0.12%	0.50%

Notes:

(1) Nationwide prime and specialist residential lending as at September 30, 2011.

(2) Source: CML.

We utilize an automated credit scoring system to assist in minimizing credit risk on residential mortgage lending. Our credit procedures for residential mortgage lending take into account the applicant’s credit history, loan-to-value criteria, income multiples and an affordability calculation, or shock test, that tests the applicant’s ability to service the loan at higher interest rates. For additional information regarding how we manage credit risk in connection with new lending, see “*Financial Risk Management—Credit risk*”.

We focus our residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. In current market conditions, we are particularly keen to support our existing members and have introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. During the six months ended September 30, 2011, 15% of residential mortgage advances that we made were to first-time buyers and 85% to experienced buyers. This compares to the year ended April 4, 2011 when 23% of residential mortgage advances were to first-time buyers and 74% to experienced buyers.

In addition to residential mortgage loans, we offer further secured advances on existing mortgaged property to customers consistent with our lending criteria for new residential mortgage loans.

### ***Specialist UK Residential Mortgage lending to Individuals***

We offer specialist UK residential mortgage lending to individuals, which comprises lending to private landlords (buy to let), loans to prime borrowers who have self-certificated their income (self-certified) and other non-conforming lending.

As at September 30, 2011, our outstanding specialist UK residential mortgage lending to individuals was £21.9 billion. Specialist residential mortgages are made up of advances made through our specialist lending brands, TMW and UCB, and from the acquisitions of the Cheshire, Derbyshire and Dunfermline building societies portfolios. Our outstanding specialist lending loans were advanced primarily in the buy to let and self-certification markets. A

breakdown of our specialist UK residential mortgage lending outstanding balances as at September 30, 2011 is shown in the table below:

	<b>% of Specialist UK residential mortgage lending to individuals as at September 30, 2011</b>
Buy to let .....	75%
Self-certified .....	17%
Other <sup>(1)</sup> .....	8%
<b>Total</b> .....	<b>100%</b>

Note:

- (1) Other includes £0.4 billion (2%) of sub-prime lending which was acquired as part of the mergers with Cheshire and Derbyshire and was subject to fair value assessment at acquisition.

The Group's Specialist Lending division continues to focus on originating high quality buy to let loans through TMW. As the demand for good quality rental property has risen, the Buy to Let sector has continued to perform strongly. Nationwide Group has played an active role in supporting this sector through its subsidiary, TMW, which continues to focus on originating high quality Buy to Let loans.

Gross lending through the brand during the six months ended September 30, 2011 and the year ended April 4, 2011 was £2.6 billion and £3.0 billion, respectively (six months ended September 30, 2010: £1.3 billion), making TMW one of the most influential lenders in the sector. The overall specialist lending book has grown to £21.9 billion as at September 30, 2011 (April 4, 2011: £20.3 billion), with arrears levels performing well.

There has been a reduction in specialist arrears as a result of reducing arrears volumes on the self originated books, and strong book growth in TMW. TMW continues to maintain a very favorable arrears position relative to the industry on both originated business and total lending including acquired loans. Our originated specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.65% of the total book as at September 30, 2011 (April 4, 2011: 0.68%), which compares favorably to the overall industry measure, that is inclusive of prime lending, of 2.05% as at September 30, 2011 (April 4, 2011: 2.09%).

### **Commercial Secured Lending**

We engage in commercial secured lending, which as at September 30, 2011 accounted for 14.5% of our total loan assets. To maintain a prudent balance between our asset classes, we currently have a 20% cap on commercial lending as a percentage of our total lending (book balances). We intend to maintain a low risk exposure to commercial secured lending and to maintain the existing level of credit quality throughout our commercial loan portfolio.

Our commercial loan portfolio consists of loans made to UK Registered Social Landlords secured on residential property, other loans secured on real property, loans that we extend to entities that raise capital for government sanctioned projects such as schools, hospitals and roads under the UK PFI legislation, and include assets acquired from Cheshire, Derbyshire and Dunfermline building societies. The amount of these types of loans as at September 30, 2011 was as follows:

	<b>As at September 30, 2011</b>	
	<b>£ billions</b>	<b>% of total commercial loans</b>
<b>Commercial Secured Loans</b>		
Loans to UK Registered Social Landlords <sup>(1)</sup>	7.5	34.2%
Other commercial loans secured on real property <sup>(1)</sup>	12.9	58.9%
Loans extended under the PFI legislation	1.5	6.9%
<b>Total</b>	<b>21.9</b>	<b>100%</b>

Note:

- (1) For reporting purposes, some of these advances are included within residential mortgage loans. See note 19 (*Loans and advances to customers*) to our audited consolidated financial statements incorporated by reference herein.

Commercial loans made to UK Registered Social Landlords differ significantly from other loans secured on real property. UK Registered Social Landlords provide affordable housing supported by government grants. This portfolio historically has carried a lower risk than our other commercial lending activities, and there are currently no arrears of three months or more in our Registered Social Landlord portfolio. To date we have not needed to raise any loss provisions against this portfolio. We are the largest lender to UK Registered Social Landlords by amount of assets lent.

Other commercial loans secured on real property consist of loans:

- to individuals or corporations to support investment in commercial properties mainly for retail, office or industrial use; and
- to investors in residential housing.

### ***Consumer Banking***

We engage in personal banking, which accounted for 1.8% of our total loan assets as at September 30, 2011 and 1.6% of our total loan assets as at April 4, 2011.

#### ***Unsecured Consumer Banking***

Unsecured consumer banking consists of loans that we make to individuals that are not secured on real or personal property. We offer three different forms of unsecured consumer lending:

- personal unsecured loans, which totaled £1,344 million as at September 30, 2011;
- credit card lending, which totaled £1,168 million as at September 30, 2011; and
- current accounts with overdraft facilities, which totaled £167 million actual amount outstanding as at September 30, 2011.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because we have no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than our residential mortgage products. To manage this risk, we use an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, we impose a maximum limit on the size of unsecured consumer loans and encourage customers to take out payment protection insurance.

For information regarding our credit card and overdraft facilities, see the subsections entitled "*—Other Banking Services—Credit Cards*" and "*—Other Banking Services—Current Accounts*".

#### ***Secured Consumer Lending***

We offer personal loans secured on residential property, which as at September 30, 2011 totaled £9.5 million.

### ***Retail Funding***

The great majority of our retail funding is in the form of UK retail member deposits. In addition, we accept offshore deposits and deposits which do not convey member status. As at April 4, 2011 we had UK retail member deposits of £122.6 billion, which increased to £124.9 billion as at September 30, 2011. UK retail member deposits represented 64.4% of our total liabilities and reserves as at September 30, 2011.

We provide a wide range of retail savings products that may be repayable on demand or notice and which may pay a variable or fixed rate of interest. On most retail savings products, we determine variable interest rates at our discretion according to market conditions. Generally, the more restrictions on withdrawal of retail savings, the higher the rate of interest. Balances on all of our notice deposit accounts are, by their terms, withdrawable on demand but, in some cases, subject to loss of interest. As at September 30, 2011, approximately 57% of our UK retail member deposits comprised variable rate savings products, while approximately 43% comprised fixed rate saving products.

We believe that the primary determinant for attracting retail savings is the interest rate offered to savers. As a mutual organization, we typically set higher interest rates on our retail funding products than those set by our main competitors. We gather UK retail member deposits from a number of sources, chiefly from our branch network but also by mail and internet-based deposit accounts.

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

## **Other Banking Services**

### ***Current Accounts***

Our current account, called FlexAccount, is our checking and day-to-day transactional product. As at September 30, 2011, there were approximately 4.8 million FlexAccounts with £8.3 billion of credit balances and £176 million of overdrawn balances. Holders of FlexAccounts may be eligible for ATM cards, check books, overdraft facilities, check guarantee cards and debit cards depending upon the account holder's credit score and the performance of the account. The overdraft facility connected to the current account charges interest at one rate for authorized overdrafts and at a higher rate for unauthorized overdrafts.

### ***Credit Cards***

We began issuing Nationwide-branded Visa credit cards to our customers in 1997 and had approximately 2.1 million active credit card accounts as at September 30, 2011. We market and process credit card applications ourselves (using our credit scoring system), and an outside contractor is responsible for billing and customer service functions. Our credit card holders receive differing credit limits, depending on their credit score. We do not charge customers an annual fee for using the credit card.

Despite recent economic events our credit card asset quality remains strong. On a consistent basis with the industry, our percentage of credit card balances more than 30 days in arrears is 2.95% as at August 30, 2011, which compares favorably to the industry average, and has fallen from 3.36% as at April 4, 2011. Asset quality is monitored constantly both for new and existing exposures.

### ***Offshore Savings***

We offer offshore savings through our Isle of Man subsidiary, Nationwide International Limited, to give us access to another funding source. Nationwide International Limited offers demand and notice accounts in sterling, U.S. dollars and euros mainly to offshore investors. As at September 30, 2011, Nationwide International Limited had deposits of £4.7 billion.

### ***Other Banking Services***

We also provide our customers with foreign currency exchange and equity dealing services. We act as an agent in providing these services and assume no foreign exchange or equity price risk as a result of this activity.

## **Protection and Investments**

Our Protection and Investments business has been successful in the last financial year and the current financial year. The performance for the six months ended September 30, 2011 has been driven through bringing new products and offerings to market over the last six months combined with a strong retail performance. In total, we sold approximately 113,000 investment products and 29,000 protection products during the six month period ended September 30, 2011 and now have an excess of £5.4 billion of investment assets under management.

We continue to regularly review the investment fund panel and will make further improvements at the start of the financial year ending April 4, 2012 with the addition of funds appealing to customers at both ends of the risk spectrum. Significant progress continues to be made across all workstreams, including product and point of sale in preparation for the FSA's Retail Distribution Review launch on January 1, 2013.

The Income Protection and Life and Critical Illness Cover products offered by Nationwide Building Society are rated 5 Star by Defaqto. The absolute number of complaints continues to fall despite a rapid rise in book size.

## **Treasury Operations**

Our Treasury Division centrally manages our liquid asset portfolios as well as most of our financial risk exposures, and raises funds on the money and debt capital markets.

The Treasury Division manages risk exposures, including market risk, by making use of derivative instruments such as swaps, futures and options, which reduce our exposure to changes in interest rates and currency rates. See the

sections entitled “*Financial Risk Management*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations— Overview*” for further details of risk management.

We maintain two liquid asset portfolios, one for regulatory liquidity purposes and one for investment yield:

- our regulatory liquidity asset portfolio totaled £30.2 billion as at September 30, 2011 (compared to £25.9 billion as at September 30, 2010). These investments cover a wide range of currencies, maturities and instruments to meet regulatory requirements and internal liquidity limits; and
- our portfolio of investment securities is made up of corporate bonds and asset-backed securities. The portfolio had a fair value of £3.1 billion as at September 30, 2011 (compared to £3.5 billion as at September 30, 2010) with 85% of its assets rated A or better. In light of current market conditions we have not actively sought to expand the portfolio and we manage the existing portfolio to minimize potential risk.

We have no credit derivatives in place as at September 30, 2011 (as at April 4, 2011: there were no credit derivatives in place).

We raise funds from the money and debt capital markets, accepting time deposits and issuing certificates of deposit, commercial paper and medium-term notes. Funding from wholesale markets increased to £46.9 billion as at September 30, 2011 from £45.7 billion as at September 30, 2010, representing a wholesale funding ratio of 25.6% (compared to 26.1% as at September 30, 2010).

We aim to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. We have a variety of programs in place so that we can meet our short-term and long-term funding needs, including:

- Euro certificate of deposit and commercial paper program;
- U.S. commercial paper program;
- Canadian commercial paper program;
- French commercial paper program;
- Euro medium-term note program;
- U.S. medium-term note program;
- Covered Bond program; and
- Australian medium-term note and commercial paper program.

We do not operate a trading portfolio. It is our policy not to invest in emerging markets and we only have minimal exposure to non-investment grade debt.

## **Insurance**

In conjunction with our core business of providing residential mortgage loans and retail savings, we develop and market insurance products branded with our name that are underwritten by third-party insurers. We sold our subsidiary Nationwide Life Limited to Legal & General on January 31, 2008, and as a result we no longer underwrite our own life assurance products. As part of our agreement, we distribute insurance products of Legal & General. We also have entered into a new strategic distribution agreement for the supply of motor and travel insurance with Liverpool Victoria to provide our customers with a broader range of competitively priced products from one of the UK’s top financial services companies.

### ***Products Underwritten by Third Parties***

The insurance products that we market are:

- buildings and contents insurance, which we market to our residential mortgage customers and non-mortgage customers;
- payment protection products, covering loan repayments in case of sickness, unemployment or disability;

- travel insurance;
- term income protection insurance, replacing up to 60% of gross income in case of unemployment;
- motor insurance; and
- personal accident insurance.

We typically use leading insurers as third-party underwriters for these insurance products. We receive a commission and, in some cases, participate in the profits, but not the losses, from third-party underwritten insurance products that we market. This provides us with an important source of non-interest income, and in the six months ended September 30, 2011 and the year ended April 4, 2011 we earned £43 million and £142 million, respectively, from general insurance fees. We generally market our insurance products to new and existing customers, and it is our policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by our main competitors.

### **Distribution Network**

Our integrated and diversified distribution network allows our customers to choose how and when to undertake their transactions with us and has enabled us to expand our business while controlling costs. The distribution network helps us to achieve volume growth principally in residential mortgage lending and supports our retail funding activities. Developments in the network have focused on cost efficiency and meeting the needs of customers who are increasingly prepared to transact business by the internet, telephone and mail.

We distribute our products primarily through:

- branches;
- ATMs;
- call centers;
- mail;
- internet (e-commerce);
- agencies; and
- intermediaries.

### ***Branches***

Our branch network continues to be a major source of our mortgage lending and retail funding. As at September 30, 2011 we had 805 branches of Nationwide Building Society in the United Kingdom and the Isle of Man. We believe that our branch network is an integral part of our distribution network and we expect to maintain its current size.

Our goal is to utilize our branch network efficiently. All of our branches market our residential mortgage, retail savings, personal lending, personal investment and insurance products. We commenced a Transformation program in 2008 to replace ageing legacy systems and to improve product innovation and customer service. The program has successfully delivered a new mortgage origination and processing service for intermediaries, and this will be rolled out to our retail branch network in 2012.

### ***ATMs***

We had 2,320 ATMs at September 30, 2011, including some placed in retail stores, railroad stations, gas stations and other remote locations. In addition, our customers also have access to around 63,000 ATMs in the United Kingdom through the LINK and Cirrus networks and to over 1.7 million ATMs world-wide through the VISA network.

### ***Call Centers***

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

## Mail

We offer mail-based savings accounts and, as at September 30, 2011 our main mail-based accounts, InvestDirect and 60 Day Direct had balances of £3 billion. Mail-based savings accounts provide members with higher interest rates on their deposits in return for limiting them to transactions by mail, online banking and ATMs. We also use direct mail to market some of our products.

## E-commerce

We launched an internet banking service in 1997. Our website allows customers to transact on their accounts and apply for a broad range of our products online.

## Agents

Agents are third parties that we appoint to market our products and perform retail transactions. We had 18 appointed agents as at September 30, 2011. Agents are typically intermediary financial advisers or real estate agents and increase our retail distribution network. We remunerate agents for the transactions and sales they perform.

## Intermediaries

A substantial amount of our mortgage sales are introduced to us by third-party intermediaries. Distribution through third-party intermediaries accounted for approximately 49% of our new residential mortgage completions in the six months ended September 30, 2011 and 53% in the year ended April 4, 2011. Intermediaries range from large UK insurance companies to small independent mortgage advisers. We remunerate intermediaries for introducing mortgage business.

## Employees

For the financial year ended April 4, 2011, we employed, on average, 17,692 full and part-time employees. Set out below are our average number of employees during the financial years ended April 4, 2011, 2010 and 2009, respectively:

### Average number of employees

	For the year ended April 4,		
	2011	2010	2009
Full-time .....	12,879	13,247	13,409
Part-time .....	4,813	5,283	5,526
<b>Total</b> .....	<b>17,692</b>	<b>18,530</b>	<b>18,935</b>

Approximately 70% of our employees are currently members of the Nationwide Group Staff Union. We are party to a collective bargaining agreement with the Nationwide Group Staff Union and believe that our relationship with our employees is good. We have never experienced any work stoppages.

## Principal Subsidiaries

Our interests in our principal subsidiary undertakings, all of which are consolidated, as at April 4, 2011 are set out below:

### 100% held subsidiary undertakings

	Nature of business
Nationwide International Limited <sup>(1)</sup>	Offshore deposit taker
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works Limited	Centralized mortgage lender
Derbyshire Home Loans Limited <sup>(1)</sup>	Centralized mortgage lender
E-Mex Home Funding Limited <sup>(1)</sup>	Centralized mortgage lender
UCB Home Loans Corporation Limited <sup>(1)</sup>	Centralized mortgage lender

Note:

- (1) Regulated entities subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.

All the above subsidiary undertakings are limited liability companies which are registered in England and Wales and operate in the UK except for Nationwide International Limited, which is registered and operates in the Isle of Man.

Nationwide has interests in a number of entities which give rise to the risks and rewards that are in substance no different from if they were subsidiary undertakings. As a consequence, these entities are consolidated in our accounts.

The interests of Nationwide in these principal entities as at September 30, 2011 are set out below:

<b>Other Group undertakings</b>	<b>Nature of business</b>	<b>Country of registration</b>	<b>Country of operation</b>
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK
Pride No. 1 LLP	Funding vehicle	England and Wales	UK

### **Properties**

The net book value of our property interests as at September 30, 2011 consisted of the following:

<b>Type of Property</b>	<b>Freehold</b>	<b>Leasehold over 50 years</b>	<b>Other leasehold</b>	<b>Total</b>
	<i>(£ millions)</i>			
Branches and non-specialized buildings .....	249	10	14	273
Head office/administration centers .....	107	—	—	107
Residential property for rental .....	9	—	—	9
<b>Total</b> .....	<b>365</b>	<b>10</b>	<b>14</b>	<b>389</b>

### **Financial Services Compensation Scheme**

Like other UK financial institutions, we pay levies based on our share of protected deposits to the FSCS to enable the FSCS to meet claims against it. In 2008 a number of institutions were declared in default by the FSA. The FSCS has met the claims by way of loans received from H.M. Treasury. These loans total approximately £19 billion. The terms of these loans are interest only for the first three years, and the FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms over this period.

The FSCS may have a further liability if there are insufficient funds available from the realization of the assets of the financial institutions to fully repay the H.M. Treasury loans. To the extent that the loans have not been repaid in full by 2012, the FSCS will agree a schedule of repayments with H.M. Treasury. The FSCS will then levy the industry (including Nationwide) accordingly.

As further information is provided by the FSCS scheme we will continue to update our estimate of the amount of FSCS levies we will ultimately be required to pay.

As at September 30, 2011, we held a provision of £53 million, for which our liability to levies is confirmed.

The Group will become liable to levies for the 2012/13 scheme year during the second half of the current financial year. The amount to be provided by the Group will depend upon future financing arrangements of the FSCS, which are expected to be agreed in the second half of the financial year ended April 4, 2012.

As of October 3, 2011 the FSA has recommenced work on the FFMR, on which it hopes to formally consult by mid-2012. The FFMR will concentrate on issues such as the composition of the nine funding classes, the levy thresholds applicable to each and their tariff bases.

### **Bank Levy**

On July 19, 2011, the Finance Act 2011 came into force, including the bank levy requirements enacted by section 73 and Schedule 19 thereof. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but an allowance is given against the first £20 billion of relevant liabilities, meaning that smaller institutions will effectively be exempted from the levy charge. Certain liabilities are excluded from the charge including Tier 1 capital, insured retail deposits and repos secured on sovereign debt. Additionally, certain high quality liquid assets on the balance sheet are eligible to reduce the amount of liabilities in the charge. Levy rates have been announced as follows:

<b>Period</b>	<b>Rates</b>	
	Short-term liabilities	Long-term liabilities
January 1, 2011 to February 28, 2011	0.05%	0.025%
March 1, 2011 to April 30, 2011	0.1%	0.05%
May 1, 2011 to December 31, 2011	0.075%	0.0375%
From January 1, 2012	0.088%	0.044%

## SELECTED STATISTICAL INFORMATION

The following information has been extracted from our management information systems. This information is unaudited. The information contained in this section should be read in conjunction with our consolidated financial statements as well as the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

### Average Balance Sheets and Interest Rates

The tables below present, in accordance with IFRS, the average balances for our interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the financial years ended April 4, 2011, 2010 and 2009, respectively:

	For the year ended April 4, 2011		
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
	<i>(£ millions, except percentages)</i>		
<b>Interest-earning assets:</b>			
Loans to credit institutions.....	7,155	32	0.45%
Debt securities <sup>(2)</sup> .....	26,671	314	1.42%
Loans to customers .....	150,825	4,129	2.74%
Expected return on pension assets .....	-	168	-
<b>Total average interest-earning assets .....</b>	<b>184,651</b>	<b>4,643</b>	<b>2.51%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets.....	934		
Fair value adjustment for hedged risk.....	2,257		
Other financial assets at fair value .....	83		
Other assets.....	617		
Goodwill and intangible fixed assets .....	444		
Investment properties.....	9		
Reinsurance assets .....	-		
Deferred tax assets.....	372		
<b>Total average assets .....</b>	<b>189,367</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	122,259	2,510	2.05%
Other deposits .....	15,140	(87)	(0.57%)
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	40,436	427	1.06%
Subordinated liabilities .....	2,128	50	2.35%
Tier 1 capital instruments .....	1,556	40	2.57%
Unwind of discount of pension liabilities .....	-	166	-
<b>Total average interest-bearing liabilities .....</b>	<b>181,519</b>	<b>3,106</b>	<b>1.71%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,693		
Fair value adjustment for hedged risk.....	131		
Other financial liabilities at fair value .....	-		
Reserves.....	5,918		
Current taxes.....	106		
<b>Total average liabilities .....</b>	<b>189,367</b>		

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

**For the year ended April 4, 2010**

	<b>Average balance<sup>(1)</sup></b>	<b>Interest<sup>(2)</sup></b>	<b>Average yield/ rate</b>
	<i>(£ millions, except percentages)</i>		
<b>Interest-earning assets:</b>			
Loans to credit institutions.....	8,882	47	0.53%
Debt securities & derivative financial instruments <sup>(2)</sup> .....	28,757	527	1.83%
Loans to customers .....	153,989	3,872	2.51%
Expected return on pension assets .....	-	122	-
<b>Total average interest-earning assets</b> .....	<b>191,628</b>	<b>4,568</b>	<b>2.38%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets.....	959		
Fair value adjustment for hedged risk.....	2,770		
Other financial assets at fair value .....	183		
Other assets.....	953		
Goodwill and intangible fixed assets .....	211		
Investment properties.....	9		
Reinsurance assets .....	-		
Deferred tax assets .....	716		
<b>Total average assets</b> .....	<b>197,429</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	122,999	2,326	1.89%
Other deposits .....	20,609	(132)	(0.64%)
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	43,058	434	1.01%
Subordinated liabilities .....	2,144	43	2.01%
Subscribed capital.....	1,503	37	2.46%
Unwind of discount of pension liabilities .....	-	146	-
<b>Total average interest-bearing liabilities</b> .....	<b>190,313</b>	<b>2,854</b>	<b>1.50%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,678		
Fair value adjustment for hedged risk.....	124		
Other financial liabilities at fair value .....	-		
Reserves.....	5,095		
Current taxes.....	219		
<b>Total average liabilities</b> .....	<b>197,429</b>		

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

**For the year ended April 4, 2009**

	<b>Average balance<sup>(1)</sup></b>	<b>Interest<sup>(2)</sup></b>	<b>Average yield/ rate</b>
	<i>(£ millions, except percentages)</i>		
<b>Interest-earning assets:</b>			
Loans to credit institutions.....	10,203	261	2.56%
Debt securities .....	28,726	1,224	4.26%
Loans to customers .....	147,958	7,614	5.15%
Expected return on pension assets .....	-	151	-
<b>Total average interest-earning assets .....</b>	<b>186,887</b>	<b>9,250</b>	<b>4.95%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets.....	876		
Fair value adjustment for hedged risk.....	1,489		
Other financial assets at fair value .....	48		
Other assets.....	773		
Goodwill and intangible fixed assets .....	150		
Investment properties.....	14		
Reinsurance assets .....	-		
Deferred tax assets .....	199		
<b>Total average assets .....</b>	<b>190,436</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	120,139	4,724	3.93%
Other deposits .....	24,226	1,037	4.28%
Debt securities in issue and derivative financial instruments .....	35,822	1,415	3.95%
Subordinated liabilities .....	1,935	93	4.81%
Tier 1 capital instruments .....	1,351	82	6.07%
Unwind of discount of pension liabilities .....	-	141	-
<b>Total average interest-bearing liabilities .....</b>	<b>183,473</b>	<b>7,492</b>	<b>4.08%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,545		
Fair value adjustment for hedged risk.....	95		
Other financial liabilities at fair value .....	10		
Reserves.....	5,444		
Insurance contract liabilities .....	-		
Investment contract liabilities .....	-		
Current taxes.....	(131)		
<b>Total average liabilities .....</b>	<b>190,436</b>		

Notes:

- (1) Average balances are based on the balance as of the end of each month during the financial year.
- (2) For the purpose of the average balance sheet, the interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

## Average Net Interest Margin and Spread

The following tables show our average interest-earning assets, average interest-bearing liabilities and net interest income and illustrate the comparative net interest margin and net interest spread for the financial years ended April 4, 2011, 2010 and 2009, respectively:

	<b>As at April 4, 2011</b>
	<i>(£ millions, except percentages)</i>
Net average interest-earning assets .....	184,651
Net average interest-bearing liabilities .....	181,519
Net interest income <sup>(1)</sup> .....	1,537
Average yield on average interest-earning assets .....	2.51%
Average rate on average interest-bearing liabilities .....	1.71%
Net interest spread <sup>(2)</sup> .....	0.80%
Net interest margin <sup>(3)</sup> .....	0.83%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

	<b>As at April 4, 2010</b>
	<i>(£ millions, except percentages)</i>
Net average interest-earning assets .....	191,628
Net average interest-bearing liabilities .....	190,313
Net interest income <sup>(1)</sup> .....	1,714
Average yield on average interest-earning assets .....	2.38%
Average rate on average interest-bearing liabilities .....	1.50%
Net interest spread <sup>(2)</sup> .....	0.88%
Net interest margin <sup>(3)</sup> .....	0.87%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

	<b>As at April 4, 2009</b>
	<i>(£ millions, except percentages)</i>
Net average interest-earning assets .....	186,887
Net average interest-bearing liabilities .....	183,473
Net interest income <sup>(1)</sup> .....	1,758
Average yield on average interest-earning assets .....	4.95%
Average rate on average interest-bearing liabilities .....	4.08%
Net interest spread <sup>(2)</sup> .....	0.87%
Net interest margin <sup>(3)</sup> .....	0.93%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by average interest-earning assets.

## Changes in Interest Income and Expenses – Volume and Rate Analysis

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended April 4, 2011 compared to the financial year ended April 4, 2010. We calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to

which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein:

Type of Property	Year ended April 4, 2011 compared to year ended April 4, 2010		
	Increase/(decrease) in net interest due to changes in:		
	Volume	Yield/rate	Total net change
	<i>(£ millions)</i>		
<b>Interest income:</b> <sup>(1)</sup>			
Loans to credit institutions.....	(8)	(7)	(15)
Debt securities .....	(35)	(178)	(213)
Loans to customers .....	(81)	340	259
<b>Total interest income</b> .....	<b>(124)</b>	<b>155</b>	<b>31</b>
<b>Interest expense:</b> <sup>(1)</sup>			
UK retail member deposits .....	(14)	198	184
Amounts owed to credit institutions .....	(101)	69	(32)
Amounts owed to other customers.....	(31)	108	77
Debt securities in issue .....	(25)	18	(7)
Subordinated liabilities .....	-	7	7
Subscribed capital.....	1	2	3
<b>Total interest expense</b> .....	<b>(170)</b>	<b>402</b>	<b>232</b>
<b>Net interest income</b> .....	<b>46</b>	<b>(247)</b>	<b>(201)</b>

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended April 4, 2010 compared to the financial year ended April 4, 2009. We calculated volume and yield/rate variances based on movements of average balances over the period and changes in average interest yields/rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances. Pension interest income and expense has been excluded from the table as the assets and liabilities to which they relate are held net on the balance sheet. More information on the net pension liability can be found in our audited consolidated financial statements incorporated by reference herein:

Type of Property	Year ended April 4, 2010 compared to year ended April 4, 2009		
	Increase/(decrease) in net interest due to changes in:		
	Volume	Yield/rate	Total net change
	<i>(£ millions)</i>		
<b>Interest income:</b> <sup>(1)</sup>			
Loans to credit institutions.....	(30)	(184)	(214)
Debt securities .....	(36)	(661)	(697)
Loans to customers .....	299	(4,041)	(3,742)
<b>Total interest income</b> .....	<b>233</b>	<b>(4,886)</b>	<b>(4,653)</b>
<b>Interest expense:</b> <sup>(1)</sup>			
UK retail member deposits .....	110	(2,508)	(2,398)
Amounts owed to credit institutions .....	(50)	1	(49)
Amounts owed to other customers.....	95	(1,215)	(1,120)
Debt securities in issue .....	198	(1,179)	(981)
Subordinated liabilities .....	9	(59)	(50)
Subscribed capital.....	8	(53)	(45)
<b>Total interest expense</b> .....	<b>370</b>	<b>(5,013)</b>	<b>(4,643)</b>
<b>Net interest income</b> .....	<b>(137)</b>	<b>(127)</b>	<b>(10)</b>

Note:

(1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

## Investment Securities Portfolio

As at April 4, 2011 our investment securities portfolio was carried at a book value of £21,540 million, representing 11.4% of our total assets. Approximately £18.2 billion of the assets in this portfolio were purchased to satisfy regulatory liquidity requirements and approximately £3.3 billion of the assets in this portfolio are investment assets held in our portfolio of investment securities. We only purchase investment-grade debt securities and do not operate a trading portfolio. The following table provides information on the breakdown of our investment securities as at April 4, 2011, 2010 and 2009, respectively:

	As at April 4,		
	2011	2010	2009
	( <i>£ millions</i> )		
<b>Investment securities</b>			
UK government <sup>(1)</sup> .....	8,569	6,388	4,720
Other public sector securities <sup>(2)</sup> .....	3,994	5,958	2,471
Other issuers <sup>(3)</sup> .....	8,977	11,039	14,032
<b>Total</b> .....	<b>21,540</b>	<b>23,385</b>	<b>21,223</b>

Notes:

- (1) As at April 4, 2011 UK government securities that we held were equal to 127% of our general and revaluation reserves compared to 99.3% as at April 4, 2010 and 74.9% as at April 4, 2009.
- (2) Other public sector securities include securities issued by UK local authorities and sovereign debt backed by foreign (non-UK) governments.
- (3) As at April 4, 2011, we held no securities issued by counterparties where the values of which individually exceeded 10% of our general and revaluation reserves.

The following table shows the contractual maturity of investment securities held as at April 4, 2011:

	As at April 4, 2011						
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 years but within 10 years	Maturing after 10 years	Accrued Interest	Allowances	Total
	( <i>£ millions</i> )						
UK government .....	-	3,230	5,290	-	48	-	8,569
Other public sector securities...	-	2,107	1,717	170	-	-	3,994
Other issuers .....	2,141	2,880	3,191	667	98	-	8,977
<b>Total</b> .....	2,141	8,217	10,199	837	146	-	<b>21,540</b>

The following table presents a further analysis of other issuers as at April 4, 2011, 2010 and 2009, respectively:

	As at April 4,		
	2011	2010	2009
	( <i>£ millions</i> )		
<b>Investment securities – other issuers</b>			
UK financial institutions .....	410	595	2,534
European financial institutions .....	2,170	3,164	4,395
Non European financial institutions .....	725	942	1,184
Asset backed securities .....	5,145	5,548	5,070
Other issuers .....	527	790	849
<b>Total</b> .....	<b>8,977</b>	<b>11,039</b>	<b>14,032</b>

## Loan Portfolio

As at April 4, 2011 total loans to customers excluding fair value adjustments for portfolio hedged risk, including accrued interest, were £148,870 million, representing 78.8% of our total assets. Our loan portfolio has decreased by 0.5% during the last financial year from £154,446 million as at April 4, 2010 to £153,598 million as at April 4, 2011.

The following table summarizes our loan portfolio, net of allowances, as at April 4, 2011, 2010 and 2009, respectively:

	As at April 4,		
	2011	2010	2009
	( <i>£ millions</i> )		
<b>Loans to customers:</b>			
Residential mortgage loans .....	124,453	127,313	129,916
Consumer banking .....	2,376	2,143	2,230
Commercial Lending .....	21,560	21,765	21,943
Other lending .....	481	556	661
<b>Total loans to customers.....</b>	<b>148,870</b>	<b>151,777</b>	<b>154,750</b>
Fair value adjustment for micro hedged risk(1).....	547	652	719
Loans and advances to banks.....	4,181	2,017	5,033
<b>Total.....</b>	<b>153,598</b>	<b>154,446</b>	<b>160,502</b>

Notes:

- (1) Under IFRS the carrying value of the hedged item is adjusted for the change in value of the hedged risk.

The following table presents the contractual maturity distribution for repayment for the loans held by us as at April 4, 2011:

	As at April 4, 2011						
	Due on Demand	Due within 3 Months	Due in 3 months to 1 year	Due in 1 year to 5 years	Due after 5 years	Allowances	Total <sup>(1)</sup>
	( <i>£ millions</i> )						
Loans to customers .....	1,460	2,104	5,070	25,295	115,706	(765)	148,870
Loans and advances to banks..	3,993	-	-	-	187	-	4,181
<b>Total Loans.....</b>	<b>5,453</b>	<b>2,104</b>	<b>5,070</b>	<b>25,295</b>	<b>115,893</b>	<b>(765)</b>	<b>153,051</b>

Note:

- (1) The maturity analysis is produced on the basis that where a loan is repayable by installments, each installment is treated as a separate repayment. Arrears are spread across the remaining term of the loan.

The following table presents the split of fixed and variable loans to customers and credit institutions as at April 4, 2011:

	As at April 4, 2011			
	Fixed rate	Variable rate	Outstanding Checks	Total <sup>(1)</sup>
	( <i>£ millions</i> )			
Loans to customers .....	55,651	93,219	-	148,870
Loans to credit institutions.....	1,758	2,726	(303)	4,181
<b>Total loans .....</b>	<b>57,409</b>	<b>95,945</b>	<b>(303)</b>	<b>153,051</b>

Note:

- (1) Outstanding checks were issued by Nationwide mostly on behalf of retail customers, and had not been presented through the banking system as at April 4, 2011.

### Loans in Arrears

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. As a result, the concept of suspended interest and interest write back is no longer recognized.

The following table provides information on Prime and specialist lending and Consumer banking balances by payment due status as at April 4, 2011:

	<b>As at April 4, 2011</b>				
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>	<b>%</b>
	<i>(£ billions, except percentages)</i>				
<b>Not impaired:</b>					
Neither past due nor impaired.....	101.8	18.2	2.3	122.3	96
Past due up to 3 months but not impaired..	1.9	1.3	0.1	3.3	3
<b>Impaired</b>	0.6	0.8	0.1	1.5	1
	<u>104.3</u>	<u>20.3</u>	<u>2.5</u>	<u>127.1</u>	<u>100%</u>

The following table provides information on Prime and specialist lending and Consumer banking balances by payment due status as at April 4, 2010:

	<b>As at April 4, 2010</b>				
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>	<b>%</b>
	<i>(£ billions, except percentages)</i>				
<b>Not impaired:</b>					
Neither past due nor impaired.....	106.3	16.5	2.1	124.9	96%
Past due up to 3 months but not impaired..	1.9	1.2	0.0	3.1	3%
<b>Impaired</b>	0.5	1.0	0.2	1.7	1%
	<u>108.7</u>	<u>18.7</u>	<u>2.3</u>	<u>129.7</u>	<u>100%</u>

The following table provides information on retail and commercial loans and advances by payment status as at April 4, 2009:

	<b>As at April 4, 2009</b>				
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Consumer banking</b>	<b>Total</b>	<b>%</b>
	<i>(£ billions, except percentages)</i>				
<b>Not impaired:</b>					
Neither past due nor impaired.....	109.5	15.7	2.2	127.4	96%
Past due up to 3 months but not impaired..	1.9	1.4	0.1	3.4	3%
<b>Impaired</b>	0.5	1.1	0.1	1.7	1%
	<u>111.9</u>	<u>18.2</u>	<u>2.4</u>	<u>132.5</u>	<u>100%</u>

### Loan Loss Experience

The Group 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 Group 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 the Group to reduce any differences between loss estimates and actual loss experience.

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2011:

	<u>Prime residential</u>	<u>Specialist residential</u>	<u>Consumer banking</u>	<u>Commercial lending</u>	<u>Other lending</u>	<u>Total</u>
	<i>(£ millions)</i>					
At April 5, 2010.....	17	143	148	422	20	750
Charge for the year .....	32	69	83	175	-	359
Amounts written off during the year	(9)	(51)	(156)	(105)	(13)	(334)
Amounts recovered during the year.	1	3	20	-	4	28
Unwind of discount of provision .....	(1)	(3)	(5)	(29)	-	(38)
<b>As at April 4, 2011 .....</b>	<b>40</b>	<b>161</b>	<b>90</b>	<b>463</b>	<b>11</b>	<b>765</b>

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2010:

	<u>Prime residential</u>	<u>Specialist residential</u>	<u>Consumer banking</u>	<u>Commercial lending</u>	<u>Other lending</u>	<u>Total</u>
	<i>(£ millions)</i>					
As at April 5, 2009.....	20	101	136	194	19	470
Charge for the year .....	10	79	126	299	35	549
Amounts written off during the year	(14)	(33)	(120)	(54)	(38)	(259)
Amounts recovered during the year.	2	1	13	-	4	20
Unwind of discount of provision .....	(1)	(5)	(7)	(17)	-	(30)
<b>As at April 4, 2010 .....</b>	<b>17</b>	<b>143</b>	<b>148</b>	<b>422</b>	<b>20</b>	<b>750</b>

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2009:

	<u>Prime residential</u>	<u>Specialist residential</u>	<u>Consumer banking</u>	<u>Commercial lending</u>	<u>Other lending</u>	<u>Total</u>
	<i>(£ millions)</i>					
As at April 5, 2008.....	19	19	135	30	9	212
Charge for the year .....	4	87	113	171	19	394
Amounts written off during the year	(4)	(5)	(119)	(3)	(13)	(144)
Amounts recovered during the year.	1	-	13	-	4	18
Unwind of discount of provision .....	-	-	(6)	(4)	-	(10)
<b>As at April 4, 2009 .....</b>	<b>20</b>	<b>101</b>	<b>136</b>	<b>194</b>	<b>19</b>	<b>470</b>

The following table shows the allowances for loan losses as a percentage of total loans, analyzed by category:

	<b>As at April 4,</b>		
	<b>2011<sup>(1)</sup></b>	<b>2010<sup>(1)</sup></b>	<b>2009<sup>(1)</sup></b>
	<i>(percentages)</i>		
<b>Total Allowances as a % of total loans<sup>(1)</sup></b>			
Residential .....	0.16	0.13	0.09
Commercial .....	2.15	1.94	0.88
Consumer .....	3.79	6.91	6.10
Other .....	2.29	3.60	2.87
<b>Total loans .....</b>	<b>0.51</b>	<b>0.49</b>	<b>0.30</b>
<b>% of loans in each category to total loans</b>			
Residential mortgage loans .....	83.6	83.5	83.8
Commercial .....	14.5	14.6	14.2
Consumer .....	1.6	1.5	1.6
Other .....	0.3	0.4	0.4
<b>Total loans .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note:

(1) The loan balances for the financial years ended April 4, 2011, 2010 and 2009 are summarized earlier in this section of the Base Prospectus.

### Deposits

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2011:

	<b>For year ended April 4, 2011</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ millions, except percentages)</i>	
UK retail member deposits .....	122,259	2.05%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	15,140	1.70%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2010:

	<b>For year ended April 4, 2010</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ millions, except percentages)</i>	
UK retail member deposits .....	122,999	1.89%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	20,609	1.86%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

The following table sets out the average balances and average interest rates for each deposit type for the financial year ended April 4, 2009:

	<b>For year ended April 4, 2009</b>	
	<b>Average balance</b>	<b>Average rate paid</b>
	<i>(£ millions, except percentages)</i>	
UK retail member deposits .....	120,139	3.93%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	24,227	4.28%

Note:

(1) Amounts owed to other customers include time deposits, call deposits and retail deposits that do not grant "member" status.

As explained in “*Description of Business—Retail Funding*”, our member accounts include both instant access accounts, from which funds may be withdrawn on demand, and notice accounts, from which funds withdrawn without appropriate notice may be subject to penalties. The approximate split of UK retail member deposits between instant access accounts and notice accounts as at April 4, 2011, is as follows:

	<b>As at April 4, 2011</b>
	<i>(£ millions)</i>
Instant access accounts .....	47,893
Notice accounts.....	74,081
Accrued interest .....	578
UK retail member deposits .....	122,552

### **Maturity of Deposits**

The following table shows the maturity analysis of time deposits over \$100,000 and certificates of deposit as at April 4, 2011:

	<b>As at April 4, 2011</b>			
	<b>Time deposits</b>	<b>Certificates Of deposit</b>	<b>Total</b>	<b>%</b>
	<i>(£ millions, except percentages)</i>			
Less than 3 months .....	2,684	2,940	5,624	53.5%
3 months to 6 months.....	697	1,560	2,257	21.5%
6 months to 1 year.....	387	216	603	5.7%
Over 1 year .....	23	2	25	19.3%
<b>Total</b> .....	<b>3,791</b>	<b>4,718</b>	<b>8,509</b>	<b>100%</b>

### **Return on Assets**

The following table represents net income as a percentage of total average assets for the financial year ended April 4, 2011:

	<b>For the year ended April 4, 2011</b>
	<i>(£ millions, except percentages)</i>
Net income <sup>(1)</sup> .....	248
Total average assets <sup>(2)</sup> .....	189,367
Return on total average assets.....	0.13%

Notes:

- (1) Net income represents profit for the financial year after tax.
- (2) Total average assets is based on the total assets as of the end of each month during the financial year.

The following table represents net income as a percentage of total average assets for the financial year ended April 4, 2010:

	<b>For the year ended April 4, 2010</b>
	<i>(£ millions, except percentages)</i>
Net income <sup>(1)</sup> .....	264
Total average assets <sup>(2)</sup> .....	197,429
Return on total average assets.....	0.13%

Notes:

- (1) Net income represents profit for the financial year after tax.
- (2) Total average assets is based on the total assets as of the end of each month during the financial year.

The following table represents net income as a percentage of total average assets for the financial year ended April 4, 2009:

	<b>For the year ended April 4, 2009</b>
	<i>(£ millions, except percentages)</i>
Net income <sup>(1)</sup> .....	146
Total average assets <sup>(2)</sup> .....	190,437
Return on total average assets.....	0.08%

Notes:

- (1) Net income represents profit for the financial year after tax.
- (2) Total average assets is based on the total assets as of the end of each month during the financial year.

As a mutual organization, we are managed for the benefit of our members, our retail savings and residential mortgage customers, rather than for equity shareholders. We return value to our members by offering generally higher interest rates on savings and lower interest rates on loans than those offered by our main competitors. As a result, we typically earn lower profits than our main competitors, which are typically banks or other non-mutual organizations. However, we pay no dividends, and our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements.

We have not presented any information regarding returns on equity because, as a mutual organization, we do not have equity.

## FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments incorporate the vast majority of the Group and Society's assets and liabilities. 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 Group accepts deposits from customers at fixed, floating and variable interest rates for various periods and seeks to earn an interest margin by investing these funds in high quality assets – predominantly mortgages. The principal risks which arise from this core activity, and which need to be managed by the Group, are interest rate risks (including basis risk), credit risks, foreign exchange, liquidity and funding risks.

The Group uses derivative instruments to manage various aspects of risk. However, in doing so it complies with the UK Building Societies Act 1986 which limits our use of derivatives to the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

### Derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency interest rate swaps, interest rate futures, foreign exchange contracts, credit derivatives and equity index swaps. Derivatives are used to hedge balance sheet and income exposures arising, inter alia, from fixed rate mortgage lending, fixed rate savings products, funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. Group risk exposures are recorded on the Society's information systems and monitored accordingly.

The following table describes the significant activities undertaken by the Group, 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:

<u>Activity</u>	<u>Risk</u>	<u>Type of derivative instrument used</u>
Savings products and funding activities involving instruments which are fixed rate with embedded options	Sensitivity to changes in interest rates	Interest rate swaps, interest rate futures, swaptions, and forward rate agreements
Mortgage lending and investment activities involving instruments which are fixed rate or which include explicit or embedded options	Sensitivity to changes in interest rates, including differential between Base Rate and LIBOR	Interest rate swaps including basis swaps, interest rate futures, swaptions, caps, collars and forward rate agreements
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency swaps and foreign exchange contracts
Protected equity bond (“PEB”) savings products	Sensitivity to changes in stock indices	Equity index swaps

The accounting policy for derivatives and hedge accounting is described in the Statement of Accounting Policies. Where possible, fair value hedge accounting is employed but no use is currently made of cash flow hedge accounting.

The Board and the Assets and Liabilities Committee (“ALCO”) are responsible for setting certain parameters respectively over the Group exposure to interest rates, foreign exchange rates and other indices. The Commercial and Treasury Credit Committee sets Group 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 the Group including governance.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with certain counterparties are collateralized (e.g. with cash deposits), to mitigate credit

exposures. All Group derivatives activity is contracted with Organization for Economic Co-operation and Development (“OECD”) financial institutions.

The principal financial risks to which the Group is exposed are interest rate, credit, foreign exchange, liquidity and funding risk. Each of these is considered below.

### **Interest rate risk**

The primary market risk faced by the Group is interest rate risk. The net interest income and market value of the Group’s assets are exposed to movements in interest rates. This exposure is managed on a continuous basis, within parameters set by ALCO, using a combination of derivative instruments, cash instruments (such as loans, deposits and bonds), and contractual terms within products and associated procedures.

The Group does not run a trading book and therefore does not have the higher risk exposure run by many banking institutions. Given our policy of hedging fixed rate assets and liabilities back to floating rate, interest rate market value risk arises mainly from the Board’s decision to invest the Group’s reserves according to a specified fixed rate maturity profile. The level of risk can deviate from this, subject to limits, in particular as a result of decisions made by the Group’s Treasury department to temporarily deviate from the specified fixed rate maturity profile in the light of market conditions.

Interest rate earnings risk arises mainly from the diversity of product terms and associated procedures adopted by the Group in originating and administering retail and commercial products. Should reported exposure approach internal risk parameters, action is initiated by ALCO to mitigate such exposure, through changes to these product terms and procedures or to the product mix, or through the use of derivatives.

The Group uses several metrics to monitor interest rate risk, and details of these are set out below. The controls around these metrics have been set by the Board or by ALCO and reflect the Group’s low risk appetite.

*Value at Risk (“VaR”).* This is a technique that estimates the potential losses that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. In its day-to-day monitoring Nationwide uses a 10 day horizon and a 99% confidence level.

The VaR model used by Nationwide incorporates underlying risk factors based on interest rate volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years equally weighted. Exposures against limits are reviewed daily by management. Actual outcomes are monitored periodically to test the validity of the assumptions and factors used in the VaR calculation.

Although a valuable guide to risk, VaR needs to be viewed in the context of the following limitations:

- historic data is not necessarily a good guide to future events;
- the use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence. The VaR numbers may not encompass all potential events, particularly those that are extreme in nature; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

*Sensitivity analysis (PV01 sensitivity).* This is used to assess the change in value of the Group’s current net worth against a one basis point (0.01%) parallel shift in interest rates. As is the case with VaR, this analysis is done on a daily basis separately for each currency (but with the main risk arising from Sterling exposures) and in aggregate.

*Stress testing (PV200 sensitivity).* This is calculated in a similar manner to PV01 but against a much more severe 200 basis point (2.0%) parallel shift in interest rates. Both PV01 and PV200 numbers are generated and monitored daily.

Change in value of the Group’s current net worth is also calculated against a range of non-linear stresses to the yield curve. This output is reported and monitored on a monthly basis.

The average gross exposures (before deduction of the above mentioned specified fixed rate maturity profile for the Group’s reserves) through the reporting period are as follows:

	2011			2010		
	Average	High	Low	Average	High	Low
	( <i>£ millions</i> )					
VaR.....	74	81	66	83	88	79
Sensitivity analysis (PV01).....	2	2	2	2	2	2
Stress testing (PV200: all currencies) .....	409	438	373	390	463	362

All exposures include investment of the Group's reserves. VaR reflects the impact of the decrease of interest rate volatilities in the reference period.

*Earnings risk.* Earnings risks are calculated using a variety of stochastic and deterministic scenarios.

Interest rate earnings risks, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, for example LIBOR and BoE Base Rate) and prepayment risk (the risk of loss arising from early repayment of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

The sensitivity of the Group net interest margin to changes in interest rates is measured monthly using a dynamic forecasting model and interest rate scenarios, and is calculated for a forward period of 12 months.

### Credit risk

The Group takes on exposure to credit risk, which is defined as the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or a sector that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management, therefore, carefully monitors its exposure to credit risk.

The Group's Credit Committees for Retail and Commercial and Treasury are responsible for approving and monitoring the Group's credit exposures, which they do through formal annual review and approval of the Group's lending policies. Regular monitoring and review of lending is undertaken through detailed management information including the performance of credit scoring systems for all retail lending. Formal limits are set and reviewed at individual, segment and portfolio levels based on credit exposures split by individual counterparties, geographical location and industry sector. Summary minutes of the Credit Committees together with key risk monitoring metrics are reviewed by the Executive Risk Committee.

Prior to advancing funds, an assessment is made of the credit quality of borrowers and other counterparties for all lending to both retail and corporate customers. Retail lending is subject to credit scoring and lending policies. Corporate lending is based on counterparty assessment that includes the use of multiple rating methodologies.

Credit risk within our Treasury Division arises primarily from the investments held by Treasury for liquidity and investment purposes and for income generation purposes. This aspect of credit risk is managed by our Treasury Division and the Commercial and Treasury Risk function within Risk Management Division. The Commercial and Treasury Risk team underwrites all new facilities and monitors existing facilities. They also set and monitor compliance with policy and limits, reporting to the Commercial and Treasury Credit Committee. In addition, counterparty credit risk arises from the Group's derivatives where the market values are positive.

The Treasury Credit Risk function monitors exposure concentrations against a variety of criteria including industry sector, asset class, and country of risk. The Treasury portfolio exposure is well spread across both industry sectors and jurisdictions. Nationwide has no exposure to emerging markets or hedge funds and only minimal exposure to non investment grade debt.

The following table presents the Group's maximum exposure to credit risk of on-balance-sheet and off-balance-sheet financial instruments, before taking into account any collateral held or other credit enhancements and after allowance for impairment where appropriate. The maximum exposure to loss for off-balance-sheet financial instruments is considered to be their contractual nominal amounts:

	2011			2010		
	Carrying value	Commitments	Maximum credit risk exposure	Carrying value	Commitments	Maximum credit risk exposure
	<i>(£ millions)</i>					
Cash	6,130	-	6,130	3,994	-	3,994
Loans and advances to banks	4,181	199	4,380	2,017	149	2,166
Investment securities – AFS	21,540	-	21,540	23,385	-	23,385
Derivative financial instruments	3,961	-	3,961	4,852	-	4,852
FV adjustment for portfolio hedged risk	1,563	-	1,563	2,798	-	2,798
Loans and advances to customers	149,417	5,637	155,054	152,429	4,953	157,382
Investment in equity shares	103	-	103	86	-	86
	<b>186,895</b>	<b>5,836</b>	<b>192,731</b>	<b>189,561</b>	<b>5,102</b>	<b>194,663</b>

In addition to the figures shown above, the Group has, as part of its retail operations, commitments of £6,857 million (2010: £4,908 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

#### Foreign exchange risk

Foreign exchange risk is the risk that the Sterling value of, or net income from, assets and liabilities that are denominated in foreign currency changes as a consequence of changes to foreign exchange rates.

In addition to commercial loans denominated in euro, a significant proportion of Treasury funding and investment activity is undertaken in foreign currencies. Foreign currency exposure is hedged on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels.

In line with the prudential guidance applying to all building societies and after taking account of foreign currency derivatives, the Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. ALCO sets limits on the level of exposure by currency, which are monitored daily.

VaR is used to monitor the risk arising from open foreign currency positions. Open currency positions represent the net value of assets, liabilities and derivatives in foreign currency. The parameters of the VaR methodology, and frequency of reporting are exactly as described above under Interest Rate Risk.

The average gross Sterling equivalent exposures for foreign exchange risk through the year are as follows:

	2011			2010		
	Average	High	Low	Average	High	Low
	<i>(£ millions)</i>					
VaR.....	0.1	0.5	-	0.2	0.6	-

#### Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is not able to meet its financial obligations as they fall due (including any unexpected adverse cash flow), to smooth out the effect of maturity mismatches, or to maintain public confidence.

The Group liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable it to meet all financial obligations. This is achieved through maintaining a prudent level of high quality liquid assets, through management and

stress testing of business cash flows, and through management of funding facilities. The Group liquidity policy is approved by the Board.

Liquid assets are categorized according to their liquidity characteristics, and the most liquid category of assets is the focus of management attention. This portfolio predominantly comprises holdings of sovereign-issued securities, and deposits with the central bank and is aligned to the “liquid asset buffer” defined in the FSA’s policy statement on liquidity management (Policy Statement 09/16). Assets may be acquired through direct purchase, through repurchase agreements or through collateral swaps. Encumbered assets are excluded from the calculation of liquid assets which is conducted on a daily basis.

The Board is responsible for setting limits over the level and composition of liquidity balances. A series of liquidity stress tests is performed daily to determine the required levels of liquidity.

The Board has also set limits for the funding mix of the balance sheet, for the maturity profile of wholesale and retail funding, and for the composition of the savings portfolio.

ALCO is responsible for setting more detailed limits within the context of overall Board limits, including the level and maturity profile of funding, and for monitoring the composition of the Group balance sheet. Wholesale and retail funding maturities are monitored to ensure that future maturities are not concentrated on a calendar basis. This enhances the ability of the Group to refinance maturing liabilities throughout forward months and quarters. A consolidated cash flow forecast is maintained on a continuous basis and reviewed by ALCO. Limits regarding the maturity concentration and composition of the savings portfolio are regularly monitored.

Fixed rate sovereign debt securities are held for liquidity purposes. When swapped into LIBOR using an interest rate swap, the net market value of the security and swap is subject to changes in the relative spreads on sovereign debt and interest rate swaps. This risk is only realized if the debt is sold ahead of maturity (rather than being converted through repurchase agreements), and is subject to a trigger set by ALCO.

A Contingency Funding Plan has been approved by ALCO, and describes procedures and available actions to manage the Group’s liquidity resources through a period of market disruption or heavy retail outflows. This is reviewed on a biannual basis and various components are tested on a scheduled basis.

The table below analyzes the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. In practice, customer deposits will be repaid later than on the earliest date on which repayment can be required.

The carrying values of derivative financial instruments are included in the columns according to their contractual maturity:

<b>As at April 4, 2011</b>						
<b>Residual maturity</b>	<b>Repayable on demand</b>	<b>Up to 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ millions)</i>					
<b>Assets</b>						
Liquid assets .....	8,588	2,015	1,808	8,217	11,223	31,851
Loans and advances to customers .....	695	2,104	5,075	25,407	116,136	149,417
Derivative financial instruments .....	-	90	723	2,149	999	3,961
Other financial assets .....	-	25	131	1,035	475	1,666
<b>Total assets</b> .....	<b>9,283</b>	<b>4,234</b>	<b>7,737</b>	<b>36,808</b>	<b>128,833</b>	<b>186,895</b>
<b>Liabilities</b>						
Shares .....	67,435	7,284	20,091	27,361	381	122,552
Amounts owed to banks, customers and debt securities in issue .....	6,093	10,391	9,796	18,419	7,426	52,125
Derivative financial instruments .....	-	67	282	1,703	1,182	3,234
Other financial liabilities .....	-	(1)	(4)	(40)	(23)	(68)
Subordinated liabilities .....	-	-	381	763	829	1,973
Subscribed capital .....	-	-	-	229	1,281	1,510
<b>Total liabilities</b> .....	<b>73,528</b>	<b>17,741</b>	<b>30,546</b>	<b>48,435</b>	<b>11,076</b>	<b>181,326</b>
<b>Net liquidity gap</b> .....	<b>(64,245)</b>	<b>(13,507)</b>	<b>(22,809)</b>	<b>(11,627)</b>	<b>117,757</b>	<b>5,569</b>

Residual maturity (Restated)	As at April 4, 2010					Total
	Repayable on demand	Up to 3 months	3 - 12 months	1 - 5 years	More than 5 years	
	( <i>£ millions</i> )					
<b>Assets</b>						
Liquid assets .....	5,773	602	1,773	7,406	13,842	29,396
Loans and advances to customers .....	547	2,037	4,768	24,726	120,351	152,429
Derivative financial instruments .....	-	214	337	2,867	1,434	4,852
Other financial assets .....	-	18	220	2,165	481	2,884
<b>Total financial assets</b> .....	<b>6,320</b>	<b>2,871</b>	<b>7,098</b>	<b>37,164</b>	<b>136,108</b>	<b>189,561</b>
<b>Liabilities</b>						
Shares .....	66,862	12,656	19,480	21,646	299	120,943
Amounts owed to banks, customers and debt securities in issue .....	5,295	18,910	7,403	15,787	7,032	54,427
Derivative financial instruments .....	-	68	463	2,901	1,510	4,942
Other financial liabilities .....	-	10	(14)	111	(1)	106
Subordinated liabilities .....	-	-	800	773	593	2,166
Subscribed capital .....	-	-	-	35	1,489	1,524
<b>Total financial liabilities</b> .....	<b>72,157</b>	<b>31,644</b>	<b>28,132</b>	<b>41,253</b>	<b>10,922</b>	<b>184,108</b>
<b>Net liquidity gap</b> .....	<b>(65,837)</b>	<b>(28,773)</b>	<b>(21,034)</b>	<b>(4,089)</b>	<b>125,186</b>	<b>5,453</b>

Liquid assets include cash, loans and advances to banks and available for sale investment securities. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

The analysis above excludes other assets including property plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and other liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities:

**For the year ended April 4, 2011**

<b>Gross contractual cash flows</b>	<b>Repayable on demand</b>	<b>Up to 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ millions)</i>					
Shares.....	67,435	7,552	20,680	28,510	397	124,574
Amounts owed to banks, customers and debt securities in issue .....	6,093	10,671	10,430	20,249	7,937	55,380
Derivative financial instruments .....	-	536	1,048	1,766	334	3,684
Other financial liabilities .....	-	(1)	(5)	(45)	(25)	(76)
Subordinated liabilities .....	-	6	475	1,084	1,064	2,629
Subscribed capital.....	-	6	81	835	1,339	2,261
<b>Total financial liabilities.....</b>	<b>73,528</b>	<b>18,770</b>	<b>32,709</b>	<b>52,399</b>	<b>11,046</b>	<b>188,452</b>
<b>Off-balance-sheet commitments</b>	<b>3,476</b>	<b>87</b>	<b>341</b>	<b>1,140</b>	<b>792</b>	<b>5,836</b>

**For the year ended April 4, 2010**

<b>Gross contractual cash flows (Restated)</b>	<b>Repayable on demand</b>	<b>Up to 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ millions)</i>					
Shares.....	66,862	12,886	19,937	22,486	311	122,482
Amounts owed to banks, customers and debt securities in issue .....	5,295	18,964	7,512	16,114	7,128	55,013
Derivative financial instruments.....	-	702	1,907	2,463	56	5,128
Other financial liabilities .....	-	10	(13)	112	(1)	108
Subordinated liabilities .....	-	6	851	933	619	2,409
Subscribed capital.....	-	10	81	872	1,393	2,356
<b>Total financial liabilities.....</b>	<b>72,157</b>	<b>32,578</b>	<b>30,275</b>	<b>42,980</b>	<b>9,506</b>	<b>187,496</b>
<b>Off-balance-sheet commitments</b>	<b>2,433</b>	<b>61</b>	<b>224</b>	<b>1,499</b>	<b>885</b>	<b>5,102</b>

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the balance sheet date.

**Fair values of financial assets and liabilities**

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group balance sheets at fair value:

	<b>Group</b>		<b>Society</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
<b>2011</b>				
	<i>(£ millions)</i>			
<b>Financial assets</b>				
Loans and advances to banks .....	4,181	4,181	4,104	4,104
Loans and advances to customers: .....				
Residential mortgages .....	124,453	119,472	104,960	99,971
Consumer banking .....	2,376	2,381	2,376	2,381
Commercial lending .....	22,107	22,357	21,014	21,214
Other lending .....	481	481	-	-
<b>Financial liabilities</b>				
Shares .....	122,552	122,767	122,552	122,767
Deposits from banks .....	2,746	2,766	1,842	1,862
Other deposits .....	5,511	5,513	13,113	13,115
Due to customers .....	6,060	6,060	1,315	1,315
Debt securities in issue .....	37,808	37,661	32,080	32,165
Subordinated liabilities .....	1,973	1,973	1,973	1,973
Subscribed capital .....	1,510	1,219	1,510	1,219

	<b>Group</b>		<b>Society</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
<b>2010</b>				
	<i>(£ millions)</i>			
<b>Financial assets</b>				
Loans and advances to banks (reclassified) .....	2,017	2,017	1,960	1,960
Loans and advances to customers: .....				
Residential mortgages .....	127,313	124,746	109,721	107,077
Consumer banking .....	2,143	2,164	2,143	2,164
Commercial lending .....	22,417	22,724	21,269	21,522
Other lending .....	556	556	-	-
<b>Financial liabilities</b>				
Shares .....	120,943	121,423	120,943	121,423
Deposits from banks .....	8,031	8,035	7,009	7,013
Other deposits .....	4,509	4,514	11,359	11,364
Due to customers .....	5,085	5,085	973	973
Debt securities in issue .....	36,802	36,793	32,184	32,848
Subordinated liabilities .....	2,166	2,025	2,166	2,025
Subscribed capital .....	1,524	1,152	1,524	1,152

***Loans and advances to customers***

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

### Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

### Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

### Fair value measurement

The following table provides an analysis of financial assets and liabilities held on the Group balance sheet at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

2011 Group	Level 1	Level 2	Level 3	Total
	(£ millions)			
<b>Financial Assets</b>				
Investment securities - AFS .....	12,319	9,126	95	21,540
Investments in equity shares .....	5	-	98	103
Derivative financial instruments .....	-	3,873	88	3,961
	<b>12,324</b>	<b>12,999</b>	<b>281</b>	<b>25,604</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(3,158)	(76)	(3,234)
Other deposits - PEB .....	-	-	(2,125)	(2,125)
	-	<b>(3,158)</b>	<b>(2,201)</b>	<b>(5,359)</b>
	(£ millions)			
2010 Group	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Investment securities - AFS .....	12,130	11,149	106	23,385
Investments in equity shares .....	-	7	79	86
Derivative financial instruments .....	-	4,852	-	4,852
	<b>12,130</b>	<b>16,008</b>	<b>185</b>	<b>28,323</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(4,898)	(44)	(4,942)
Other deposits - PEB .....	-	-	(1,128)	(1,128)
	-	<b>(4,898)</b>	<b>(1,172)</b>	<b>(6,070)</b>

Notes:

Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.

Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, asset backed securities, certain CDOs, CLOs and OTC derivatives.

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.

Level 2 investment securities – AFS assets are sourced from consensus pricing or other observable market prices. None of these Level 2 assets are priced off models. Level 2 derivative assets and liabilities are priced from discounted cash flow models using yield curves based on observable market data.

There were no significant transfers between the Level 1 and 2 portfolios during the year. Composition of and movements in the Level 3 portfolio are described below.

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

#### *Investment securities – AFS*

Of the £95 million Level 3 investment securities – AFS at April 4, 2011, approximately £60 million are CDOs and £32 million are impaired UK CMBS assets, which are all materially priced from internal models based on observable and unobservable performance assumptions. The remaining £3 million is an illiquid security for which a single price was available.

Around half of the comparative Level 3 £106 million were CDOs with the balance made up of investments in impaired Icelandic financial institutions and some other bonds and asset backed securities.

#### *Investments in equity shares*

Investments in unquoted equity instruments. Valuations are subjective in nature but have been consistently applied over time. Full valuations are performed bi-annually using details of the underlying funds combined with earnings estimates and applicable discount rates at the reporting date.

#### *Derivative financial instruments*

Equity linked derivatives with external counterparties which economically match the investment return payable by the Group to customers invested in the Permanent Equity Bond (“PEB”) product. The derivatives are linked to the performance of specified stock market indices and have been valued by an independent third party.

#### *Other deposits - PEBs*

Deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEBs liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivative as valued by an independent third party.

#### *Level 3 portfolio – movements analysis*

The table below analyzes movements in the Level 3 portfolio:

<b>2011 Group</b>	<b>Investment securities - AFS</b>	<b>Investments in equity shares</b>	<b>Derivative financial instruments - liabilities</b>	<b>Other deposits</b>
	<i>£ (millions)</i>			
As at April 4, 2010.....	106	79	(44)	(1,128)
Total (loss) /gain:.....				
Income statement.....	(18)	-	56	(56)
Other comprehensive income .....	(5)	5	-	-
Issues .....	-	-	-	(966)
Additions .....	-	25	-	-
Settlements.....	(11)	(11)	-	25
Transfer into Level 3 .....	46	-	-	-
Transfers out of Level 3.....	(23)	-	-	-
As at April 4, 2011.....	<b>95</b>	<b>98</b>	<b>12</b>	<b>(2,125)</b>



<b>2011</b>	<b>Carrying value</b>	<b>Increase in fair value</b>	<b>Decrease in fair value</b>
<b>Group</b>			
	<i>(£ millions)</i>		
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	60	25	(36)
CMBS .....	32	11	(21)
Other investments .....	3	-	-
<b>Investments in equity shares .....</b>	<b>98</b>	<b>2</b>	<b>(9)</b>
	<b>193</b>	<b>38</b>	<b>(66)</b>
Increases/(decreases) in fair value would be recognized in: .....			
Income statement .....	-	11	(21)
Statement of other comprehensive income (accumulated in the AFS reserve) .....	-	27	(45)
	<b>-</b>	<b>38</b>	<b>(66)</b>
<b>2010</b>	<b>Carrying value</b>	<b>Increase in fair value</b>	<b>Decrease in fair value</b>
<b>Group</b>			
	<i>(£ millions)</i>		
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	69	33	(67)
Financial institutions .....	13	8	(4)
Other investments .....	24	7	(3)
<b>Investments in equity shares .....</b>	<b>79</b>	<b>2</b>	<b>(15)</b>
	<b>185</b>	<b>50</b>	<b>(89)</b>
Increases/(decreases) in fair value would be recognized in: .....			
Income statement .....	-	15	(6)
Statement of other comprehensive income (accumulated in the AFS reserve) .....	-	35	(83)
	<b>-</b>	<b>50</b>	<b>(89)</b>

The stresses take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The sensitivity methodologies are based on a reliable reference source or scenario based on alternative market views. The level of shift of scenarios applied is considered for each product and varied according to the quality of the data and variability of the underlying market.

The sensitivities used to derive the results in the above table have not been offset by the impact of hedge accounting. Increases in fair values of the PEB derivative financial instruments would be offset by decreases in the fair values of the associated PEB deposit and vice versa. These items have therefore been excluded from the table above.

#### **Investment securities – AFS**

##### **Collateralized debt obligations**

Sensitivity on these assets which are not subject to impairment have been calculated by assessing movements in the preceding 12 months on an applicable market index.

##### **Commercial mortgage backed securities**

Sensitivities on this asset, which is subject to impairment, have been derived from a modelled approach using estimated expected losses at legal maturity and risk adjusted discount rates.

*Other investments*

This relates to a government guaranteed security where the preceding 12 months on an applicable market index were used to calculate the sensitivities.

*Investments in equity shares*

Sensitivities in these holdings have been based on the variance in underlying valuation seen in these holdings over the past 12 months.

## MANAGEMENT

Our business is under the control of our Board of Directors. Each director is elected annually by the members. The executive directors are the Chief Executive, the Group Finance Director, the Group Product & Marketing Director, the Group Distribution Director and the Group Development & Operations Director. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under our rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board meeting to form a quorum.

No potential conflicts of interest exist between any duties to us, as Issuer, of the persons on the board of directors and their private interests or other duties.

### Directors

The following table presents information with respect to current directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Other Directorships</u>
Geoffrey Howe	61	Chairman	Gateway Electronics Components Ltd Close Brothers Group plc Investec plc Jardine Lloyd Thompson Group plc, Chairman The Cavendish School Charitable Trust Ltd
Robert Walther	67	Joint Deputy Chairman	
Graham Beale	52	Chief Executive	
Mark Rennison	50	Group Finance Director	Confederation Mortgage Services Ltd Exeter Trust Ltd First Nationwide LBS Mortgages Ltd Nationwide Anglia Property Services Ltd Nationwide Investments (No.1) Ltd Nationwide BES Fund Managers Ltd Nationwide Housing Trust Ltd Nationwide Lease Finance Ltd Nationwide Mortgage Corporation Ltd Nationwide Syndications Ltd Staffordshire Financial Services Ltd
Chris Rhodes	48	Group Product & Marketing Director	Derbyshire Home Loans Ltd  E-Mex Home Funding Ltd The Mortgage Works (UK) plc UCB Home Loans Corporation Ltd at.home nationwide ltd Jubilee Mortgages Ltd The Nationwide Foundation
Suzanna Taverne	51	Non-executive Director	FCE Bank plc The Design Museum Vlessing & Taverne Ltd Good Governance Network Foundation for Credit Counseling Service
Matthew Wyles	52	Group Distribution Director	Confederation Mortgage Services Ltd

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Other Directorships</b>
			Exeter Trust Ltd Jubilee Mortgages Ltd LBS Mortgages Ltd Staffordshire Financial Services Ltd The Mortgage Works (UK) plc UCB Home Loans Corporation Ltd
Tony Prestedge	41	Group Development Director	Nationwide Anglia Property Services Ltd.
Michael Jary	47	Non-executive Director	Duchy Originals Ltd Duchy Originals Foods Ltd OC&C Peleus Advisors LLP OC&C Strategy Consultants Limited Partnership (Guernsey) OC&C Resources Ltd OC&C Strategy Consultants LLP OC&C Strategy Consultants International (Netherlands) The Prince's Social Enterprises Ltd
Roger Perkin	63	Non-executive Director	Electra Private Equity plc Electra Private Equity Investments plc Crime Reduction Initiative Chiddingstone Castle (The Denys Eyre Bower Bequest)
Alan Peter Dickinson	60	Non-executive Director	Kennington Oval Ltd Frogmore Property Company Ltd Motability Carpetright plc
Mitchel Lenson	57	Non-executive Director	
Lynne Peacock	58	Non-executive Director	

## **Biographies**

### **Geoffrey Howe**

#### Group Chairman

Geoffrey Howe joined the Board in 2005 and became Chairman of the Society in July 2007. He brings considerable regulatory, management and legal experience to the Board. He is currently Chairman of Jardine Lloyd Thompson Group plc and a director of Close Brothers Group plc. Geoffrey was formerly Chairman of Railtrack Group plc, a director of Investec plc and General Counsel of Robert Fleming Holdings Limited and Managing Partner of international law firm Clifford Chance.

### **Robert Walther**

#### Joint Deputy Chairman and Senior Independent Director

Robert Walther joined the Board in 2002 and became Deputy Chairman in 2006. His background is in investment and insurance. Robert is a former Chairman of the Nationwide, Portman, Cheshire and Derbyshire Building Societies Pension Funds, Fidelity European Values plc and JPM Claverhouse Investment Trust and a former non-executive director of BUPA. He was Chief Executive of Clerical Medical from 1995 to 2001, which he joined in 1965.

### **Graham Beale**

#### Chief Executive

Graham Beale joined the Society in 1985. He is a chartered accountant by training and was appointed to the Board as Group Finance Director in April 2003. He took up his current role as Chief Executive in April 2007. He is a former non-executive director of Visa Europe Limited and of Visa Europe Services. Prior to his appointment to the Board, he worked extensively in the Finance function and held a number of senior, general management positions within the Society.

### **Mark Rennison**

#### Group Finance Director

Mark Rennison is a chartered accountant who joined the Society and was appointed to the Board in February 2007. He is responsible for Finance, Treasury, Risk Management, Strategy & Planning, Internal Audit and Business Protection. He is a director of various Society subsidiaries. Prior to his appointment, Mark was a partner at PricewaterhouseCoopers LLP where he worked in the financial services practice with a specific focus on retail and corporate banking. He has also worked extensively with group treasury operations, leasing and asset finance businesses.

### **Chris Rhodes**

#### Executive Director Group Product & Marketing

Chris is a chartered accountant who joined the Society on 20 April 2009 from Abbey Santander, where he was Director of Retail Distribution for Alliance & Leicester. Prior to that he held a number of Board positions at Alliance & Leicester, including Group Finance Director and Managing Director of Retail Banking. Chris is responsible for Mortgages and General Insurance, Savings and Investments, Banking (current account, credit cards and personal loans), Commercial and Lending Control together with Group Marketing.

### **Suzanna Taverne**

#### Non-Executive Director

Suzanna Taverne joined the Board in 2005. She brings expertise in strategy, finance and management. She is currently a director of FCE Bank plc, a Trustee of the Foundation for Credit Counseling and the Design Museum. Suzanna was formerly Chair of the National Council for One Parent Families / Gingerbread, Operations Director of Imperial College London, Managing Director of the British Museum, Director of Strategy at Pearson plc and Finance Director of The Independent. She also worked for Saatchi and Saatchi plc and S.G. Warburg & Co Ltd.

## **Matthew Wyles**

### Executive Director Group Distribution

Matthew Wyles was appointed to the Board in August 2007 and was previously Executive Director, Group Development at Portman Building Society. Prior to joining Portman Building Society in 1997, Matthew's career was in general insurance, latterly as Executive Director within the Global Reinsurance Division at Willis plc. Matthew is responsible for the branch network, the Group's call centers, online operations and group intermediary sales across all of the Group's brands. Matthew was Chairman of the Council of Mortgage Lenders during 2009 and 2010.

## **Tony Prestedge**

### Executive Director Group Development and Operations

Tony Prestedge was appointed to the Board in August 2007 and was previously Executive Director Group Operations of Portman Building Society. He has held a number of senior management and executive roles at Barclays plc, including Managing Director Home Finance and Retail Support and Operations Director. He was a member of both Woolwich plc and Barclays Retail Banking Executive Committee. Tony is accountable for the Group's Operational Transformation and his divisional reports include Customer Operations, Technology, Transformation Delivery and Business Services.

## **Michael Jary**

### Non-Executive Director

Michael Jary joined the Board in January 2009. He is a Partner of OC&C Strategy Consultants, a global strategy consulting firm with 15 offices worldwide and served as Worldwide Managing Partner of the firm from 2005 to 2011. He is an advisor to the boards of leading retail and consumer companies in Europe, the USA and Asia. He is a regular commentator on the retail industry, the co-author of a number of books including Retail Power Plays and a guest lecturer at INSEAD Business School. He is also Chairman of Duchy Originals and of The Prince's Social Enterprises.

## **Roger Perkin**

### Non-Executive Director

Roger Perkin joined the Nationwide Board as a non-executive director on 20 April 2010. Roger is a former partner at Ernst & Young, and has spent 40 years in the accounting profession. During his time at Ernst & Young he has worked with many blue chip clients, including UBS, and has advised boards across the spectrum of financial services, including banking, insurance, fund management and private equity. He is also a non-executive director at Electra Private Equity Plc and Evolution Group Plc, and chairs the audit committees of both companies.

## **Alan Peter Dickinson**

### Non-Executive Director

Alan Peter Dickinson joined the Nationwide Board in June 2010. Alan has spent more than 40 years in banking, originally joining the Royal Bank of Scotland in 1973, having started his career with Westminster Bank in 1968. He is an experienced retail and corporate banker and a former Executive Committee member of the RBS Group and Chief Executive of both RBS UK and RBS's market leading UK Corporate Banking business. Alan is also a non executive director of Carpetright plc and Frogmore Property Company Limited, a governor of the charity Motability and Treasurer of Surrey County Cricket Club.

## **Mitchel Lenson**

### Non-Executive Director

Mitchel Lenson joined the Board on July 18, 2011. Mitchel has spent nearly 30 years in the financial services industry and is a former Group Chief Information Officer at Deutsche Bank with responsibility for IT and Operations for all operating divisions of the bank, including its retail banking operations. He has also served as MD, Global Head of Operations & Operations IT at UBS Warburg and as Director, Group Operations at Credit Suisse First Boston. More recently Mitchel was a partner of Olivant & Co, an investment company providing strategic and operational expertise alongside investment capital to financial services businesses in Europe, the Middle East and Asia-Pacific.

## **Lynne Peacock**

### Non-Executive Director

Lynne Peacock joined the Society on July 18, 2011. Lynne, a former Chief Executive UK of National Australia Bank (NAB) and Chief Executive of Woolwich plc, has over 25 years' senior management experience in a range of roles comprising brand development, mergers & acquisitions, change management and business transformation, including 15 years at board level. During her time at NAB, Lynne was responsible for its businesses in the UK consisting of the Clydesdale and Yorkshire Bank. She became Chief Executive of Woolwich plc in October 2000 following its takeover by the Barclays Bank Group, having previously held a number of senior management and board positions at the Woolwich Building Society, both before and after its conversion to a public listed company in 1997.

### **Committees of Our Board of Directors**

Our Board of Directors operates through its meetings and through its four main committees, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Board Risk Committee. To the extent that matters are not reserved to our Board of Directors, responsibility is delegated to the Chief Executive, who is assisted by the Executive Committee and the Executive Risk Committee.

The Audit Committee, in accordance with its commitment to good corporate governance, seeks to ensure that we maintain sound controls in relation to the responsibilities of the directors, meets regularly with senior management and the internal audit department and regularly reviews its relationship with the external auditors.

The Nomination Committee regularly reviews the balance of skills and experience on the Board and the requirements of the business. It also considers the appointment of new directors and makes recommendations to the Board.

The Remuneration Committee is responsible for our director and executive officer remuneration policy. We have designed our policy to ensure that director and executive officer remuneration reflects performance and allows us to attract, retain and motivate a sufficient number of talented executives. The Remuneration Committee reviews, evaluates and makes recommendations to the Board regarding our executive compensation standards and practices, including basic salaries, bonus distributions, pension fund contribution and the medium-term incentive scheme. The Remuneration Committee consists of all non-executive directors.

The Board Risk Committee, which meets seven times a year, has responsibility for overseeing the risk framework, policies and risk appetite, and making recommendations to the Board.

The Executive Committee is our key operational committee which oversees the day-to-day operations of our business. This committee meets once each week, reviews all matters that are to be presented to the Board of Directors, and is composed of our Chief Executive and the four other executive directors.

The Executive Risk Committee, which meets monthly, is responsible for ensuring a co-ordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the Executive Directors, the Divisional Director (Treasury) and the Chief Risk Officer. The risk committees comprise the Asset and Liability Committee ("ALCO"), the Retail Credit Committee and the Commercial and Treasury Credit Committee.

ALCO sets operational limits to control exposures so that they are within overall limits set by our Board of Directors. The ALCO meets on a weekly and monthly basis. The ALCO comprises the Executive Directors, Divisional Director (Treasury), two senior officers and a senior manager. For more information about the ALCO, see the section entitled "*Financial Risk Management – Strategy in using financial instruments – Control of derivatives*".

The Retail Credit Committee and the Commercial and Treasury Credit Committee are responsible for establishing our credit strategy and monitoring the credit performance of all our retail and wholesale credit portfolios, respectively.

The two Credit Committees set a wide range of credit exposure limits, receive regular reports on the performance of all portfolios and report to our Board of Directors. The Retail Credit Committee is comprised of two executive directors, four senior officers and two senior managers. The Commercial and Treasury Credit Committee is comprised of two executive directors, three senior officers and two senior managers. For more information about the Credit Committees and credit risk management, see the section entitled "*Financial Risk Management – Principal risks – Credit risk*".

## **Compensation**

For the financial year ended April 4, 2011 the aggregate amount of compensation, excluding pension benefits, that we paid to all directors and executive officers as a group totaled 6.1 million.

Directors receive an annual bonus which only pays out if performance targets are met under pre-defined Group performance, local performance (which relates to the area of the business for which the director is directly responsible) and individual performance measures. No payment has been made under the Annual Performance Pay Plan this year.

The Medium Term Incentive Plan rewards our directors for sustained performance and achieving challenging financial targets over a three year performance cycle. A new three year performance cycle starts each year. The maximum incentive that could be paid during the year to the Chief Executive is 80% of base salary and for other executive directors it is 55%. The maximum can only be paid if Nationwide out-performs its competitors. If performance falls below the minimum acceptable performance, then no bonus will be paid. The Remuneration Committee reviews performance against targets each financial year.

In addition executive directors receive other benefits including a car allowance, healthcare and mortgage allowance.

## **Directors' Loans**

As at April 4, 2011, we had loans to directors or persons connected to directors totaling £0.6 million. All of these loans were granted in the normal course of business and were largely made up of residential mortgage loans and balances on credit cards. Our directors and other employees are eligible for discounts on residential mortgage loans.

We maintain a register containing the details of all loans, transactions and other arrangements made between our directors (and persons connected with our directors) and Nationwide or its subsidiaries. This register is available for inspection at our annual general meetings and during normal business hours at our principal office during the fifteen days prior to our annual general meeting.

## **Management Employee Pension Schemes**

G.J. Beale is a members of the executive section of the Nationwide Pension Fund, and he has been able to accrue a pension of 1/30th of pensionable salary for each year of service up to a maximum of two-thirds of pensionable salary. Pension entitlements are reduced to take account of any entitlement a director may have under the Group's funded unregistered pension scheme and any elections to restrict pension accrual. Two executive directors have elected to receive pension allowances in compensation for restricting pension accrual, and details can be found in the notes to the Report of the Directors on Remuneration in our financial statements.

T.P. Prestedge is a member of the Portman Building Society Executive Stakeholder Scheme.

M.M. Rennison receives payments to compensate him for pension benefits that he gave up when he left his previous employer to join Nationwide. He also receives pension accrual under our 1/54th Career Averaged Re-valued Earnings Pension Scheme and a monthly pension allowance.

M.P.V. Wyles is a member of the executive section of the Portman Building Society's Final Salary Scheme and is able to accrue a pension of 3% of pensionable salary for each year of service up to a maximum of two-thirds of the scheme earnings cap. He also receives a monthly pension allowance.

## **Related-Party Transactions**

For information on transactions with related parties, see note 43 to our audited consolidated financial statements incorporated by reference herein.

## COMPETITION

### Industry Background

Our main competitors have traditionally been providers of personal financial services in the United Kingdom. These include other building societies, banks, life insurance companies and mutual insurance companies. In recent years, competitive pressures, consolidation and changes in the regulatory environment have led to a blurring of the boundaries between building societies, banks and insurance companies in the United Kingdom. In addition, new providers have emerged as competitors in all areas of the UK personal financial services market. A description of the traditional types of organizations with which we continue to compete as well as a description of certain new competitors is set forth below.

#### *Building Societies and UK Banks*

Over the past 25 years, many building societies have merged with other building societies or, in a number of cases, transferred their businesses to the subsidiary of another mutual organization or demutualized and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 139 in 1985 to 48 as at June 1, 2011. Within the UK retail banking sector there have also been a number of significant business combinations and this trend was accelerated by the financial crisis which began in 2007. Building societies today continue to hold an important share of the UK mortgage and savings market and have been recognized by recent UK Governments as bringing valuable diversity and competition to the UK banking market. For further information about the UK residential mortgage market and UK retail deposit market see below.

#### *UK Insurance Companies*

The UK insurance industry has traditionally been made up of a large number of mutual insurance organizations and several composite insurers originating a range of products, distributed through building societies, banks, direct sales forces and independent financial advisers. Recent trends include consolidation within the industry, the demutualization of mutual insurers and the entry of building societies and banks into the market as underwriters as well as distributors. In addition, the growth of internet aggregator sites has made price comparison more easily available.

#### *Other Competitors*

A number of large retailers sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. 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. Companies are using low cost telephone, mail and internet based distribution channels to offer competitively priced retail savings accounts, mortgages and other financial products. The internet, in particular, provides opportunities for further competition from other new banking entrants. The use of the intermediary sector also allows new entrants to gain access to the UK mortgage market. Since the financial downturn, several additional entrants have launched, or investigated ways to launch, on a relatively small scale, seeking to take advantage of the problems faced by some of the larger participants. Competition regulation may eventually assist potential entrants if it enforces the breakup of some of the larger participants or the sale of those in public ownership.

### The UK Residential Mortgage Market

The table below sets out information for the last three years concerning year-end balances of UK lending secured on residential property and the proportions held by building societies, banks and us:

Year ended December 31,	Total Balances <sup>(1)</sup>	Building Societies <sup>(1)</sup>	Banks <sup>(1)</sup>	Others	Our share of total UK residential mortgages <sup>(1)</sup>
	<i>(£ billions, except percentages)</i>				
2010 .....	1240.0	16.00%	68.3%	15.7%	10.4%
2009 .....	1235.3	15.4%	59.3%	24.9%	10.8%
2008 .....	1224.8	17.5%	47.9%	34.6%	10.8%

Note:

(1) Source: Council of Mortgage Lenders (using information based upon BoE data), except for information regarding our balances which are taken from our own data. Building society figures include our own balances.

Although the overall size of the new mortgage market has shrunk considerably since 2007, the nature of competition is essentially unchanged, in that it involves defending the existing stock of balances and competing for the flow of new lending. New lending is driven by first-time buyers or next-time buyers remortgaging, changing homes or extending their mortgages. In most cases this is for residential purposes, although the popularity of buy to let has grown fairly rapidly in recent years. In recent years, the proportion of the UK population owning their own homes has stabilized at just under 70%. Although this figure is high by European standards, we believe it is unlikely to change significantly in the near future, despite the increase in the buy to let sector. The impact of the credit crunch is still evident in the mortgage market, with far fewer products available which permit high LTV ratios and significantly improved margins over those evident in 2007. As such, competition is driven by a combination of price, risk profile and access to funding by lenders.

UK gross residential mortgage lending in the year ended March 31, 2011 was £134 billion, a decrease of 3% on UK gross residential mortgage lending of £139 billion in the year ended March 31, 2010. UK net residential mortgage lending decreased by 36% during the same period, falling to £6.5 billion in the year ending March 31, 2011 from £10.4 billion in the year ending March 31, 2010.

In recent years, a feature of the UK mortgage market became the differential pricing structure that developed in response to increased competition. New customers were offered attractive interest rates in the form of discounts or cash-backs for a period of time, so that a growing number of residential mortgage borrowers actively search to replace existing mortgages with new mortgages at lower rates rather than move on to lenders' backbook interest rates. The rapid fall in interest rates since the start of 2009 and the decline in house prices has meant that a majority of borrowers now stay on lenders' backbook products at the end of their initial mortgage deal period. This may be either through necessity, as the LTV ratio of their house has risen in line with price falls and they are unable to refinance, and/or due to the fact that the fall in rates has meant that the backbook rates are more in line with, or better than, front book deal pricing. In the year to 31 March 2011, remortgaging totaled an estimated £39.9 billion, down 12.5% on the figure in the year to 31 March 2010. Overall, the profitability of mortgage lending has improved as lenders are able to extract larger margins on new business and, in some cases, have been able to widen margins on backbook rates.

As a building society, we do not have equity shareholders and, therefore, do not pay equity dividends. Instead, we seek to return value to our members by generally offering higher savings interest rates and lower borrowing interest rates than our main competitors. Despite gross advances of 9.5% during the financial year ended April 4, 2011 being less than our par share of 10.8% at the beginning of 2010, many of our borrowers have used the period of low interest rates as an opportunity to repay principal and consequently we have experienced a small decline in mortgage balances over the financial year ended April 4, 2011. Over the financial year ended April 4, 2011, the average LTV ratio of new mortgage lending was 66% (excluding further advances) compared with 63% in the same period a year earlier.

### The UK Retail Deposit Market

The UK retail deposit market is dominated by building societies, banks and National Savings, a UK government-sponsored savings and investment organization. Below is a table breaking down the total UK retail deposit market by type of financial institution compiled from details published by the BoE:

Year ended December 31,	Total UK retail deposits <sup>(1)</sup>	Building societies' share of total UK retail deposits <sup>(1)</sup>	Banks' share of total UK retail deposits <sup>(1)</sup>	Others <sup>(1)</sup>	Our share of total UK retail deposits <sup>(1)</sup>
	<i>(£ billions, except percentages)</i>				
2010 .....	1095.9	21.9%	68.4%	9.3%	11.2%
2009 .....	1064.8	20.1%	70.6%	9.2%	11.3%
2008 .....	1040.5	22.5%	68.4%	9.1%	12.0%

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Note:

(1) Source: BoE, except for information regarding our balances which are taken from our own data.

The UK retail deposit market has become an increasingly commoditized market driven primarily by price, particularly for the flow of new money that generally seeks the most attractive rates available. However the bank failures of 2007 and 2008 and the limits of the FSCS appear to have led some customers to spread their savings across a number of different companies. Older deposit balances have traditionally subsidized the cost of new retail deposits, primarily reflecting customer inertia.

In the last few years, competition for UK retail deposits has increased as new participants, such as foreign banks, supermarkets, insurance/life assurance companies and direct online banking providers have entered the market by offering attractive rates of interest. These new entrants have caused the cost of attracting new retail deposits to increase for existing players in the market and have impacted the flow of new retail deposits. The competition has intensified as banks have sought to rebalance their liabilities away from short-term wholesale and back towards retail funding, a trend which is likely to continue for the next few years. The upward pressure on liability pricing which this has caused has also been reinforced by organizations which during the credit crisis were in receipt of state or central bank funding support which they must now repay.

We believe that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organizations and between different accounts within organizations. This, in turn, has resulted in a reduction in the differential between rates paid to existing and new balances as customers transfer to high rate accounts and organizations aim to retain existing balances.

In the face of increased competition for retail funds, we were still able to increase our savings balances by £1.6 billion in the financial year ended April 4, 2011.

### **Competitive Outlook**

In recent years, we have experienced substantial competitive pressure in our traditional UK residential mortgage market and retail deposit market, and we expect this competitive pressure to continue. This pressure is primarily the result of increased price competition, with customers across our entire residential mortgage portfolio seeking to remortgage at a lower interest rate. This is likely to continue for the foreseeable future, resulting in continued pressure on retail spreads for the entire sector.

We expect UK net residential lending in the current financial year to be relatively similar to the previous year.

## SUPERVISION AND REGULATION

### European Union Directives

The framework for supervision and regulation of banking and financial services in the United Kingdom has been, and continues to be, heavily influenced by European Union directives that are required to be implemented in member states through national legislation. In March 2000, the adoption by the European Union of the Banking Consolidation Directive and Capital Adequacy Directive (as recast in July 2006, together commonly referred to as the "**Capital Requirements Directive**") resulted in the consolidation of the main pan-European banking legislation into a single directive. The principal intention underlying the EU Banking Consolidation Directive is the harmonization of banking regulation and supervision throughout the European Union and Norway, Iceland and Liechtenstein, commonly known as the European Economic Area (the "**EEA**"). The EU Banking Consolidation Directive prescribes minimum standards in key areas and requires EEA member states to give "mutual recognition" to each other's standards of regulation. The EU Banking Consolidation Directive establishes the "passport" concept, freedom to establish branches in, and to provide cross-border services into, other EEA member states once a credit institution is authorized in its "home" state.

Although credit institutions are primarily regulated in their home state by a local regulator, the EU Banking Consolidation Directive prescribes minimum criteria for regulation of the authorization of credit institutions and the prudential supervision applicable to them. Our local regulator is the Financial Services Authority. For further information about regulation in the United Kingdom see the subsection entitled "*—UK Regulation*". Investment firms and other similar institutions that engage in the provision of services relating to securities, derivatives and other similar instruments are subject to a similar regulatory environment and can obtain a "passport" under the EU Markets in Financial Instruments Directive (Directive (2004/39/EC)). Markets in Financial Instruments Directive, among other things, repealed and replaced the Investment Services Directive and is designed to create a single European market in financial services. It covers most firms previously subject to the Investment Services Directive. On October 20, 2011, the European Commission published a proposal for a revised version of the Markets in Financial Instruments Directive, which aims to introduce, among other things, requirements to enhance market transparency, increase regulatory oversight of certain markets and introduce stricter investor protection rules.

EU legislation transposing the Basel Accord, through the Capital Requirements Directive, makes substantial changes to the capital adequacy regime set out in the 1988 Basel Capital Accord, as amended. Broadly, the principal changes effected by the revised requirements include the application of risk-weighting and supervisory review of the process of evaluating risk measurement and capital ratios. The requirements were partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk having been implemented at the start of 2008.

The Capital Requirements Directive has since been amended by Directive 2009/111/EC (known as "**CRD II**"). CRD II was implemented in the United Kingdom on December 31, 2010. CRD II includes changes to the criteria for hybrid tier 1 capital, the control of large exposures and requirements relating to securitization transactions. The requirements for hybrid capital to count as non-core tier 1 capital have been toughened, as have the relative proportions of core, non-core and innovative tier 1 capital. However, CRD II provides for a certain proportion of existing instruments that do not comply with the new rules to continue to count as capital for a long transitional period. The Capital Requirements Directive was further amended by Directive 2010/76/EU dated November 24, 2010 (known as "**CRD III**"), which introduces a number of changes in response to the recent and current market conditions and which may increase the capital requirements for trading books and securitisations. CRD III entered into force on December 15, 2010 and is due to be implemented in EU Member States by December 31, 2011. Pending the transposition of CRD III into the UK law, there is still significant uncertainty around the interpretation and the implementation of the amendments to the Capital Requirements Directive and any transposing UK law as it relates to Nationwide.

It should also be noted that the Basel Committee has approved significant changes to the Basel II Framework (such changes being commonly referred to as "**Basel III**"), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**"). Member countries will be required to implement the new capital standards from January 2013, the

new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The European Commission published corresponding proposals to implement Basel III (through a proposal for a Capital Requirements Regulation and an associated Capital Requirements Directive known as "**CRD IV**") on July 20, 2011.

The draft CRD IV proposals published substantially reflect the Basel III capital and liquidity standards and the applicable implementation timeframes. However, certain key terms are not defined and various related issues remain under discussion, particularly on the detail of the financial instruments that will be eligible to meet the new capital and liquidity requirements. The proposals also make provision for (among other things) new requirements to reduce reliance by credit institutions on external credit ratings, by requiring that all banks' investment decisions are based not only on ratings but also on their own internal credit opinion, and that banks with a material number of exposures in a given portfolio develop internal ratings for that portfolio instead of relying on external ratings for the calculation of their capital requirements. The proposals are likely to be subject to change during the EU legislative process, and certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority (the "**EBA**") prior to January 2013.

The proposal for a regulation gives express recognition for core tier 1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves, although dialogue is continuing with the European Commission on the interpretation of the proposals.

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. This directive repeals and replaces the first consumer credit directive and requires member states to implement the directive by measures coming into force by June 11, 2010. Loan agreements secured by land mortgage are exempted from the consumer credit directives. In March 2011 the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposal is to some extent modeled on the second directive on consumer credit and requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment. Until the final form of the proposed directive and UK implementing legislation are published, it is not certain what effect the adoption and implementation of the proposed directive would have on our mortgage businesses.

## **UK Regulation**

Note, the following discussion is based on the existing regulatory regime in the UK. However, it should be noted that the Government has announced a range of structural reforms to UK financial regulatory bodies to be implemented, as follows:

- the FSA will cease to exist in its current form;
- a new Financial Policy Committee will be established in the BoE which will be responsible for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the BoE, the Prudential Regulation Authority, will be established which will be responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the Financial Conduct Authority, previously referred to as the Consumer Protection and Markets Authority, will be established and will have the responsibility for conduct of business and markets regulation. The FCA will also represent the UK's interests in markets regulation at the new European Securities and Markets Authority.

See "*Risk Factors—Future legislative and regulatory changes could force the Group to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Group's expenses and/or otherwise adversely affect our business results, financial condition or prospects*".

### ***The UK Building Societies Act***

The main piece of legislation regulating building societies is the UK Building Societies Act. The UK Building Societies Act governs the creation, authorization and management of building societies. Prior to December 1, 2001, it also established the Building Societies Commission as the primary body responsible for regulating building societies. On

December 1, 2001, the role of the Building Societies Commission as our primary regulator was taken over by the Financial Services Authority pursuant to the ongoing reorganization of the regulation of the UK financial services industry. With the introduction of the Financial Services and Markets Act 2000, certain sections of the UK Building Societies Act were repealed. However, a substantial part of the UK Building Societies Act, including the constitutional parts dealing with the principal purpose of building societies, nature limits, general governance, among others, still remain in force. The UK Building Societies Act has been amended and supplemented since its introduction by secondary legislation. For further information on the reforms under the Financial Services and Markets Act 2000, see the subsection below entitled “*Financial Services and Markets Act 2000*”.

### ***Financial Services and Markets Act 2000***

The UK Financial Services and Markets Act 2000 consolidated and harmonized the regulation of financial services in the United Kingdom. As part of this process, the Financial Services Authority became the sole regulatory body responsible for regulating and supervising the financial services industry in the United Kingdom save in respect of certain lending activities.

The Financial Services and Markets Act 2000 imposes an on-going system of regulation and control on building societies. The detailed rules and prudential standards set by the Financial Services Authority are contained in various parts of the FSA Handbook. Parts of the FSA Handbook which are of particular relevance to building societies include the General Prudential Sourcebook, the Prudential Sourcebook for Banks, Building Societies and Investment Firms, the Building Societies Sourcebook and the Building Societies Regulatory Guide.

The following sections set forth some of the concepts for a building society, which is authorized under the Financial Services and Markets Act 2000.

#### *Mutuality*

Building societies are mutual organizations that are managed for the benefit of their members, who are primarily retail savings customers and residential mortgage customers. Each member is normally entitled to one vote at a building society’s general meeting, regardless of the size of the member’s deposit account or mortgage loan or the number of accounts the member maintains.

#### *Purpose*

Building societies are required to be engaged primarily in the business of making loans secured on residential property, which are substantially funded by members. In addition, as long as building societies comply with specific limits on lending and funding, they may engage in additional activities such as commercial lending, unsecured personal lending, insurance and personal investment product activities, subject to compliance with regulatory requirements of the FSA and the Office of Fair Trading.

Building societies have a statutory duty to keep accounting records as well as establishing and maintaining systems of control. The FSA is empowered to request ad hoc reports regarding our compliance with these requirements.

#### *Nature of Membership*

The members of a building society fall into two categories. The first category consists of investing or “shareholding” members. Shareholding members are individuals who have made a deposit (also referred to as an “**investment**”) in a share account with a building society or who hold deferred shares in the society, and bodies corporate which hold deferred shares. In this Base Prospectus we refer to deposits in these share accounts as “UK retail member deposits” and to people holding UK retail member deposits as “UK retail member depositors”.

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 permanent interest bearing shares). A subsidiary of a building society may, however, offer deposit accounts which do not confer member status. Deposits in these accounts are referred to as “non-member deposits”.

The second category of members are “borrowing” members, that is, persons who have received a loan from the building society which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

### *Limitations on Funding and Lending*

The UK Building Societies Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50% of its total funding. In calculating this amount, a specified amount of deposits made by individuals with a building society's subsidiaries in other EEA member states, the Channel Islands, the Isle of Man or Gibraltar is disregarded. The specified amount is up to 10% of what would have been the society's funding but for the exclusion.

Loans made by a building society and its subsidiaries which are fully secured on residential property must account for not less than 75% of its total trading assets (that is, the total assets of a society and its subsidiaries, plus provisions for bad or doubtful debts, less liquid assets, fixed assets and certain long term insurance funds).

### *Nature of Capital*

We classify UK retail member deposits as shares in our balance sheets. There is a fundamental distinction between a share in a building society and a share in a limited liability company. Holders of ordinary shares in a company normally do not have the right to withdraw their share capital from the company. The share capital of a company is therefore fixed. A UK retail member depositor has a right to withdraw his investment from a building society. The share capital of a building society therefore fluctuates each time UK retail member depositors deposit or withdraw funds from their account. As a result shares in a building society do not form a permanent capital resource. The permanent capital of a building society consists primarily of its reserves and any deferred shares that it has issued. This is because the profits of a building society must be credited to its reserves and may not be distributed to its members other than on the winding-up or dissolution of that society or, in limited circumstances, by way of bonus. In addition, a building society can issue deferred shares, which count towards its permanent capital. These have, in the past, mainly been in the form of permanent interest bearing shares, which have counted towards a society's tier 1 capital. More recently, profit participating deferred shares (a new type of deferred share), have been recognized by the FSA as core tier 1 capital, although these shares have, to date, only been issued by way of exchange for an existing instrument in circumstances of financial stress or as a party of a society's contingent convertible capital (in which case it would only be issued upon a serious decline in the society's capital ratio). Changes to the Capital Requirements Directive which will be implemented in the UK in late 2010/early 2011 will toughen the requirements for tier 1 capital. Permanent interest bearing shares, which are already in existence should retain their capital status by virtue of a long transitional period, however, attention is now focused on seeking to devise an instrument acceptable to the FSA, which would count as core tier 1 capital, and which would be suitable for raising new capital from external investors.

### *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 it will be affected by fluctuations in interest rates, exchange rates, any index of retail prices, any index of residential property prices, any index of the prices of securities or the ability or willingness of a borrower to repay a loan owing to the building society.

### *Demutualization*

The UK Building Societies Act permits a building society to demutualize by transferring the whole of its business to an existing company (referred to as a "**takeover**") or to a specially formed company (referred to as a "**conversion**") so long as the process meets statutory requirements. Any such demutualization must be approved by members and confirmed by the FSA. The successor company will be a bank, which must be duly authorized to carry on its deposit-taking business by the Financial Services Authority or equivalent EEA regulatory authority.

The member approval threshold required varies depending on the type of demutualization. In order to convert into a new bank by transferring the society's business to a specially formed company, a minimum of 50% of shareholding members qualified to vote would have to vote on a requisite shareholders' resolution, and a minimum of 75% of those voting would have to support the resolution to convert. In addition, more than 50% of borrowing members who vote would have to vote in favor of a borrowing members' resolution to convert. On a demutualization as a result of a takeover by an existing bank or other company, then the requirements would be similar except that 50% of shareholding members qualified to vote (or shareholding members representing 90% by value of the society's shares) must actually vote in favor of the requisite shareholding members' resolution.

### *Mutual society transfers*

The UK Building Societies Act (as modified by the Mutual Transfers Order) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). The successor subsidiary must be duly authorized to carry on its deposit-taking business by the FSA or an equivalent EEA regulatory authority. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favorable than those enjoyed by existing members of the holding mutual (or such parent undertaking, as the case may be).

A transfer of business to a subsidiary of another mutual society requires approval by members and confirmation by the FSA. 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.

### *The Financial Services Authority*

The Financial Services Authority is currently the regulator for the UK financial services industry (save in respect of certain lending activities) and is responsible for supervising building societies, banks, friendly societies, insurance companies and other financial institutions. The regulatory objectives of the Financial Services Authority are:

- maintaining market confidence;
- contributing to the protection and enhancement of the stability of the UK financial system;
- protecting consumers; and
- reducing financial crime.

The Financial Services Authority 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 Financial Services Authority finds that a financial institution has failed to comply with the requirements under the Financial Services and Markets Act 2000, the Financial Services Authority 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 Office of Fair Trading*

The Office of Fair Trading is the consumer and competition authority under the UK Enterprise Act 2002, and is responsible for the issue of licenses under, and for superintending the working and enforcement of, the UK Consumer Credit Act 1974, as amended (the “**Consumer Credit Act 1974**”). The Office of Fair Trading and other bodies may enforce consumer legislation under the Enterprise Act 2002 by:

- seeking an informal undertaking, or a formal undertaking, from a business; or
- seeking a court enforcement order against a business.

### *Authorization under the Financial Services and Markets Act 2000*

The Financial Services and Markets Act 2000 prohibits any person from carrying on a “regulated activity” by way of business in the UK unless that person is authorized or exempt under this Act. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). We are authorized for, among other things, deposit-taking and mortgage activities, and are authorized for certain investment activities. The Financial Services and Markets Act 2000 also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorized person or exempt from such requirements.

## ***Lending***

The Financial Services and Markets Act 2000 regulates mortgage credit within the definition of “regulated mortgage contract” and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after October 31, 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the Financial Services and Markets Act 2000 as to authorization or financial promotions are contravened, then the affected regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The FSA Handbook part Mortgages and Home Finance: Conduct of Business Sourcebook (“**MCOB**”) sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorized firm (such as Nationwide Building Society) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Any credit agreement intended to be a regulated mortgage contract or unregulated might instead be wholly or partly regulated by the Consumer Credit Act 1974 or treated as such, and any credit agreement intended to be regulated by the Consumer Credit Act 1974 or treated as such or unregulated might instead be a regulated mortgage contract, because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract or within the definition of a regulated agreement (described below) and technical rules on changes to credit agreements.

The Consumer Credit Act 1974 regulates credit within the definition of “regulated agreement”. A credit agreement is a regulated agreement if: (a) the borrower is or includes an “individual” as defined in this Act; and (b) the credit agreement is not an exempt agreement under this Act. Certain financial limits in respect of the credit provided applied to credit agreements entered into before April 6, 2008, or before October 31, 2008 in the case of buy-to-let mortgages satisfying prescribed conditions. Buy-to-let mortgages entered into on or after October 31, 2008 and satisfying prescribed conditions are exempt agreements under the Consumer Credit Act 1974.

If requirements under the Consumer Credit Act 1974 as to licensing of lenders or brokers or entering into and documenting a credit agreement are not met, then the affected regulated agreement is unenforceable against the borrower without an order of the Office of Fair Trading or court order or (for agreements entered into before April 6, 2007) is totally unenforceable, depending on the circumstances. Under Sections 75 and 75A of the Consumer Credit Act 1974, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by this Act or treated as such, and the lender has a statutory indemnity from the supplier against liability under Section 75 subject to any agreement between the lender and the supplier.

In December 2010 and February 2011, H.M. Treasury published consultations on transferring consumer credit regulation from the Office of Fair Trading under the Consumer Credit Act 1974 to the Financial Conduct Authority under a regime based on the Financial Services and Markets Act 2000, and proposing that the Financial Conduct Authority will have power to render unenforceable contracts made in contravention of its product intervention rules. The new regulatory structure is expected to be in place by the end of 2012.

## ***Insurance***

Nationwide Building Society is also authorized for carrying out insurance mediation. The FSA Handbook part Insurance: Conduct of Business Sourcebook, sets out rules in respect of non-investment insurance.

## ***Financial Services Compensation Scheme***

The Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme, or FSCS, which pays compensation to eligible customers of authorized financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default on or after January 1, 2010 (December 31, 2010 for deposits): (i) for deposits, 100% of the first

£85,000; (ii) for mortgage advice and arranging, 100% of the first £50,000; and (iii) for insurance, 90% of the claim with no upper limit (except compulsory insurance is protected in full). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes, requires member states to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

### ***Financial Ombudsman Service***

The Financial Services and Markets Act 2000 established the Financial Ombudsman Service (“**FOS**”), which determines complaints by eligible complainants in relation to authorized financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £100,000 (£150,000 for complaints received by the FOS on or after January 1, 2012) plus interest and costs. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

### ***Other Relevant Legislation & Regulation***

The EU anti-money laundering regime has been amended by the implementation of the EU Third Money Laundering Directive, which has imposed requirements in relation to such matters. As a result, the UK Money Laundering Regulations 2007 place a requirement on us to verify the identity and address of customers opening accounts with us, and to keep records to help prevent money laundering and fraud. Guidance in respect of the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. The Money Laundering Regulations 2007 are currently being reviewed and any new requirements will be implemented from April 1, 2012.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers. The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after July 1, 1995. The main effect of these Regulations is that a contract term which is “unfair” will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services. The Financial Services Authority has issued statements of good practice in this regard in May 2005 and January 2007, and worked with the Office of Fair Trading to allocate responsibility for regulation of mortgage products.

Nationwide 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 November 1, 2009, the FSA introduced its Banking Conduct Regime for retail banking. The main constituents of the new regime are: (i) extending the FSA’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 2009 (the “**PSR**”), which apply to certain payment services made in euro or sterling; and (iii) the FSA’s Banking: Conduct of Business Sourcebook, which applies to deposit-taking in respects not covered by the PSR.

On November 1, 2009, the British Bankers’ Association, the Building Societies Association and the UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect.

On April 1, 2010, the Building Societies Specialist Sourcebook (the “**BSOCS**”) came into effect, subject to certain transitional provisions. BSOCS contains FSA guidance on the systems and controls in relation to treasury management operations and lending. BSOCS focuses on the key financial and lending risks to which building societies are exposed and sets out the framework within which the FSA will supervise building societies’ treasury activities.

## **EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING HOLDERS OF NOTES**

Subject to the withholding tax requirements set out under the section entitled “*UK Taxation*”, there are currently no UK laws, decrees or regulations that would affect the payment of interest or other payments to holders of notes who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the section entitled “*UK Taxation*”. There are also no restrictions under our memorandum and rules or under current UK laws that limit the right of non-resident or foreign owners to hold the notes or to vote, when entitled to do so.

## DESCRIPTION OF THE NOTES

This section describes the material terms and provisions of the notes to which any Final Terms may relate. We will describe in each Final Terms the particular terms of the notes that we offer by that Final Terms and the extent, if any, to which the general provisions described below may apply to those notes. Capitalized terms used but not defined in this section have the meanings given to them in the senior notes, subordinated notes, or indenture, as the case may be. The following are the terms and conditions of the notes which, as supplemented, modified or replaced in relation to any notes by applicable Final Terms, will be applicable to each series of the notes.

### General

We will offer the notes under an indenture, dated as at February 8, 2002 and as supplemented and amended from time to time, between us and The Bank of New York Mellon (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One Trust Company, N.A.)), as trustee. The notes are limited to an aggregate principal amount of up to \$20,000,000,000 outstanding at any time, including, in the case of notes denominated in one or more other currencies or composite currencies, the equivalent thereof at the Market Exchange Rate in the one or more other currencies on the date on which such note will be issued (the “**Original Issue Date**”), subject to reduction by or pursuant to action of our Board of Directors, provided that a reduction will not affect any note already issued or as to which we have already accepted an offer to purchase. We may, however, increase these limits without the consent of the holders of the notes if in the future we determine that we wish to sell additional notes.

The notes will mature nine months or more from the date of issue and may be subject to redemption or early repayment at our option or the holder’s option as further described in the section entitled “—*Redemption and Repurchase*”. The notes may be issued as Extendable Maturity Notes as further described in “—*Extendable Maturity Notes*”. Each note will be denominated in U.S. dollars or in another currency as we specify in the applicable Final Terms. For a further discussion, see “—*Payment of Principal, Premium, if any, and Interest, if any*”. Each note will be either:

- a Fixed Rate Note; or
- a Floating Rate Note which will bear interest at a rate determined by reference to the interest rate basis or combination of interest rate bases specified in the applicable Final Terms, which may be adjusted by a Spread and/or Spread Multiplier, each as defined below.

### Status of Senior Notes

The senior notes will constitute our direct, unconditional, unsubordinated and, subject to the provisions set forth under the subsection entitled “—*Redemption and Repurchase—Negative Pledge*”, unsecured obligations without any preference among themselves. The senior notes will rank equally with non-member deposits and all our other unsecured and unsubordinated obligations. The senior notes will rank senior to our UK retail member deposits, subject, in the event of insolvency, to laws of general applicability relating to or affecting creditors’ rights, and provided that our other unsecured and unsubordinated indebtedness may contain covenants, events of default and other provisions which differ from or which are not contained in the senior notes. If we demutualize or transfer the whole of our business to the subsidiary of another mutual society, our UK retail member deposits will rank *pari passu* with our obligations under our senior debt, including the senior notes. For a further discussion of the effects of demutualization on the ranking of our obligations, see the section entitled “*Risk Factors—Risks Related to Our Business—Demutualization, mutual society transfers and consequences of the UK Building Societies Act may have an adverse impact on the holders of notes*”.

### Status and Subordination of Subordinated Notes

The subordinated notes will constitute our direct, unsecured and subordinated obligations, conditional in the event of a winding up, and rank without any preference among themselves. The subordinated notes will rank equally with all our other unsecured and subordinated indebtedness, other than some subordinated indebtedness, including our permanent interest bearing shares, which rank junior to the subordinated notes, and any other subordinated indebtedness as to which, in the instrument evidencing or creating the same or pursuant to which the same is outstanding, it is provided that that indebtedness is junior to the subordinated notes. In the event that we are wound up, our UK retail member deposits and our other Senior Claims (as defined below) will rank senior to the subordinated notes. The subordinated notes do not have the benefit of the negative pledge covenant described below under the subsection entitled “—*Negative Pledge*” and are subordinated to most of our liabilities. For a further discussion of risks relating to subordination see the

section entitled “*Risk Factors—Risks Related to the Notes—The subordinated notes are subordinated to most of our liabilities*”.

“**Senior Claims**” means the aggregate amount of all claims which are admitted against us in the event of our winding up (i) relating to all UK retail member deposits in respect of any principal and interest due in respect thereof up to the date of commencement of the winding up (but excluding all claims in respect of our subordinated indebtedness) and (ii) relating to our obligations to our other creditors (including, without limitation, all contingent and potential claims, all claims in respect of deposits with or loans to us and all claims of interest thereon or in respect thereof) but excluding (a) all claims in respect of our subordinated indebtedness and (b) all claims in respect of our permanent interest bearing shares.

If we are, at any time, in winding up we will make no payments of principal or interest in respect of subordinated notes (whether or not already due or accrued or due prior to the commencement of the winding up) and no claims in respect thereof will be provable against us in such winding up, unless and until and except to the extent that we could make such payment in whole or in part and still be solvent immediately thereafter. For the purpose of this subsection, we will be deemed to be solvent if we are able to pay our debts in full, or our liquidator determines that we will be able to do so within twelve months. To determine whether we are deemed to be solvent, any obligations which are not provable in our winding up or which are themselves subordinated to the claims of all or any of our unsecured creditors will be disregarded.

To the extent that holders of the notes are entitled to any recovery with respect to the notes in any winding up or liquidation, it is unclear whether such holders would be entitled in such proceedings to recovery in U.S. dollars and they may be entitled only to a recovery in pounds sterling and, as a general matter, the right to claim for any amounts payable on notes may be limited by applicable insolvency law.

#### **Guaranteed Notes**

Where the applicable Final Terms of an issue of senior notes indicates that an Eligibility Certificate (as defined in the Guarantee (as defined below)) in respect of such Notes has been issued then, in respect of such Notes, The Commissioners of Her Majesty’s Treasury (“**H.M. Treasury**”) will unconditionally and irrevocably guarantee the due payment of all sums due and payable by us under such Notes (the “**Guaranteed Notes**”). H.M. Treasury’s obligations in that respect are contained in a Deed of Guarantee (the “**Guarantee**”) dated 13 October 2008 (as amended by a supplemental deed dated 20 October 2008 and a second supplemental deed dated 6 February 2009 and as further amended and/or supplemented from time to time), the form of which is available at [www.dmo.gov.uk](http://www.dmo.gov.uk). Any demand under the Guarantee must be made in writing and in the form set out in Annex 9 to the Rules of the United Kingdom government’s 2008 Credit Guarantee Scheme.

In the event that any payment made by H.M. Treasury in respect of the Deed of Guarantee is made subject to deduction or withholding for or on account of any taxes, duties, assessments or governmental charges of any nature, no additional amounts shall be payable by us, H.M. Treasury, any paying agent or any other person in respect of such deduction or withholding.

#### **Certain Definitions**

“**Business Day**” means, unless otherwise defined in a Final Terms, any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City; provided, however, that, with respect to notes denominated in a Specified Currency other than U.S. dollars, it is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center, as defined below, of the country issuing the Specified Currency (or, if the Specified Currency is euro or EURIBOR is an applicable Interest Rate Basis, such day is also a day on which the euro payments settlement system known as TARGET2 (or any successor thereto) is open for settlement of payments in euro, a “**TARGET Settlement Date**”); provided, further, that, with respect to notes as to which LIBOR is an applicable Interest Rate Basis, it is also a London Business Day.

“**London Business Day**” means a day on which commercial banks are open for business (including dealings in the Designated LIBOR Currency, as defined below) in London.

“**New York City Banking Day**” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the city of New York.

“**Principal Financial Center**” means the capital city of the country issuing the Specified Currency except, that with respect to U.S. dollars, Canadian dollars, and Swiss francs, the “**Principal Financial Center**” shall be New York City, Toronto, and Zurich, respectively.

“**Relevant Supervisory Consent**” means the consent to the relevant redemption, payment, repayment or purchase, as the case may be, of the Financial Services Authority or any other body performing the same or similar functions in relation to building societies (so long as we remain a building society) or banks (in the event that we transfer our business to an authorized institution pursuant to section 97 of the UK Building Societies Act).

“**Specified Currency**” means a currency issued and actively maintained as a country’s or countries’ recognized unit of domestic exchange by the government of any country and such term shall also include the euro.

“**TARGET2**” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilizes a single shared platform and which was launched on 19 November 2007 or any successor thereto.

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which The Bond Market Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

### **Form, Transfer, Exchange and Denomination**

Unless otherwise specified in the applicable Final Terms, notes of a series will initially be represented by a global note or global notes in fully registered form. Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes (“**U.S. Global Notes**”). Notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by one or more international global notes (“**International Global Notes**”).

Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with these transfer restrictions and subject to certification requirements.

The global note or global notes representing a series of notes will be issued to and deposited with, or on behalf of, DTC in New York City and registered in the name of Cede & Co. (“**Cede**”), as DTC’s nominee. Interests in a global note or global notes representing notes of a series will be shown in, and transfers thereof will be effected only through, records maintained by DTC and its participants until such time, if any, as physical registered certificates (“**Certificated Notes**”) in respect of such notes are issued, as set forth in the section entitled “*Description of the Global Notes—Book-Entry System*”. In no event will definitive notes in bearer form be issued.

The global note or global notes representing a series of notes may be transferred only to a successor of DTC or another nominee of DTC. For additional information, see the section entitled “*Description of the Global Notes—Book-Entry System*”.

Under the following circumstances, global notes of a series may be exchanged for certificated registered notes of such Series:

- if at any time DTC notifies us that it is unwilling or unable to continue as the depository for the notes, or DTC ceases to be a clearing agency registered under the Exchange Act, and we are unable to appoint a successor to DTC registered as a clearing agency under the Exchange Act within 90 days of such notification or of our becoming aware of such ineligibility;
- upon the occurrence of any Event of Default under the indenture; and
- if we determine in our sole discretion (subject to DTC’s procedures) that the notes of any series should no longer be represented by such global note or notes.

Certificated Notes representing a series of notes, if any, will be exchangeable for other Certificated Notes representing notes of such series of any authorized denominations and of a like aggregate principal amount and tenor. Certificated Notes will be serially numbered.

Certificated Notes may be presented to the trustee for registration of transfer of exchange at its Corporate Trust Office which at the date hereof is located at 101 Barclay Street, 8W, New York, New York 10286. Certificated Notes may be presented for exchange and transfer in the manner, at the places and subject to the restrictions set forth in the indenture and the notes. We have not registered the notes under the Securities Act or with any securities regulatory

authority of any jurisdiction, and accordingly, transfers of the notes will be subject to the restrictions set forth in the sections entitled “*Notice to Investors*” and “*Transfer Restrictions*”.

Certificated Notes and interests in the U.S. Global Notes may be transferred to a person who takes delivery in the form of interests in an International Global Note only upon receipt by the trustee of written certifications, in the form provided in the indenture, to the effect that the transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act and that, if this transfer occurs prior to 40 days after the commencement of the offering of such notes, the interest transferred will be held immediately thereafter through Euroclear Bank S.A./N.V. (“**Euroclear**”) or Clearstream Banking, *société anonyme* (“**Clearstream**”), each of which is a participant in DTC.

Until 40 days after the closing date for the offering of a series of notes, interests in an International Global Note may be held only through Euroclear or Clearstream, which are participants in DTC. Certificated Notes and interests in International Global Notes may be transferred to a person who takes delivery in the form of interests in a U.S. Global Note only upon receipt by the trustee of written certifications, in the form provided in the indenture, to the effect that such transfer is being made in accordance with Rule 144A to a person whom the transferor reasonably believes is purchasing for its own account or for an account as to which it exercises sole investment discretion and that such person and such account or accounts are “qualified institutional buyers” within the meaning of Rule 144A and agree to comply with the restrictions on transfer set forth in the sections entitled “*Notice to Investors*” and “*Transfer Restrictions*”.

In the event of any redemption of notes, we will not be required to (i) register the transfer of or exchange the notes during a period of 15 calendar days immediately preceding the date of redemption; (ii) register the transfer of or exchange the notes, or any portion thereof called for redemption, except the unredeemed portion of any of the notes being redeemed in part; or (iii) with respect to notes represented by a global note or global notes, exchange any such note or notes called for redemption, except to exchange such note or notes for another global note or global notes of that series and like tenor representing the aggregate principal amount of notes of that series that have not been redeemed.

The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A.) is the principal paying agent pursuant to the indenture. We may at any time designate additional paying agents or rescind the designation of any paying agent provided that if and for so long as the notes are listed on any stock exchange which requires the appointment of a paying agent in any particular place, we shall maintain a paying agent with an office in the place required by such stock exchange or relevant authority.

Unless otherwise specified in the applicable Final Terms, we will issue senior notes in minimum denominations of \$100,000 and subordinated notes in minimum denominations of \$250,000, and in each case in integral multiples of \$1,000 in excess thereof, or the equivalent of these amounts in other currencies or composite currencies. The authorized denominations of any note denominated in other than U.S. dollars will be the amount of the Specified Currency for such note equivalent, at the Market Exchange Rate on the first Business Day in New York City and the country issuing such currency (or, in the case of euro, the first TARGET Settlement Date) immediately preceding the date on which we accept the offer to purchase such note, to U.S.\$100,000, or such other minimum denomination as may be allowed or required from time to time by any relevant central bank or equivalent governmental body, however designated, or by any laws or regulations applicable to the notes or to such Specified Currency. The notes will be issued in integral multiples of 1,000 units of any such Specified Currency in excess of their minimum denominations. If any of the notes are to be denominated in a Specified Currency other than U.S. dollars, or if the principal, premium, if any, and interest, if any, on any of the notes not denominated in U.S. dollars are to be payable at our or the holder’s option in U.S. dollars, the applicable Final Terms will provide additional information, including applicable exchange rate information, pertaining to the terms of such notes and other matters of interest to the holders thereof.

### **Extendable Maturity Notes**

Extendable Maturity Notes will mature on the Initial Maturity Date specified in the applicable Final Terms, unless the Maturity of all or any portion of the principal of the Extendable Maturity Notes is extended in accordance with the procedures described herein (or as otherwise specified in the applicable Final Terms). In no event will the Maturity be extended beyond the Final Maturity Date specified in the applicable Final Terms.

The election dates to extend the Maturity of the Extendable Maturity Notes will be specified in the applicable Final Terms. During the notice period relating to each election date, holders of the Extendable Maturity Notes may elect to extend the Maturity of all or any portion of the principal amount of the Extendable Maturity Notes so that the Maturity of the Extendable Maturity Notes will be extended for the period specified in the applicable Final Terms. However, if the

new Maturity falls on a date that is not a Business Day, the Maturity of the Extendable Maturity Notes will be extended to the immediately preceding Business Day (unless otherwise specified in the applicable Final Terms). To make an election effective on any election date, the holder of the Extendable Maturity Notes must deliver a notice of election during the notice period for that election date. The notice of election must be delivered to the Paying Agent for the Extendable Maturity Notes, through the normal clearing system channels specified in the applicable Final Terms.

If, with respect to any election date, a holder of Extendable Maturity Notes does not make an election to extend the Maturity of all or any portion of the principal amount of Extendable Maturity Notes held by that holder, the principal amount of the Extendable Maturity Notes for which such holder has failed to make such an election will become due and payable on the Initial Maturity Date, or any later date to which the Maturity of such Extendable Maturity Notes has previously been extended. The principal amount of the Extendable Maturity Notes for which such election is not exercised will be represented by a note issued on such election date. The note so issued will not be extendable and, except as otherwise described herein, will have the same terms as, but will have a different CUSIP and ISIN number from, the Extendable Maturity Notes. The failure to elect to extend the Maturity of all or any portion of the Extendable Maturity Notes will be irrevocable and will be binding upon any subsequent holder of such Extendable Maturity Notes.

The applicable Final Terms will specify certain terms with respect to which each Extendable Maturity Note is being delivered: including, the minimum denominations of Extendable Maturity Notes whose Maturity may be extended, the notice period, the method for delivery of notice, and the method for revocation of the election (if any).

### **Payment of Principal, Premium, if any, and Interest, if any**

Payments of principal, premium, if any, and interest, if any, to owners of beneficial interests in the notes are expected to be made in accordance with those procedures of DTC and its participants in effect from time to time as described in the section entitled “*Description of the Global Notes—Book-Entry System*”.

Unless otherwise specified in the applicable Final Terms, with respect to any Certificated Note, payments of interest, if any, and, in the case of Amortizing Notes, principal (other than principal payable at Maturity) will be made by mailing a check to the holder at the address of such holder appearing on the register for the notes on the regular record date (the “**Regular Record Date**”). Notwithstanding the foregoing, at our option, all payments of interest and, in the case of Amortizing Notes, principal on the notes may be made by wire transfer of immediately available funds to an account at a bank located within the United States as designated by each holder not less than 15 calendar days prior to the Interest Payment Date. A holder of \$10,000,000 (or, if the Specified Currency is other than U.S. dollars, the equivalent thereof in that Specified Currency) or more in aggregate principal amount of notes of like tenor and terms with the same Interest Payment Date may demand payment by wire transfer but only if appropriate payment instructions have been received in writing by any paying agent with respect to such note appointed by us, not less than 15 calendar days prior to the Interest Payment Date. In the event that payment is so made in accordance with instructions of the holder, such wire transfer shall be deemed to constitute full and complete payment of such principal, premium and/or interest on the notes. Payment of the principal, premium, if any, and interest, if any, due with respect to any Certificated Note at Maturity will be made in immediately available funds upon surrender of such note at the principal office of any paying agent appointed by us with respect to that note and accompanied by wire transfer instructions, provided that the Certificated Note is presented to such paying agent in time for such paying agent to make such payments in such funds in accordance with its normal procedures.

Unless otherwise specified in the applicable Final Terms, payments of principal, premium, if any, and interest, if any, with respect to any note to be made in a Specified Currency other than U.S. dollars will be made by check mailed to the address of the person entitled thereto as its address appears in the register for the notes or by wire transfer to such account with a bank located in a jurisdiction acceptable to us and the trustee as shall have been designated at least 15 calendar days prior to the Interest Payment Date or Maturity, as the case may be, by the holder of such note on the relevant Regular Record Date or at Maturity, provided that, in the case of payment of principal of, and premium, if any, and interest, if any, due at Maturity, the note is presented to any paying agent appointed by us with respect to such note in time for such paying agent to make such payments in such funds in accordance with its normal procedures. Such designation shall be made by filing the appropriate information with the trustee at its Corporate Trust Office, and, unless revoked, any such designation made with respect to any note by a holder will remain in effect with respect to any further payments with respect to such note payable to such holder. If a payment with respect to any such note cannot be made by wire transfer because the required designation has not been received by the trustee on or before the requisite date or for any other reason, a notice will be mailed to the holder at its registered address requesting a designation pursuant to which

such wire transfer can be made and, upon such trustee's receipt of such a designation, such payment will be made within 15 calendar days of such receipt. We will pay any administrative costs imposed by banks in connection with making payments by wire transfer, but any tax, assessment or governmental charge imposed upon payments will be borne by the holders of such notes in respect of which such payments are made.

If so specified in the applicable Final Terms, except as provided below, payments of principal, premium, if any, and interest, if any, with respect to any note denominated in other than U.S. dollars will be made in U.S. dollars, as set forth below. If the holder of such note on the relevant Regular Record Date or at Maturity, as the case may be, requests payments in a currency other than U.S. dollars, the holder shall transmit a written request for such payment to any paying agent appointed by us with respect to such note at its principal office on or prior to such Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be. Such request may be delivered by mail, by hand, by cable or by telex or any other form of facsimile transmission. Any such request made with respect to any note by a holder will remain in effect with respect to any further payments of principal, and premium, if any, and interest, if any, with respect to such note payable to such holder, unless such request is revoked by written notice received by such paying agent on or prior to the relevant Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be (but no such revocation may be made with respect to payments made on any such note if an Event of Default has occurred with respect thereto or upon the giving of a notice of redemption). Holders of notes denominated in a currency other than U.S. dollars whose notes are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in a currency other than U.S. dollars may be made.

The U.S. dollar amount to be received by a holder of a note denominated in other than U.S. dollars who elects to receive payments in U.S. dollars will be based on the highest indicated bid quotation for the purchase of U.S. dollars in exchange for the Specified Currency obtained by the Currency Determination Agent, as defined below, at approximately 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date (the "**Conversion Date**") from the bank composite or multicontributor pages of the Quoting Source for three (or two if three are not available) major banks in New York City. The first three (or two) such banks selected by the Currency Determination Agent which are offering quotes on the Quoting Source will be used. If fewer than two such bid quotations are available at 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date, such payment will be based on the Market Exchange Rate as of the second Business Day immediately preceding the applicable payment date. If the Market Exchange Rate for such date is not then available, such payment will be made in the Specified Currency. As used herein, the "**Quoting Source**" means Reuters Monitor Foreign Exchange Service, or if the Currency Determination Agent determines that such service is not available, such comparable display or other comparable manner of obtaining quotations as shall be agreed between us and the Currency Determination Agent. All currency exchange costs associated with any payment in U.S. dollars on any such notes will be borne by the holder thereof by deductions from such payment. The currency determination agent (the "**Currency Determination Agent**") with respect to any such note will be specified in the applicable Final Terms.

If the Specified Currency for a note denominated in a currency other than U.S. dollars is not available for the required payment of principal, premium, if any, and/or interest, if any, in respect thereof due to the imposition of exchange controls or other circumstances beyond our control, we will be entitled to satisfy our obligations to the holder of such note by making such payment in U.S. dollars on the basis of the Market Exchange Rate, computed by the Currency Determination Agent, on the second Business Day prior to such payment or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate, or as otherwise specified in the applicable Final Terms. Any payment made in U.S. dollars under such circumstances where the required payment was to be in a Specified Currency other than U.S. dollars will not constitute an Event of Default under the indenture with respect to the notes.

All determinations referred to above made by the Currency Determination Agent shall be at its sole discretion in accordance with its normal operating procedures and shall, in the absence of manifest error, be conclusive for all purposes and binding on all holders and beneficial owners of notes.

Unless otherwise specified in the applicable Final Terms, if the principal of any Original Issue Discount Note is declared to be immediately due and payable as described herein under the subsections entitled "*—Events of Default—Senior Notes*" and "*—Events of Default—Subordinated Notes*", the amount of principal due and payable with respect to such note shall be the Amortized Face Amount of such note as of the date of such declaration. The "**Amortized Face Amount**" of an Original Issue Discount Note that does not bear stated interest shall be an amount equal to the sum of (i) the principal amount of such note multiplied by the price (which may be expressed as a percentage of the aggregate

principal amount thereof) at which such note will be issued (the “**Issue Price**”) set forth in the applicable Final Terms plus (ii) the portion of the difference between (x) the U.S. dollar amount determined pursuant to the preceding clause and (y) the principal amount of such note that has accrued at the Yield to Maturity set forth in the Final Terms (computed in accordance with generally accepted financial practices) to such date of declaration, but in no event shall the Amortized Face Amount of an Original Issue Discount Note exceed its principal amount.

### **Interest and Interest Rates**

Each note other than certain Original Issue Discount Notes will bear interest from the Original Issue Date or from the most recent Interest Payment Date to which interest on such note has been paid or duly provided for at a fixed rate or rates per annum, or at a rate or rates determined pursuant to an Interest Rate Basis or Bases stated therein and in the applicable Final Terms that may be adjusted by a Spread and/or Spread Multiplier, until the principal thereof is paid or made available for payment. Interest will be payable on each Interest Payment Date and at Maturity. “**Maturity**” means the date, if any, on which the principal (or, if the context so requires, lesser amount in the case of Original Issue Discount Notes) of (or premium, if any, on) a note becomes due and payable in full in accordance with its terms and the terms of the indenture, whether at Stated Maturity or earlier by declaration of acceleration, call for redemption, repayment or otherwise. Interest (other than Defaulted Interest which may be paid as of a Special Record Date) will be payable to the holder at the close of business on the Regular Record Date immediately preceding such Interest Payment Date; provided, however, that interest payable at Maturity will be payable to the person to whom principal shall be payable. The first payment of interest on any note originally issued between a Regular Record Date for such note and the succeeding Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date for such note to the holder.

Interest rates, Interest Rate Basis or Bases, Spreads and Spread Multipliers are subject to change by us but no such change will affect any note already issued or which we have agreed to sell. The Interest Payment Dates for each Fixed Rate Note shall be as described below under the subsection entitled “—*Fixed Rate Notes*” and in the applicable Final Terms. The Interest Payment Dates for each Floating Rate Note shall be as described below under the subsection entitled “—*Floating Rate Notes*” and in the applicable Final Terms. The Regular Record Date for a note will be the fifteenth calendar day (whether or not a Business Day) immediately preceding each Interest Payment Date.

#### ***Fixed Rate Notes***

Interest on Fixed Rate Notes will be payable semi-annually in arrears on such dates as are specified in the applicable Final Terms (each, an “**Interest Payment Date**” with respect to Fixed Rate Notes) and on the date of Maturity. Unless otherwise specified in the applicable Final Terms, interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months. If any Interest Payment Date or the date of Maturity of a Fixed Rate Note falls on the day that is not a Business Day, the required payments of principal, premium, if any, and interest, if any, with respect to such note will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after such Interest Payment Date or the date of Maturity, as the case may be, to the date of such payment on the next succeeding Business Day.

#### ***Floating Rate Notes***

Interest on Floating Rate Notes will be determined by reference to the applicable Interest Rate Basis or Bases, which may, as described below, include:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;
- EURIBOR;
- the Federal Funds Rate;
- LIBOR;
- the Prime Rate;
- the Treasury Rate; or

- such other Interest Rate Basis or Bases or interest rate formula as may be specified in the applicable Final Terms.

The applicable Final Terms will specify certain terms with respect to which each Floating Rate Note is being delivered, including: whether such Floating Rate Note is a Regular Floating Rate Note, a Floating Rate/ Fixed Rate Note or an Inverse Floating Rate Note, the Fixed Rate Commencement Date, if applicable, Fixed Interest Rate, if applicable, Interest Rate Basis or Bases, Initial Interest Rate, if any, Initial Interest Reset Date, Interest Reset Dates, Interest Payment Dates, Index Maturity, Maximum Interest Rate and/or Minimum Interest Rate, if any, and Spread and/or Spread Multiplier, if any, as such terms are defined below. If one or more of the applicable Interest Rate Bases is the CMT Rate, EURIBOR or LIBOR, the applicable Final Terms will also specify the Designated CMT Maturity Index or the Designated CMT Reuters Page, the Designated EURIBOR Page or the Designated LIBOR Currency and Designated LIBOR Page respectively, as such terms are defined below.

The interest rate borne by the Floating Rate Notes will be determined as follows:

- (1) Unless such Floating Rate Note is designated as a “Floating Rate/Fixed Rate Note” or an “Inverse Floating Rate Note”, or as having an Addendum attached or having “Other/ Additional Provisions” apply, in each case, relating to a different interest rate formula, such Floating Rate Note will be designated a “Regular Floating Rate Note” and, except as described below or in the applicable Final Terms, will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the Initial Interest Reset Date, the rate at which interest on such Regular Floating Rate Note shall be payable shall be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate.
- (2) If such Floating Rate Note is designated as a “Floating Rate/Fixed Rate Note”, then, except as described below or in the applicable Final Terms, such Floating Rate Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the Initial Interest Reset Date, the rate at which interest on such Floating Rate/Fixed Rate Note shall be payable shall be reset as of each Interest Reset Date; provided, however, that (y) the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate and (z) the interest rate in effect (the “**Fixed Interest Rate**”) for the period commencing on the date specified therefor in the applicable Final Terms (the “**Fixed Rate Commencement Date**”) to the Maturity Date shall be in the interest rate so specified in the applicable Final Terms or, if no such rate is specified, the interest rate in effect thereon on the day immediately preceding the Fixed Rate Commencement Date.
- (3) If such Floating Rate Note is designated as an “Inverse Floating Rate Note”, then, except as described below or in the applicable Final Terms, such Floating Rate Note will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any; provided, however, that unless otherwise specified in the applicable Final Terms, the interest rate thereon will not be less than zero. Commencing on the Initial Interest Reset Date, the rate at which interest on such Inverse Floating Rate Note shall be payable shall be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate.

The “**Spread**” is the number of basis points to be added or subtracted from the related Interest Rate Basis or Bases applicable to such Floating Rate Note. The “**Spread Multiplier**” is the percentage of the related Interest Rate Basis or Bases applicable to such Floating Rate Note by which such Interest Rate Basis or Bases will be multiplied to determine the applicable interest rate on such Floating Rate Note. The “**Index Maturity**” is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Bases will be calculated.

Unless otherwise specified in the applicable Final Terms, the interest rate with respect to each Interest Rate Basis will be determined in accordance with the applicable provisions below. Except as set forth above or in the applicable Final Terms, the interest rate in effect on each day shall be (i) if such day is an Interest Reset Date, the interest

rate determined as of the Interest Determination Date (as defined below) immediately preceding such Interest Reset Date or (ii) if such day is not an Interest Reset Date, the interest rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

The applicable Final Terms will specify whether the rate of interest on the related Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually or annually or at such other specified intervals as specified in the applicable Final Terms (each, an “**Interest Reset Period**”) and the dates on which such rate or interest will be reset (each, an “**Interest Reset Date**”). Unless otherwise specified in the applicable Final Terms, the rate of interest on Floating Rate/Fixed Rate Notes will not reset after the applicable Fixed Rate Commencement Date. If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Reset Date will be postponed to the next succeeding Business Day except that in the case of a Floating Rate Note as to which EURIBOR or LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Reset Date will be the immediately preceding Business Day.

The interest rate applicable to each Interest Reset Period commencing on the related Interest Reset Date will be the rate determined by the Calculation Agent as of the applicable Interest Determination Date and calculated on or prior to the Calculation Date (as defined below), except with respect to the Eleventh District Cost of Funds Rate, EURIBOR and LIBOR, which will be calculated on such Interest Determination Date, except with respect to the Commercial Paper Rate and the Prime Rate, which will be calculated on or prior to the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, and except with respect to the CMT, which will be calculated on the dates specified below under “—CMT Rate”. The “Interest Determination Date” with respect to:

- the CD Rate and the Commercial Paper Rate will be the second Business Day preceding the applicable Interest Reset Date;
- the Federal Funds Rate will be the Business Day immediately preceding the applicable Interest Reset Date;
- the CMT Rate will be the second U.S. Government Securities Business Day preceding the applicable Interest Reset Date;
- the Prime Rate will be the applicable Interest Reset Date;
- the Eleventh District Cost of Funds Rate will be the last Business Day of the month immediately preceding the applicable Interest Reset Date on which the Federal Home Loan Bank of San Francisco (the “**FHLB of San Francisco**”) publishes the Index, as defined below;
- EURIBOR will be the second TARGET Settlement Date immediately preceding the applicable Interest Reset Date;
- LIBOR will be the second London Business Day immediately preceding the applicable Interest Reset Date, unless the Designated LIBOR Currency is pounds sterling, in which case the “Interest Determination Date” will be the applicable Interest Reset Date; and
- the Treasury Rate will be the day in the week in which the applicable Interest Reset Date falls on which the day Treasury Bills, as defined below, are normally auctioned (Treasury Bills are normally sold at an auction held on Monday of each week, unless such Monday is a legal holiday, in which case the auction is normally held on the immediately succeeding Tuesday although such auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the applicable interest Reset Date, the “Interest Determination Date” will be such preceding Friday; provided, further, that if the Interest Determination Date would otherwise fall on an Interest Reset Date, then such Interest Reset Date will be postponed to the next succeeding Business Day.

The “Interest Determination Date” pertaining to a Floating Rate Note the interest rate of which is determined by reference to two or more Interest Rate Bases will be the most recent Business Day which is at least two Business Days prior to the applicable Interest Reset Date for such Floating Rate Note on which each Interest Rate Basis is determinable. Each Interest Rate Basis will be determined as of such date, and the applicable interest rate will take effect on the applicable Interest Reset Date.

Notwithstanding the foregoing, a Floating Rate Note may also have, if specified in the applicable Final Terms, either or both of the following: (i) a Maximum Interest Rate, or ceiling, that may apply during any Interest Reset Period and (ii) a Minimum Interest Rate, or floor, that may apply during any Interest Reset Period. In addition to any Maximum Interest Rate that may apply to any Floating Rate Note, the interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified, or other applicable law.

The date(s) on which interest on Floating Rate Notes is payable (each, an “**Interest Payment Date**” with respect to Floating Rate Notes) will be specified in the applicable Final Terms.

If any Interest Payment Date other than the Maturity Date for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which EURIBOR or LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, the required payment of principal, premium, if any, and interest will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after the Maturity Date to the date of such payment on the next succeeding Business Day.

All percentages resulting from any calculation on Floating Rate Notes will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five-or more one millionths of a percentage point rounded upwards (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)), and all amounts used in or resulting from such calculation on Floating Rate Notes will be rounded, in the case of U.S. dollars, to the nearest cent or, in the case of a Specified Currency, to the nearest unit (with one-half cent or unit being rounded upwards).

Unless otherwise specified in the applicable Final Terms, each payment of Interest on a Floating Rate Note includes interest accrued from and including the Original Issue Date, or the immediately preceding Interest Payment Date to which interest has been paid or duly provided for, to but excluding the applicable Interest Payment Date or Maturity. Accrued interest on each Floating Rate Note, is calculated by multiplying its principal amount by an accrued interest factor. Such accrued interest factor is computed by adding the interest factor calculated for each day in the applicable Interest Period but excluding the date for which accrued interest is being calculated. Unless otherwise specified in the applicable Final Terms, the interest factor for each such day will be computed by dividing the interest rate applicable to such day by 360, in the case of Floating Rate Notes for which an applicable Interest Rate Basis is the CD Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, EURIBOR, the Federal Funds Rate, LIBOR or the Prime Rate, or by the actual number of days in the year in the case of Floating Rate Notes for which an applicable Interest Rate Basis is the CMT Rate or the Treasury Rate. Unless otherwise specified in the applicable Final Terms, the interest factor for Floating Rate Notes for which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified in the applicable Final Terms applied.

Upon request of the holder of any Floating Rate Note, the “Calculation Agent” (as specified in the applicable Final Terms) will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to such Floating Rate Note. Unless otherwise specified in the applicable Final Terms, the “Calculation Date”, if applicable, pertaining to any Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

Unless otherwise specified in the applicable Final Terms, the Calculation Agent shall determine each Interest Rate Basis in accordance with the following provisions:

#### *CD Rate*

Unless otherwise specified in the applicable Final Terms, “**CD Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CD Rate, the rate on such date for negotiable U.S. dollar certificates of deposit having the Index Maturity specified in the applicable Final Terms as published in H.15(519), (as defined below), under the heading “CDs (secondary market)” or, if not so published by 3:00 p.m., New York City time on the related Calculation Date, the rate on such Interest Determination Date for negotiable U.S. dollar certificates of deposit of the Index Maturity specified in the applicable

Final Terms as published in H.15 Daily Update (as defined below), or such other recognized electronic source used for the purpose of displaying such rate, under the caption “CDs (secondary market)”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m. New York City time on the related Calculation Date, then the CD Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the secondary market offered rates as of 10:00 a.m. New York City time on such Interest Determination Date, of three leading non-bank dealers in negotiable U.S. dollar certificates of deposit in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) for negotiable U.S. dollar certificates of deposit of major U.S. money center banks with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms in an amount that is representative for a single transaction in that market at that time; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the CD Rate determined as of such Interest Determination Date will be the CD Rate in effect on such Interest Determination Date, or, if no CD Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

“**H.15(519)**” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System (the “**Board of Governors**”), or its successor, available through the website of the Board of Governors at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>.

“**H.15 Daily Update**” means the daily update of H.15(519) available at the Board of Governors of the Federal Reserve System’s Internet web site located at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>, or any successor site or publication.

#### *CMT Rate*

Unless otherwise specified in the applicable Final Terms, “**CMT Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CMT Rate:

- (1) if the Reuters 7051 Page is specified in the applicable Final Terms as the Designated CMT Reuters Page:
  - (a) the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption “Treasury Constant Maturities”, as the yield is displayed on Reuters (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) (“**T7051 Page**”), on such Interest Determination Date, or
  - (b) if the rate referred to in clause (a) does not so appear on the T7051 Page, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index and for such Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities”, or
  - (c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on such Interest Determination Date for the period of the particular Designated CMT Maturity Index as may then be published by either the Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519), or
  - (d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the agents or their affiliates) (each, a “**Reference Dealer**”), selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more

than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or

- (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
  - (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
  - (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated, or
  - (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on such Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.
- (2) if the Reuters Page T7052 is specified in the applicable Final Terms as the Designated CMT Reuters Page:
- (a) the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities”, as the yield is displayed on Reuters (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) on page FEDCMT (or any other page as may replace the specified page on that service) (“**T7052 Page**”), for the week preceding the week in which such Interest Determination Date falls, or
  - (b) if the rate referred to in clause (a) does not so appear on the T7052 Page, the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index and for the week preceding such Interest Determination Date as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities,” or
  - (c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index as otherwise announced by the Federal Reserve Bank of New York for the week preceding the week in which such Interest Determination Date falls, or
  - (d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the

lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or

- (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
- (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at the time, or
- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest or the lowest of the quotations will be eliminated, or
- (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

If two United States Treasury securities with an original maturity greater than the Designated CMT Maturity Index specified in the applicable Final Terms have remaining terms to maturity equally close to the particular Designated CMT Maturity Index, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

“**Designated CMT Maturity Index**” means the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in the applicable Final Terms with respect to which the CMT Rate will be calculated.

#### *Commercial Paper Rate*

Unless otherwise specified in the applicable Final Terms, “**Commercial Paper Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Commercial Paper Rate, the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “Commercial Paper— Nonfinancial” or, if not so published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the Money Market Yield on such Interest Determination Date for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper—Nonfinancial”. If such rate is not yet published in H.15(519), the H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Commercial Paper Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 a.m., New York City time on such Interest Determination Date of three leading dealers of U.S. dollar commercial paper in New York City

(which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) for U.S. dollar commercial paper having the Index Maturity specified in the applicable Final Terms placed for industrial issuers whose bond rating is “Aa”, or the equivalent, from a nationally recognized statistical rating organization; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Commercial Paper Rate determined as of such Interest Determination Date will be the Commercial Paper Rate in effect on such Interest Determination Date, or, if no Commercial Paper Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

“**Money Market Yield**” means a yield (expressed as a percentage) calculated in accordance with the following formula:  $D \times 360$

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “**D**” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “**M**” refers to the actual number of days in the applicable Interest Reset Period.

#### *Eleventh District Cost of Funds Rate*

Unless otherwise specified in the applicable Final Terms, “**Eleventh District Cost of Funds Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Eleventh District Cost of Funds Rate, the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which such Interest Determination Date falls as set forth opposite the caption “11th Dist COFI” on the display on Reuters (or any successor service) on page COFI/ARMS (or any other page as may replace such page on such service) (“**COFI/ARMS Page**”) as of 11:00 a.m., San Francisco time, on such Interest Determination Date. If such rate does not appear on the COFI/ARMS Page on such Interest Determination Date then the Eleventh District Cost of Funds Rate on such Interest Determination Date shall be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the “**Index**”) by the FHLB of San Francisco as such cost of funds for the calendar month immediately preceding such Interest Determination Date. If the FHLB of San Francisco fails to announce the Index on or prior to such Interest Determination Date for the calendar month immediately preceding such Interest Determination Date, the Eleventh District Cost of Funds Rate for such Interest Determination Date will be the Eleventh District Cost of Funds Rate in effect on such Interest Determination Date; provided, that if no Eleventh District Cost of Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

#### *EURIBOR*

Unless otherwise specified in the applicable Final Terms, “**EURIBOR**” means the rate determined in accordance with the following provisions:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to EURIBOR, EURIBOR will be the rate for deposits in euro for a period of the Index Maturity as specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated EURIBOR Page as of 11:00 A.M., Brussels time, on such Interest Determination Date; or if no such rate so appears, EURIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (ii) below.
- (2) With respect to an Interest Determination Date on which no rate appears on the Designated EURIBOR Page as specified in Clause (i) above, the Calculation Agent will request the principal eurozone office of each of four major reference banks (which may include affiliates of the Placement Agents) in the eurozone interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in euro for the period of the Index Maturity specified in the applicable Final Terms commencing on the applicable Interest Reset Date, to prime banks in the eurozone interbank market at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in euro in such market at such time. If at least two such quotations are so provided, then

EURIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such Interest Determination Date by three major banks (which may include affiliates of the Placement Agents) in the eurozone selected by the Calculation Agent (after consultation with us) for loans in euro to leading European banks, having the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in euro in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, EURIBOR determined as of such Interest Determination Date will be EURIBOR in effect on such Interest Determination Date, or, if no EURIBOR was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

“**Designated EURIBOR Page**” means the display on the page specified in the applicable Final Terms for the purpose of displaying the eurozone interbank rates of major banks for the euro; provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any successor service) on the EURIBOR 01 page (or any other page as may replace such page on such service) shall be used.

“**Eurozone**” means the region comprised of member states of the European Union that have adopted the single currency in accordance with the Treaty on European Union signed at Maastricht on February 7, 1992.

#### *Federal Funds Rate*

Unless otherwise specified in the applicable Final Terms, “**Federal Funds Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Federal Funds Rate, the rate on such date for U.S. dollar federal funds as published in H.15(519) opposite the heading “Federal Funds (Effective)”, as such rate is displayed on Reuters (or any successor service) on page FEDFUNDS 1 (or any other page as may replace such page) (“**Reuters Page FEDFUNDS 1**”), or, if such rate does not appear on Reuters Page FEDFUNDS 1 or is not so published by 5:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date for U.S. dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective)”. If such rate does not appear on Reuters Page FEDFUNDS 1 or is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the related Calculation Date, then the Federal Funds Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) prior to 9:00 a.m., New York City time, on such Interest Determination Date; provided, however, that if the brokers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Interest Determination Date will be the Federal Funds Rate in effect on such Interest Determination Date, or, if no Federal Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

#### *LIBOR*

Unless otherwise specified in the applicable Final Terms, “**LIBOR**” means the rate determined in accordance with the following:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to LIBOR, LIBOR will be the rate for deposits in the Designated LIBOR Currency for a period of the Index Maturity specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 A.M., London time, on such Interest Determination Date, or if no such rate so appears, LIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (ii) below.
- (2) With respect to an Interest Determination Date on which no rate appears on the Designated LIBOR Page as specified in clause (i) above, the Calculation Agent will request the principal London offices of

each of four major reference banks (which may include affiliates of the Placement Agents) in the London interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in the Designated LIBOR Currency for the period of the Index Maturity specified in the applicable Final Terms, commencing on the applicable Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on such Interest Determination Date by three major banks (which may include affiliates of the Placement Agents) in such Principal Financial Center selected by the Calculation Agent (after consultation with us) for loans in the Designated LIBOR Currency to leading European banks, having the Index Maturity specified in the applicable Final Terms, commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined as of such Interest Determination Date will be LIBOR in effect on such Interest Determination Date or, if no LIBOR rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

“**Designated LIBOR Currency**” means the currency specified in the applicable Final Terms as to which LIBOR shall be calculated or, if no such currency is specified in the applicable Final Terms, U.S. dollars.

“**Designated LIBOR Page**” means the display on the page specified in the applicable Final Terms for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency, provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any such service) on the LIBOR 01 page (or any other page as may replace such page on such service) shall be used for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency.

#### *Prime Rate*

Unless otherwise specified in the applicable Final Terms, “**Prime Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Prime Rate, the rate on such date as such rate is published in H.15(519) opposite the caption “Bank Prime Loan” or, if not published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the rate on such Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, opposite the caption “Bank Prime Loan”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Prime Rate shall be the arithmetic mean, as determined by the Calculation Agent, of the rates of interest publicly announced by three major banks (which may include affiliates of the Placement Agents) in New York City selected by the Calculation Agent (after consultation with us) as the U.S. dollar prime rate or base lending rate in effect for such Interest Determination Date. (Each change in the prime rate or base lending rate of any bank so announced by such bank will be effective as of the effective date of the announcement or, if no effective date is specified, as of the date of the announcement.) If fewer than three major banks (which may include affiliates of the Placement Agents) so selected in New York City have publicly announced a U.S. dollar prime rate or base lending rate for such Interest Determination Date, the Prime Rate with respect to such Interest Determination Date shall be the rate in effect on such Interest Determination Date, or, if no Prime Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

#### *Treasury Rate*

Unless otherwise specified in the applicable Final Terms, “**Treasury Rate**” means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined by reference to the Treasury Rate, the rate from the auction held on such Interest Determination Date (the “**Auction**”) of direct obligations of the

United States (“**Treasury Bills**”) having the Index Maturity specified in the applicable Final Terms under the caption “**INVEST RATE**” on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace such page) (“**USAUCTION 10**”) or page USAUCTION 11 (or any other page as may replace such page) (“**USAUCTION 11**”) or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/ Auction High” or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of such Treasury Bills as announced by the U.S. Department of the Treasury. In the event that the auction rate of Treasury Bills having the Index Maturity specified in the applicable Final Terms is not so announced by the U.S. Department of the Treasury, or if no such Auction is held, then the Treasury Rate will be the Bond Equivalent Yield of the rate on such Interest Determination Date of Treasury Bills having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “U.S. Government Securities/Treasury Bills/Secondary Market” or, if not yet published by 3:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination date of such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/Secondary Market”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be calculated by the Calculation Agent and will be the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on such Interest Determination Date, of three primary U.S. government securities dealers (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us), for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Interest Determination Date will be the Treasury Rate in effect on such Interest Determination Date, or, if no Treasury Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

“**Bond Equivalent Yield**” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N \times 100}{360 - (D \times M)}$$

where “**D**” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis, “**N**” refers to 365 or 366, as the case may be, and “**M**” refers to the actual number of days in the applicable Interest Reset Period.

#### **Other/Additional Provisions; Addendum**

Any provisions with respect to the notes, including the specification and determination of one or more Interest Rate Bases, the calculation of the interest rate applicable to a Floating Rate Note, the Interest Payment Dates, the Stated Maturity, any redemption or repayment provisions or any other term relating thereto, may be modified and/or supplemented as specified under “Other/Additional Provisions; Addendum” in the applicable Final Terms.

#### **Original Issue Discount Notes**

We may from time to time offer notes (“**Original Issue Discount Notes**”) that have an Issue Price (as specified in the applicable Final Terms) that is less than 100% of the principal amount thereof (i.e., par) by more than a percentage equal to the product of 0.25% and the number of full years to the Stated Maturity. Original Issue Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of an Original Issue Discount Note and par is referred to herein as the “Discount”. In the event of redemption, repayment or acceleration of maturity of an Original Issue Discount Note, the amount payable to the holder of such Original Issue Discount Note will be equal to the sum of (i) the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such Original Issue Discount Note (if applicable), multiplied by the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable) and (ii) any unpaid interest accrued thereon to the date of such redemption, repayment or acceleration of maturity, as the case may be.

Unless otherwise specified in the applicable Final Terms, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of Maturity occurs for an Original Issue Discount Note, such Discount will be accrued using a constant yield method. The constant yield will be calculated using

a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Original Issue Discount Note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to such Original Issue Discount Note and an assumption that the Maturity of such Original Issue Discount Note will not be accelerated. If the period from the Original Issue Date to the initial Interest Payment Date for an Original Issue Discount Note (the “**Initial Period**”) is shorter than the compounding period for such Original Issue Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then such period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the U.S. Internal Revenue Code of 1986 (the “**Code**”). Certain Original Issue Discount Notes may not be treated as having original issue discount within the meaning of the Code, and Notes other than Original Issue Discount Notes may be treated as issued with original issue discount for federal income tax purposes. For a further discussion of U.S. federal income tax implications, see the section entitled “*U.S. Federal Income Taxation—Original Issue Discount*”.

### **Index Linked Notes**

We may from time to time offer notes (“**Index Linked Notes**”) with the amount of principal, premium and/or interest payable in respect thereof to be determined with reference to the price or prices of specified commodities or stocks, to the exchange rate of one or more designated currencies relative to an indexed currency or to other items, in each case as specified in the applicable Final Terms. In certain cases, a holder of an Index Linked Note may receive a principal payment on Maturity that is greater than or less than the principal amount of such Index Linked Note depending upon the relative value on Maturity of the specified indexed item. If the redemption amount is less than the principal amount of such Index Linked Notes, such non-principal protected Index Linked Notes will constitute derivative securities for the purposes of the Prospectus Directive. As such, Annex XII of the Prospectus Directive Regulations (Commission Regulation (EC) No 8091/2004) will apply and we may prepare and publish a supplementary prospectus, if so required, supplementing this Base Prospectus to the extent required under section 87G of Schedule 1 of the prospectus regulations that implement the Prospectus Directive in the United Kingdom. Information as to the method for determining the amount of principal, premium, if any, and/or interest, if any, payable in respect of Index Linked Notes, certain historical information with respect to the specified indexed item and any material tax considerations associated with an investment in Index Linked Notes will be specified in the applicable Final Terms. For further information, see the section entitled “*Risk Factors—Risks Related to the Notes— Fluctuations in applicable indices may adversely affect the value of Index Linked Notes*”.

Unless otherwise stated in the applicable Final Terms, in the event that the principal, premium and/or interest, if any, or any other amount payable in respect of any note is to be determined by means of quotations obtained from major banks or other relevant sources, such quotations will be requested on the basis of a representative amount of a normal single transaction in the relevant market and at the relevant time for such quotation.

### **Additional Notes**

We may issue additional notes of a series having identical terms to that of a prior series of notes of the same series but for the Original Issue Date and the public offering price (“**Additional Notes**”). The Final Terms relating to any Additional Notes will set forth matters related to such issuance, including identifying the prior series of notes, their Original Issue Date and the aggregate principal amount of notes then comprising such series.

### **Amortizing Notes**

We may from time to time offer notes with the amount of principal thereof and interest thereon payable in installments over the term of such notes (“**Amortizing Notes**”). Unless otherwise specified in the applicable Final Terms, interest on each Amortizing Note will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and provisions of Amortizing Notes will be specified in the applicable Final Terms, including a table, formula or formulae setting forth repayment information for such Amortizing Notes.

## Payment of Additional Amounts

Subject to the limitation with respect to Guaranteed Notes set forth under “—*Guaranteed Notes*” above, we will pay to the holder of any note such additional amounts as may be necessary in order that every net payment of the principal of (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of OID Notes, the Amortized Face Amount or other amount payable in respect thereof) and interest, if any, on such note, after deduction or other withholding (a) for or on account of any present or future tax, assessment, duty or other governmental charge of any nature whatsoever imposed, levied or collected by or on behalf of the United Kingdom, or any political subdivision thereof or authority therein having power to tax, will not be less than the amount provided for in such note as then due and payable or (b) unless the withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof. No such additional amount shall, however, be payable on any note on account of any tax, assessment, duty or other governmental charge which is payable:

- (1) otherwise than by deduction or withholding from any payments of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of OID Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on such note;
- (2) by reason of the holder or beneficial owner who is liable for such taxes having some connection with the United Kingdom (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in the United Kingdom) other than by the mere holding of such note or enforcement of rights thereunder or the receipt of payments in respect thereof;
- (3) by reason of a change in law or official practice of any relevant taxing authority that becomes effective more than 30 days after the Relevant Date (as defined below) for payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of OID Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of such note;
- (4) on a payment to or for the benefit of an individual and is required to be made pursuant to any European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (5) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant note to another paying agent in a member state of the European Union;
- (6) by reason of any estate, excise, inheritance, gift, sales, transfer, wealth, personal property tax or any similar assessment or governmental charge;
- (7) as a result of the failure of a holder to satisfy any statutory requirements or make a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (8) by reason of any note presented for payment in the United Kingdom if such payment could have been made by or through any other paying agent without such tax, assessment, duty or other governmental charge;
- (9) where such withholding or deduction is required by reason of the failure by any person other than the Issuer, the Guarantor or an Agent to claim or perfect an exemption from any withholding or deduction (including, for the avoidance of doubt, as a result of any payment being made through an intermediary other than an Agent that is subject to withholding or deductions pursuant to Sections 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof); or
- (10) owing to a combination of clauses (1) through (8) above.

“**Relevant Date**” means the date on which the payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of OID Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on a note first becomes due and payable but, if the full amount of the monies payable on such date has not been received by the relevant Paying Agent or as it shall have

directed on or prior to such date, the “**Relevant Date**” means the date on which such monies shall have been so received. No additional amounts will be paid as provided above with respect to any payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of OID Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, on such note to any holder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of any such note.

## **Redemption and Repurchase**

### ***General***

The Final Terms relating to a series of notes will indicate either that such notes cannot be redeemed prior to Maturity, other than for tax reasons (as set forth below), or the terms on which the notes will be redeemable prior to Maturity at our or the holder’s option. Notice of redemption shall be provided as set forth below under the section entitled “—*Notices*”.

### ***Redemption for Tax Reasons***

The notes of any series may be redeemed, subject to any other terms set forth in the applicable Final Terms, and, in the case of the subordinated notes, the subordination provisions in the indenture and any Relevant Supervisory Consent, as a whole but not in part, at our option upon not more than 60 days’, nor less than 30 days’, prior notice given as provided below under the section entitled “—*Notices*”, at a redemption price equal to 100% of the principal amount (or at the then current Amortized Face Amount if the note is an OID Note or, if such note is an Index Linked Note or Amortizing Note at the Redemption Price (as defined below) specified in the applicable Final Terms) (and premium, if any, thereon) together with interest, if any, to the date fixed for redemption, if on the occasion of the next payment due on the notes we would become obligated to pay additional amounts (as provided in the indenture) and such obligation cannot be avoided by the use of reasonable measures available to us; provided, that notes of a series may not be so redeemed if our obligation to pay such additional amount arises by reason of the notes not being admitted to listing on the Official List maintained by the UK Listing Authority, and not being admitted to trading on the London Stock Exchange or not being listed on another “recognized stock exchange” within the meaning of Section 1005 of the UK Income Tax Act 2007.

In the event that we elect to redeem the notes of any series pursuant to the provisions set forth in the preceding paragraph, we will deliver to the trustee (i) a certificate, signed by two of our authorized officers, evidencing compliance with such provisions and stating that we are entitled to redeem the notes of any such series pursuant to the terms of such notes and the indenture and (ii) a written opinion of our counsel to the effect that the circumstances referred to above exist.

### ***Redemption at Our Option***

Other than in the case of Guaranteed Notes, the notes will be redeemable at our option prior to the Stated Maturity, if and only if an initial redemption date (“**Initial Redemption Date**”) is specified in the applicable Final Terms. If so specified, and subject to any other terms set forth in the applicable Final Terms and, in the case of subordinated notes, any Relevant Supervisory Consent, the notes will be subject to redemption at our option on any date on and after the applicable Initial Redemption Date in whole or from time to time in part in minimum increments of \$100,000 for senior notes and \$250,000 for subordinated notes, or the minimum denomination specified in such Final Terms (provided that any remaining principal amount thereof shall be at least \$100,000 for senior notes and \$250,000 for subordinated notes, or such minimum denomination), at the applicable Redemption Price on notice given not more than 60 days, if the notes are being redeemed in whole, or 45 days, if the notes are being redeemed in part, nor less than 30 days prior to the date of redemption and in accordance with the provisions of the indenture. “Redemption Price” with respect to a note, means, unless otherwise specified in the applicable Final Terms, an amount equal to the sum of (i) the Initial Redemption Percentage specified in such Final Terms (as adjusted by the Annual Redemption Percentage Reduction, if applicable (as specified in such Final Terms)) multiplied by the unpaid principal amount or the portion to be redeemed plus (ii) accrued interest, if any, to the date of redemption. Unless otherwise specified in the applicable Final Terms, the Initial Redemption Percentage, if any, applicable to a note shall decline at each anniversary of the Initial

Redemption Date by an amount equal to the applicable Annual Redemption Percentage Reduction, if any, until the Redemption Price is equal to 100% of the unpaid principal amount thereof or the portion thereof to be redeemed.

Unless otherwise specified in the applicable Final Terms, the notes will not be subject to any sinking fund.

#### ***Repayment at the Option of the Holders***

Other than in the case of Guaranteed Notes, if so specified in the applicable Final Terms, the notes will be repayable by us in whole or in part at the option of the holders thereof on their respective optional repayment dates (“**Optional Repayment Dates**”) specified in such Final Terms subject, in the case of subordinated notes, to any Relevant Supervisory Consent. If no Optional Repayment Date is specified with respect to a note, such note will not be repayable at the option of the holder thereof prior to the Stated Maturity. Any repayment in part will be in increments of \$100,000 for senior notes and \$250,000 for subordinated notes, or the minimum denomination specified in the applicable Final Terms (provided that any remaining principal amount thereof shall be at least \$100,000 for senior notes and \$250,000 for subordinated notes, or such minimum denomination). Unless otherwise specified in the applicable Final Terms, the repayment price for any note to be repaid means an amount equal to the sum of the unpaid principal amount thereof or the portion thereof plus accrued interest to the date of repayment. Except as otherwise specified in the applicable Final Terms, exercise of the repayment option is irrevocable.

#### ***Selection of Notes for Partial Redemption***

In the case of any partial redemption of notes, and subject to any other terms specified in the applicable Final Terms, the notes to be redeemed shall be selected by the trustee individually by lot not more than 60 days prior to the Redemption Date from the outstanding notes not previously called for redemption, provided that partial redemption of global notes shall be effected in accordance with DTC’s procedures.

#### ***Repurchase***

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased may be held or resold and, at our discretion, notes (other than Guaranteed Notes) may be surrendered to the trustee for cancellation.

If any applicable Final Terms provides for mandatory sinking fund payments with respect to such notes, the indenture provides that in lieu of making all or any part of any mandatory sinking fund payment in cash, we may deliver to the trustee notes previously purchased or otherwise acquired by us (to the extent not previously credited).

#### ***Financial Services Authority Consents***

Under the Financial Services Authority requirements, any optional tax redemption or repurchase or any other optional redemption or purchase by us of subordinated notes of any series may be made only with the prior consent of the Financial Services Authority and subject to such conditions as the Financial Services Authority may impose at the time of any consent.

#### ***Negative Pledge***

The negative pledge applies to the senior notes only. So long as any of the senior notes remain outstanding, we will not, and will not suffer or permit any of our subsidiaries to, create or have outstanding any mortgage, lien (other than a lien arising by operation of law), pledge or other charge or security interest upon the whole or any part of our or its business or assets, present or future (for the purposes of this subsection, a “**Security Interest**”), to secure any of our Loan Stock or the Loan Stock of any of our subsidiaries or any of our or our subsidiaries’ obligations under any guarantee of or indemnity in respect of the Loan Stock of any other person, without at the same time or prior thereto securing the senior notes equally and ratably therewith to the satisfaction of the trustee or providing such other security for the senior notes which the trustee in its absolute discretion shall deem to be not materially less beneficial to the holders of senior notes or which shall be approved by a majority of the holders of senior notes then outstanding provided that we or any of our subsidiaries may create or have outstanding Security Interests with respect to Loan Stock (without the obligation to secure the senior notes as aforesaid) if at the date of the creation thereof we or any of our subsidiaries have and thereafter maintain free and clear of Security Interests assets the fair market value of which (calculated on a consolidated basis) is at least twice the aggregate principal amount of all Loan Stock which is not secured by any such Security Interest. As used in this subsection, “**Loan Stock**” means indebtedness for the time being outstanding which is in the form of or represented or evidenced by bonds, notes, debentures, loan stock or other similar securities.

## Events of Default—Senior Notes

The following shall constitute “Events of Default” with respect to the senior notes:

- (1) we fail to pay any principal within three days of the due date or interest within seven days of the due date in respect of the senior notes of such series; or
- (2) we default in performance or observance of or compliance with any of our other obligations set out in the senior notes of such series or the indenture which default is incapable of remedy or which, if capable of remedy, is not, in the opinion of the trustee, remedied within 30 days (or such longer period as the trustee may permit) after notice requiring remedy of such default shall have been given to us by the trustee; or
- (3)
  - (a) any other present or future indebtedness in respect of moneys borrowed or raised in an amount of £40,000,000 or more (or its equivalent in any other currency) of us or any Material Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or
  - (b) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or
  - (c) we fail or any Material Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefor any amount payable by us or it under any present or future guarantee in an amount of £40,000,000 or more (or its equivalent in any other currency) (other than any guarantee given in the ordinary course of our or its business) for any indebtedness in respect of moneys borrowed or raised; or
  - (d) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £40,000,000 or more (or its equivalent in any other currency) and created or assumed by us or any Material Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or
- (4) a distress or execution or other similar legal process in respect of a claim for £20,000,000 or more is levied or enforced or sued out upon or against any part of our property, assets or revenues or the property, assets or revenues of any Material Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or
- (5) we become, or any Material Subsidiary becomes, insolvent or unable to pay our or its debts as they mature; or we apply, or any Material Subsidiary applies, for or consents to or suffers the appointment of a liquidator or receiver or administrator or similar officer of ourself or itself or the whole or any substantial part of our or its undertaking, property, assets or revenues; or we take, or any Material Subsidiary takes, any proceeding under any law for a readjustment or deferment of our or its obligations or any part thereof; or we make or enter, or any Material Subsidiary makes or enters, into a general assignment or an arrangement or composition with or for the benefit of our or its creditors; or we stop, or any Material Subsidiary stops or threatens to cease, to carry on our or its business or any substantial part of our or its business except in any case in connection with a substitution pursuant to the Consolidation, Merger and Sale or Lease of Assets provisions of the indenture (see the subsection entitled “—*Consolidation, Merger and Sale or Lease of Assets*”) or for the purpose of a reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the trustee, or in the case of a Material Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to us or another of our wholly-owned subsidiaries; or
- (6) an order is made or an effective resolution is passed to wind up or dissolve us or any Material Subsidiary or our authorization or registration is, or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the trustee or in the case of a voluntary solvent winding up of a wholly-owned Material Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to us or another of our wholly owned Subsidiaries or in connection with a substitution pursuant to the senior notes or the indenture).

Notwithstanding the foregoing, the Event of Default specified in clause (iii) above shall not apply with respect to any Guaranteed Notes.

“**Material Subsidiary**” means a Subsidiary of ours whose total assets (attributable to us) represent 10% or more of our and our subsidiaries consolidated total assets (all as more particularly described in the indenture).

#### **Events of Default—Subordinated Notes**

The following shall constitute “Events of Default” with respect to the subordinated notes:

- (1) if default is made for a period of seven days or more in the payment of any principal due on the subordinated notes of such series or for a period of 14 days or more in the payment of any interest due on the subordinated notes of such series; or
- (2) if, otherwise than by virtue of Section 93(5), Section 94(10), Section 97(9) or Section 97(10) of the UK Building Societies Act, (a) we are dissolved by consent of our members, (b) a special resolution of our members is passed that we be wound up voluntarily or (c) a petition to a court in England for our winding up shall have been granted; or
- (3) if our registration under the UK Building Societies Act is cancelled otherwise than under Section 103(1)(a) of the UK Building Societies Act.

#### **Collection of Indebtedness and Suits for Enforcement by Trustee**

If any event of default has occurred and is continuing with regard to senior notes of any series, the trustee may, at its discretion and without further notice, take such proceedings against us as it may think fit to enforce payment on such senior notes. However, the trustee will not be bound to take any action with respect to such series of senior notes unless:

- (1) it shall have been so requested in writing by holders of at least 25% of the nominal amount of the Outstanding Notes of such series of senior notes; and
- (2) it shall have been indemnified to its satisfaction.

If any event of default has occurred and is continuing with regard to subordinated notes of any series, the trustee may at its discretion institute proceedings for our winding up in England (but not elsewhere) to enforce our obligations in respect of the subordinated notes and the indenture insofar as it relates to the subordinated notes. However, we may not make any payment of principal in respect of the subordinated notes, nor will the trustee accept any such payment of principal from us, other than during or after our winding up or dissolution, unless a Relevant Supervisory Consent has been granted. For the purposes of the foregoing, a payment shall be deemed to be due even if we are not solvent.

#### **Judgments**

Under current New York law, a state court in the State of New York rendering a judgment in respect of a note denominated in other than U.S. dollars would be required to render such judgment in the Specified Currency, and such judgment would be converted into U.S. dollars at the Market Exchange Rate prevailing on the date of entry of such judgment. Accordingly, the holder of such Note denominated in other than U.S. dollars would be subject to exchange rate fluctuations between the date of entry of a judgment in a currency other than U.S. dollars and the time the amount of such judgment is paid to such holder in U.S. dollars and converted by such holder into the Specified Currency. It is not certain, however, whether a non-New York state court would follow the same rules and procedures with respect to conversions of judgments in currency other than U.S. dollars.

We will indemnify the holder of any note against any loss incurred by such holder as a result of any judgment or order being given or made for any amount due under such note and such judgment or order requiring payment in a currency (the “**Judgment Currency**”) other than the Specified Currency, and as a result of any variation between (i) the rate of exchange at which the Specified Currency amount is converted into the Judgment Currency for the purpose of such judgment or order, and (ii) the rate of exchange at which the holder of such note, on the date of payment of such judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received by such holder, as the case may be.

## **Consolidation, Merger and Sale or Lease of Assets**

So long as any note of a series remains outstanding, we will not consolidate or amalgamate with or merge into any other Person or convey, transfer or lease our properties and assets substantially as an entirety to any Person unless:

- (1) the Person formed by such consolidation or amalgamation or into which we are merged or the Person which acquired by conveyance or transfer, or which leases, our properties and assets substantially as an entirety shall be a Person organized and validly existing under the laws of the United Kingdom which shall expressly assume, by an amendment to the indenture that is executed and delivered to the trustee and is in form reasonably satisfactory to the trustee, the due and punctual payment of the principal of (and premium, if any, on) and interest, if any, on all of the notes of such a series and the performance of every covenant of the indenture (other than a covenant included in the indenture solely for the benefit of notes of another series) and of such notes to be performed, and such assumption shall provide that such corporation or Person shall pay to the holder of any such notes such additional amounts as may be necessary in order that every net payment of the principal of (and premium, if any, on) and interest, if any, on such notes will not be less than the amounts provided for in such notes to be then due and payable and such obligations shall extend to any deduction or withholding for or on account of any present or future tax, assessment or governmental charge imposed upon such payment (it being understood that, except as aforesaid, no such corporation or Person shall be obligated to make any indemnification or payment in respect of any tax consequences to any holder as a result of such assumption of rights and obligations if such corporation or Person would not be obligated to pay an additional amount pursuant to the indenture if such corporation or Person were us);
- (2) immediately after giving effect to such transaction, no Event of Default with respect to notes of such series, and no event which, after notice or lapse of time, or both, would become an Event of Default with respect to such notes, shall have occurred and be continuing; and
- (3) we have delivered to the trustee a certificate signed by two duly authorized officers and an opinion of counsel each stating that such consolidation, amalgamation, merger, conveyance, transfer or lease and such amendment to the indenture evidencing the assumption by such corporation or Person comply with the indenture and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with.

Upon any such consolidation, amalgamation or merger, or any such conveyance, transfer or lease, the successor corporation or Person will succeed to, and be substituted for, and may exercise every right and power of ours, under the indenture with the same effect as if such successor corporation or Person has been named as the issuer thereunder, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under the indenture and such notes.

## **Satisfaction and Discharge**

Except as may otherwise be set forth in the Final Terms relating to the notes of a series, the indenture provides that we will be discharged from our obligations under the notes of a series (with certain exceptions) at any time prior to the Stated Maturity, or redemption of such notes when (i) we have irrevocably deposited with or to the order of the trustee, in trust, (a) sufficient funds in the currency, currencies, currency unit or units in which such notes are payable (without consideration of any reinvestment thereof) to pay the principal of (and premium, if any, on) and interest, if any, on such notes to the Stated Maturity (or Redemption Date), or (b) such amount of U.S. Government Obligations (as defined below) as will, together with the predetermined and certain income to accrue thereon (without consideration of any reinvestment thereof), be sufficient to pay when due the principal of (and premium, if any, on) and interest, if any, to the Stated Maturity (or Redemption Date), on such notes, or, (c) such amount equal to the amount referred to in clause (a) or (b) in any combination of currency or currency unit of U.S. Government Obligations; (ii) we have paid all other sums payable with respect to such notes; (iii) we have delivered to the trustee an opinion of counsel to the effect that (a) we have received from, or there has been published by, the U.S. Internal Revenue Service a ruling, or (b) since the date of the indenture there has been a change in applicable U.S. federal income tax law, in either case to the effect that, and based upon which such opinion of counsel shall confirm that, the holders of such notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such discharge and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such discharge had not occurred; and (iv) certain other conditions are met. Upon such discharge, the holders of the notes of such a series shall no

longer be entitled to the benefits of the terms and conditions of the indenture and notes, except for certain provisions including registration of transfer and exchange of such notes and replacement of mutilated, destroyed, lost or stolen notes of such series, and shall look for payment only to such deposited funds or obligations. In addition, any such discharge with respect to the subordinated notes of any series would require a Relevant Supervisory Consent.

“**U.S. Government Obligations**” means non-callable (i) direct obligations (or certificates representing an ownership interest in such obligations) of the United States for which its full faith and credit are pledged or (ii) obligations of a Person controlled or supervised by, and acting as an agency or instrumentality of, the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States.

### **Supplemental Indentures**

The indenture contains provisions permitting us and the trustee (i) without the consent of the holders of any notes issued under the indenture, to execute supplemental indentures for certain enumerated purposes, such as to cure any ambiguity or inconsistency or to make any change that does not have a materially adverse effect on the rights of any holder of such notes, and (ii) with the consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Notes of each series of notes issued under the indenture and affected thereby, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture or of modifying in any manner the rights of holders of any such note under the indenture; provided, that no such supplemental indenture may, without the consent of the holder of each such Outstanding Note affected thereby (a) change the Stated Maturity or the principal of or interest on any such note, or reduce the principal amount of any such note or the rate of interest thereon, if any, or any premium or principal payable upon redemption thereof, or change any obligation of ours to pay additional amounts thereon, or change any Place of Payment where, or change the currency in which, any such note or the interest, if any, thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity, if any, thereof or the date any such payment is otherwise due and payable (or, in the case of redemption, on or after the redemption date); or (b) reduce the percentage in aggregate principal amount of such Outstanding Notes of any particular series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the indenture or certain defaults thereunder and their consequences) provided for in the indenture; or (c) change any obligation we have to maintain an office or agency in the places and for the purposes specified in the indenture; or (d) modify certain of the provisions of the indenture pertaining to the waiver by holders of such notes of past defaults, supplemental indentures with the consent of holders of such notes and the waiver by holders of such notes of certain covenants, except to increase any specified percentage in aggregate principal amount required for any actions by holders of notes or to provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holder of each such note affected thereby; or (e) in the case of the subordinated notes, change in any manner adverse to the interests of the holders of such Outstanding subordinated notes the subordination provisions of such subordinated notes.

In case of Guaranteed Notes, no modification of the terms and conditions of the notes shall be effected without the prior written consent of H.M. Treasury having been obtained by us.

In addition, material variations in the terms and conditions of the subordinated notes of any series, which may include modifications relating to the status, subordination, redemption, repurchase or Events of Default with respect to such subordinated notes, may require a Relevant Supervisory Consent.

### **Waivers**

The holders of not less than a majority in aggregate principal amount of the Outstanding Notes of a series of notes affected thereby, may on behalf of the holders of all notes of such series waive compliance by us with certain restrictive provisions of the indenture as pertain to the corporate existence of us, the maintenance of certain agencies by us or, solely with respect to senior notes, as pertain to the negative pledge covenant as described under the subsection entitled “—*Redemption and Repurchase—Negative Pledge*”.

The holders of a majority in aggregate principal amount of the Outstanding Notes of a series of notes may waive on behalf of the holders of all notes of such series, any past default and its consequences under the indenture, except a default in the payment of the principal of (or premium, if any, on) or interest, if any, on any such note of that series or a default in respect of a covenant or a provision which under the indenture cannot be modified or amended without the consent of the holder of each Outstanding Note of such series.

**Notices**

Notices to holders of notes will be given by mail to addresses of such holders as they appear in the notes' register.

**Governing Law**

The indenture and the notes shall be governed by and construed in accordance with the laws of the State of New York; except that the subordination provisions contained in clause 1201 in the indenture and the subordinated notes will be governed by and construed in accordance with the laws of England and Wales, with the intention that such provisions be given full effect in any insolvency proceeding relating to us in England and Wales.

**Consent to Service**

We have designated and appointed CT Corporation System at 111 Eighth Avenue, in the Borough of Manhattan, New York City, New York 10011 as our authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the notes or the indenture which may be instituted in any State or Federal court located in the Borough of Manhattan, City of New York, State of New York, and have submitted (for the purposes of any such suit or proceeding) to the jurisdiction of any such court in which any such suit or proceeding is so instituted. We have agreed, to the fullest extent that we lawfully may do so, that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding upon us and may be enforced in the courts of England and Wales (or any other courts to the jurisdiction of which it is subject).

Notwithstanding the foregoing, any actions arising out of or relating to the notes or the indenture may be instituted by us, the trustee or the holder of any note in any competent court in England and Wales or such other competent jurisdiction, as the case may be.

**Concerning the Trustee**

The indenture provides that, except during the continuance of an event of default for a series of notes, the trustee will have no obligations other than the performance of such duties as are specifically set forth in the indenture. If an event of default has occurred and is continuing, the trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

## DESCRIPTION OF THE GLOBAL NOTES

### Global Notes

So long as DTC or its nominee is the holder of the global notes, any owner of a beneficial interest in the notes of a series must rely upon the procedures of DTC and institutions having accounts with DTC to exercise or be entitled to any rights of a holder of such global notes. See the subsection entitled “—*Book-Entry System*” for a further description of DTC’s procedures.

### Book-Entry System

DTC will act as securities depository for the global notes. The global notes will be issued as fully-registered securities registered in the name of Cede (DTC’s partnership nominee), unless otherwise specified. No global note may be transferred except by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or any successor thereof.

We have been advised by DTC that upon the deposit of a global note with DTC, DTC will immediately credit, on its book-entry registration and transfer system, the respective principal amounts of such beneficial interests in that global note to the accounts of the DTC Participants. The accounts to be credited shall be designated by the soliciting Placement Agent or, to the extent that the notes are offered and sold directly, by us.

We understand that DTC is a limited-purpose trust company organized under the laws of the State of New York, a “Banking Organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the clearance and settlement among Participants of transactions in such securities through electronic book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants (“**Direct Participants**”) include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Ownership of beneficial interests in a global note in respect of a series of notes will be limited to DTC Participants, including Clearstream and Euroclear, or persons who hold interests through DTC Participants. In addition, ownership of beneficial interests will be evidenced only by, and the transfer of that ownership interest will be effected only through, records maintained by DTC or its nominee and DTC Participants until such time, if any, as Certificated Notes are issued, as set forth above under the section entitled “*Description of the Notes—Form, Transfer, Exchange and Denomination*”. The laws of some states require that certain purchasers of notes take physical delivery of such notes in certificated form. Such laws may impair the ability to transfer beneficial interests in a global note.

Interests held through Clearstream and Euroclear will be recorded on DTC’s books as being held by the U.S. depository for each of Clearstream and Euroclear, which U.S. depositories will in turn hold interests on behalf of their participants’ customers’ securities accounts.

To facilitate subsequent transfers, all global notes deposited with DTC are registered in the name of DTC’s partnership nominee, Cede. DTC has no knowledge of the actual owners of beneficial interests in the global notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such beneficial interests in global notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede and any subsequent nominee of DTC. If less than all of the notes within a series are being redeemed, DTC's current practice is to determine *pro rata* or by lot the amount of the beneficial interest of each Direct Participant in such issue to be redeemed.

Principal and interest payments on the global notes will be made to DTC as the registered holder of the global notes. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is our responsibility, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct Participants and Indirect Participants.

A beneficial owner shall give notice to elect to have its beneficial interests in the global notes purchased or tendered, through its Participant, to the trustee for a series of notes, and shall effect delivery of such beneficial interests in the global notes by causing the Direct Participant to transfer the Participant's beneficial interest in the global notes, on DTC's records, to the trustee.

DTC may discontinue providing its services as securities depository with respect to the global notes at any time by giving reasonable notice to us and the Placement Agents. Under such circumstances, in the event that a successor securities depository is not obtained, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the global notes as described under the subsection entitled "*Description of the Notes—Form, Transfer, Exchange and Denomination*".

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the global notes as described under the section entitled "*Description of the Notes—Form, Transfer, Exchange and Denomination*".

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

In no event will definitive notes in bearer form representing any series of notes be issued.

None of us, any trustee, any paying agent, any registrar for the notes or any Placement Agent will have any responsibility or liability for any aspect of DTC's records or any DTC Participant's records relating to or payments made on account of beneficial ownership interests in a global note or for maintaining, supervising or reviewing any of DTC's records or any DTC Participant's records relating to such beneficial ownership interests.

The indenture and the notes require that payments in respect of the notes be made in immediately available funds. Interests in the notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in the notes will be required to be settled in immediately available funds. We do not know the effect, if any, of such settlement arrangements on trading activity in the notes or interests in the notes.

### **Issuance of Certificated Notes**

If (i) DTC notifies us and the trustee that it is unwilling or unable to continue as holder of the global notes or if at any time it ceases to be a clearing agency registered under the Exchange Act and, in either case, a successor holder is not appointed by us within 90 days of such notification or of our becoming aware of such ineligibility, (ii) an Event of Default occurs with respect to one or more series of notes, or (iii) we determine in our sole discretion (subject to DTC's procedures) that certificated notes of such series will be issued in registered form, then in any such case, upon the written request of the holder of the global note, the trustee will issue certificated registered notes in the names and in the amounts as specified by the holder of the global note. The request for certificated notes may be made by the holder in the circumstances and subject to the conditions described under the section entitled "*Description of the Notes—Form, Transfer, Exchange and Denomination*".

The exchange of interests in the global note for certificated notes of a particular series shall be made free of any fees of the trustee to the holder, provided, however, that such person receiving notes in certificated form will be obligated

to pay or otherwise bear the cost of any tax or other governmental charge as required by the indenture and any cost of insurance, postage, transportation and the like.

### **Repayment**

If a note becomes repayable at the option of the holder on a date or dates specified prior to its maturity date, if any, and the trustee is so notified, the trustee will promptly notify the holder of the global note that such note has become repayable. In order for the repayment option on any note to be exercised, the owners of beneficial interests in the global note must instruct the broker or other DTC Participant through which it holds an interest in the global note to notify the trustee of its desire to exercise that right to repayment. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other DTC Participant through which it holds its beneficial interest in a global note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to the depository.

### **Record Date**

Unless otherwise specified in the applicable Final Terms, or unless we otherwise instruct the trustee in writing, the record date for the determination of the holder of global notes entitled to receive payment in respect of a global note will be the date which is 15 calendar days prior to the applicable payment date on such global note in respect of such global note, provided that interest payable at Maturity will be payable to the person to whom principal shall be payable. If such 15th day is not a Business Day, the record date for determination will be the next succeeding Business Day. Whenever we or the trustee deem it appropriate to fix a record date for the determination of the holder of global notes who should be entitled to receive payment or take any action in respect of global notes, the trustee, with our consent, will set such record date at least 15 days prior to the date on which such payment is to be made or such action is to be taken.

### **Reports**

The trustee will send promptly to the applicable holders of the global notes any notices, reports and other communications from us that are received by the custodian as holder of the global notes and that we make generally available to holders of the notes.

## FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each series of Notes other than Guaranteed Notes.

[Date]

**Nationwide Building Society**  
**[Title of relevant Series of Notes (specifying type of Notes)]**  
**issued pursuant to its \$20,000,000,000 Senior and Subordinated Medium-Term Note Program**

### PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [date] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing [at [website]] [and] [during normal business hours at the registered office of the Issuer at Nationwide House, Pipers Way, Swindon SN38 1NW and the specified offices of each of the Paying Agents. Copies of such Base Prospectus may be obtained at Nationwide House, Pipers Way, Swindon SN38 1NW]. The Base Prospectus is also available on the London Stock Exchange's website at [www.londonstockexchange.com](http://www.londonstockexchange.com).

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Base Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [original date], which are incorporated by reference in the Base Prospectus dated [current date] and attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated [current date] which constitutes a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [current date]. Copies of such Base Prospectus are available for viewing [at [website]] [and] [during normal business hours at the registered office of the Issuer at Nationwide House, Pipers Way, Swindon SN38 1NW] [and copies may be obtained from the registered office of the Issuer at Nationwide House, Pipers Way, Swindon SN38 1NW and the specified offices of each of the Paying Agents].

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

#### TYPE OF NOTE

1. Senior/Subordinated: [ ]
2. (a) Interest/Payment Basis:
- (b) Redemption Basis: [Fixed Rate/Floating Rate/Index Linked/Amortizing/Other]  
[Redemption at par/Index Linked Redemption/Dual Currency/Partly-paid/Installment/Other]  
*(N.B. If the Final Redemption Amount is other than 100% of the nominal value the notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*

3. If Original Issue Discount Note, insert:  
 Total Amount of OID: [ ]  
 Yield to Maturity: [ ]  
 Initial Accrual Period: [ ]
4. If Extendable Maturity Notes, insert:  
 Initial Maturity Date: [ ]  
 Final Maturity Date: [ ]  
 Election Dates: [ ]  
 Minimum Denominations for extension: [ ]  
 Notice Period: [ ]  
 Method for delivery of Notice: [ ]  
 Method for revocation of election: [ ]

#### DESCRIPTION OF THE NOTES

5. Registered Notes: The notes are in [certificated/book-entry] form  
 [Specify the name and address of Registrar]
6. (a) Series Number: [ ]  
 (b) Details (including the date, if any, on which the notes become fully fungible) if forming part of an existing Series: [number and other details]
7. (a) Nominal Amount of notes to be issued: [ ]  
 (b) Aggregate nominal amount of Series (if more than one issue for the Series): [ ]  
 Specified Currency: [ ]  
 Specified Denomination(s): [ ]
8. Issue Price: [ ] (before deduction of commission)  
 [ ] (after deduction of commission)
9. Issue Date: [ ]
10. Interest Commencement Date: [Specify/Issue Date/Not Applicable]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

##### FIXED RATE NOTE

[Applicable/Not Applicable]  
 (If not applicable, delete the remaining sub-paragraphs of this paragraph)

11. (a) Interest Basis/Bases: [ ] per cent. per annum  
 (b) Interest Payment Date(s): [ ]  
 (c) Day Count Fraction: [Actual/Actual (“ICMA”) or 30/360 or specify other]  
 [ ] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))  
 (d) [Determination Dates:  
 (e) Business Day convention: [next succeeding Business Day]  
 (f) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not applicable/give details]

**FLOATING RATE NOTES OR INDEX LINKED INTEREST NOTES**

[Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

12. (a) Interest Payment Date(s): [ ]
- (b) Minimum Interest Rate (if any): [ ] per cent. per annum
- (c) Maximum Interest Rate (if any): [ ]  
[ ] per cent. per annum
- (d) Business Day convention: [next succeeding Business Day/preceding Business Day/other convention – insert details]
- (e) Day Count Fraction: [Actual/365]  
[Actual/Actual (ISDA)]  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
Other]
- (f) Other terms relating to the method of calculating interest, including party responsible for such calculation if not the Calculation Agent: [ ]

**FLOATING RATE NOTES**

[Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

13. (a) [Regular Floating Rate Note OR Floating Rate/Fixed Rate Note OR Inverse Floating Rate Note] Type of Floating Rate Note:
- (b) Fixed Rate Commencement Date: [ ]
- (c) Fixed Interest Rate: [ ]
- (d) Interest Rate Basis/Bases: [ ]
- (e) Initial Interest Rate: [ ]
- (f) Initial Interest Reset Date: [ ]
- (g) Interest Reset Dates: [ ]
- (h) Index Maturity: [ ]
- (i) Spread: [ ]
- (j) Spread Multiplier: [ ]

**INDEX LINKED INTEREST NOTES**

[Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

14. Index/Formula: [insert details of the index to which amounts payable in respect of interest are linked and/or the formula to be used in determining the rate of interest together with details of the Calculation Agent and the fallback provisions including a description of market disruption or settlement disruption events and adjustment provisions]

**PROVISIONS REGARDING REDEMPTION/MATURITY**

15. Maturity: [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]

16. (a) Redemption at Issuer’s option: [No/Yes]  
[If Yes, insert Initial Redemption Date(s)/ Redemption Price of each Note: [ ] per Note of [ ] Specified Denomination]

(b) Notice Period: [ ]

17. (a) Redemption at holder’s option: [No/Yes]  
[If Yes, insert Optional Repayment Date(s)/ repayment price of each Note [ ] per Note of [ ] Specified Denomination]

(b) Notice Period: [ ]

18. Redemption where index/formula linked: [Include a description of market disruption or settlement disruption events and adjustment provisions]

19. Calculation Agent responsible for calculating final redemption amount: [Name and address]

20. Other terms applicable on redemption: [ ]

**GENERAL PROVISIONS APPLICABLE TO THIS ISSUE OF NOTES**

21. Other final terms: [insert details]  
(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

22. Additional selling restrictions: [insert details]

23. Additional U.S. federal income tax considerations: [insert details/None]  
[Syndicated/Non-syndicated] insert name(s) of relevant Placement Agent(s) here]

24. Method of distribution:

25. Stabilizing Manager: [insert details/None]

26. Clearing System: [ ]

27. Redenomination and Exchange provisions:

28. Date [Board] approval for issuance of notes obtained: [ ]

**[LISTING AND ADMISSION TO TRADING:**

These final terms comprise the final terms required for the issue of Notes described herein pursuant to the \$20,000,000,000 Senior and Subordinated Medium-Term Note Program of Nationwide Building Society to be admitted to listing on the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange's regulated market (as from [insert Issue Date for the Notes]) for which purpose it is hereby submitted.]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Acceptance for and on behalf of the Issuer of the terms of the Final Terms

NATIONWIDE BUILDING SOCIETY

By: \_\_\_\_\_

Title:

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [London/other (*specify*/None)]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]
- (iii) Estimate of total [ ] expenses related to admission to trading:

### 2. RATINGS

Ratings: The [Program/notes to be issued] [has/have] been rated:

[Moody's: [ ]]

[S&P: [ ]]

[Fitch: [ ]]

[[Other]: [ ]]

*(The above disclosure should reflect the rating allocated to notes of the type being issued under the Program generally or, where the issue has been specifically rated, that rating.)*

[The notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert credit rating agency name(s)*].]

[[*Insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of [*insert the name of the relevant EU CRA affiliate that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert credit rating agency*].]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [*insert the name of the relevant EU-registered credit rating agency*] in accordance with Regulation (EC) No. 1060/2009. [*Insert the name of the relevant EU-registered credit rating agency*] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Placement Agents, so far as the Issuer is aware, no person involved in the issue of the notes has an interest material to the offer.—*Amend as appropriate if there are other interests*]

**4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- [(i) Reasons for the offer [ ]  
(See “Use of Proceeds” wording in Base Prospectus—if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- [(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.)]
- [(iii) Estimated total expenses: [ ]. [Include breakdown of expenses] (If the notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)

**5. YIELD (Fixed Rate Notes 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.

**6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index Linked Notes only)**

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

The Issuer [intends to provide post-issuance information] [specify what information will be reported and where it can be obtained] [does not intend to provide post-issuance information].

**7. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes only)**

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

**8. OPERATIONAL INFORMATION**

- (i) CUSIP [ ]
- (ii) ISIN Code: [ ]
- (iii) Common Code: [ ]
- (iv) Any clearing system(s) other than The Depository Trust Company and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (v) Settlement Procedures
- (vi) Delivery Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): [ ]

## FORM OF FINAL TERMS FOR GUARANTEED NOTES

Set out below is the form of Final Terms which will be completed for each series of Guaranteed Notes.

[Date]

**Nationwide Building Society**  
**[Title of relevant Series of Notes (specifying type of Notes)]**  
**issued pursuant to its \$20,000,000,000 Senior and Subordinated Medium-Term Note Program**

Provided an Eligibility Certificate (as defined in the Guarantee) has been issued in respect of the Notes, the Commissioners of Her Majesty's Treasury ("**H.M. Treasury**") has unconditionally and irrevocably guaranteed the due payment of all sums due and payable by the Issuer under the Notes.

H.M. Treasury's obligations in that respect are contained in a deed of guarantee (the "**Guarantee**") dated 13 October 2008, (as amended by a supplemental deed dated 20 October 2008 and a second supplemental deed dated 6 February 2009 and as further amended and/or supplemented from time to time), the form of which is available at [www.dmo.gov.uk](http://www.dmo.gov.uk).

### PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in this document titled "Base Prospectus" dated [*original date*], which are incorporated by reference in the Base Prospectus dated [*current date*] and attached hereto, the purpose of which is to give information with respect to the issue of Guaranteed Notes (the "**Base Prospectus**") [and the supplements to the Base Prospectus dated [*date*]] which for the purposes of the issue of Notes described in these Final Terms does not constitute a prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement to the Base Prospectus] [is/are] available for viewing [at [*website*]] [and] [during normal office hours at [*address*] and copies may be obtained from the principal office of the Issuer at Nationwide House, Pipers Way, Swindon SN38 1NW and the specified offices of each of the Paying Agents]. The Base Prospectus is also available for viewing on the London Stock Exchange's website at [www.londonstockexchange.com](http://www.londonstockexchange.com).

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

#### TYPE OF NOTE

- |    |  |   |
|----|--|---|
| 1. | Guaranteed Note                          | Yes   |
| 2. | Senior Note:                             | Yes   |
| 3. | (a) Interest/Payment Basis:              |   |
|    | (b) Redemption Basis:                    | [Fixed Rate/Floating Rate/Zero Coupon<br>Amortizing/Other]<br>[Redemption at par/Dual Currency/Partly-<br>paid/Installment/Other] |
| 4. | If Original Issue Discount Note, insert: |   |
|    | Total Amount of OID:                     | [ ]   |
|    | Yield to Maturity:                       | [ ]   |
|    | Initial Accrual Period:                  | [ ]   |
| 5. | If Extendable Maturity Notes, insert:    |   |
|    | Initial Maturity Date:                   | [ ]   |

Final Maturity Date: [ ]  
 Election Dates: [ ]  
 Minimum Denominations for extension: [ ]  
 Notice Period: [ ]  
 Method for delivery of Notice: [ ]  
 Method for revocation of election: [ ]

**DESCRIPTION OF THE NOTES**

6. Registered Notes: The notes are in [certificated/book-entry] form  
 [Specify the name and address of Registrar]
7. (a) Series Number: [ ]  
 (b) Details (including the date, if any, on which the notes become fully fungible) if forming part of an existing Series: [number and other details]
8. (a) Nominal Amount of notes to be issued: [ ]  
 (b) Aggregate nominal amount of Series (if more than one issue for the Series): [ ]  
 (c) Specified Currency: [ ]  
 (d) Specified Denomination(s): [ ]
9. Issue Price: [ ] (before deduction of commission)  
 [ ] (after deduction of commission)
10. Issue Date: [ ]
11. Interest Commencement Date: [Specify/Issue Date/Not Applicable]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

**FIXED RATE NOTE**

[Applicable/Not Applicable]  
 (If not applicable, delete the remaining sub-paragraphs of this paragraph)

12. (a) Interest Basis/Bases: [ ] per cent. per annum  
 (b) Interest Payment Date(s): [ ]  
 (c) Day Count Fraction: [Actual/Actual (ICMA) or 30/360 or specify other]  
 (d) [Determination Dates: [ ] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]  
 (e) Business Day convention: [next succeeding Business Day]  
 (f) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not applicable/give details]

**FLOATING RATE NOTES**

[Applicable/Not Applicable]  
 (If not applicable, delete the remaining sub-paragraphs of this paragraph)

13. (a) Interest Payment Date(s): [ ]
- (b) Minimum Interest Rate (if any): [ ] per cent. per annum
- (c) Maximum Interest Rate (if any): [ ]  
[ ] per cent. per annum
- (d) Business Day convention: [next succeeding Business Day/preceding Business Day/other convention – insert details]
- (e) Day Count Fraction: [Actual/365]  
[Actual/Actual (ISDA)]  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
Other]
- (f) Other terms relating to the method of calculating interest, including party responsible for such calculation if not the Calculation Agent: [ ]

**FLOATING RATE NOTES**

[Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

14. (a) [Regular Floating Rate Note OR Floating Rate/Fixed Rate Note OR Inverse Floating Rate Note] Type of Floating Rate Note:
- (b) Fixed Rate Commencement Date: [ ]
- (c) Fixed Interest Rate: [ ]
- (d) Interest Rate Basis/Bases: [ ]
- (e) Initial Interest Rate: [ ]
- (f) Initial Interest Reset Date: [ ]
- (g) Interest Reset Dates: [ ]
- (h) Index Maturity: [ ]
- (i) Spread: [ ]
- (j) Spread Multiplier: [ ]

**PROVISIONS REGARDING REDEMPTION/MATURITY**

15. Maturity: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
16. Calculation Agent responsible for calculating final redemption amount: *[Name and address]*
17. Other terms applicable on redemption: [ ]

**GENERAL PROVISIONS APPLICABLE TO THIS ISSUE OF NOTES**

- 18. Other final terms: [insert details]
- 19. Additional selling restrictions: [insert details]
- 20. Method of distribution: [Syndicated/Non-syndicated] insert name(s) of relevant Placement Agent(s) here]
  
- 21. Stabilizing Manager: [insert details/None]
- 22. Clearing System: [ ]
- 23. Redenomination and Exchange provisions:
- 24. Date [Board] approval for issuance of notes obtained: [ ]

**[LISTING AND ADMISSION TO TRADING:]**

These final terms comprise the final terms required for the issue of Notes described herein pursuant to the \$20,000,000,000 Senior and Subordinated Medium-Term Note Program of Nationwide Building Society to be admitted to listing on the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange’s regulated market (as from [insert Issue Date for the Notes]) for which purpose it is hereby submitted.]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Acceptance for and on behalf of the Issuer of the terms of the Final Terms

NATIONWIDE BUILDING SOCIETY

By: \_\_\_\_\_

Title:

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [London/other (*specify*/None)]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]
- (iii) Estimate of total expenses [ ] related to admission to trading:

### 2. RATINGS

Ratings: The [Program/notes to be issued] [has/have] been rated:  
[Moody's: [ ]]  
[S&P: [ ]]  
[Fitch: [ ]]  
[[Other]: [ ]]

*(The above disclosure should reflect the rating allocated to notes of the type being issued under the Program generally or, where the issue has been specifically rated, that rating.)*

[The notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert credit rating agency name(s)*].]

[[*Insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of [*insert the name of the relevant EU CRA affiliate that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert credit rating agency*].]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [*insert the name of the relevant EU-registered credit rating agency*] in accordance with Regulation (EC) No. 1060/2009. [*Insert the name of the relevant EU-registered credit rating agency*] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

### 3. OPERATIONAL INFORMATION

- (i) CUSIP [ ]

- (ii) ISIN Code: [ ]
- (iii) Common Code: [ ]
- (iv) Any clearing system(s) other than The Depository Trust Company and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (v) Settlement Procedures
- (vi) Delivery Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): [ ]

## U.S. FEDERAL INCOME TAXATION

**THE DISCUSSION OF TAX MATTERS IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE OR LOCAL TAX PENALTIES, AND WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES. EACH INVESTOR SHOULD SEEK ADVICE BASED ON SUCH PERSON'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following summary describes certain material U.S. federal income tax consequences of the purchase, ownership and disposition of notes as of the date hereof. The discussion set forth below is applicable to U.S. Holders (as defined below) who purchase notes. The discussion set forth below deals only with notes with an original maturity of 30 years or fewer and assumes that all notes issued pursuant to the medium-term note program constitute debt for U.S. federal income tax purposes. If any note did not constitute debt for U.S. federal income tax purposes, the tax consequences of the ownership of such note could differ materially from the tax consequences described herein. Except where noted, this discussion deals only with U.S. Holders that acquire the notes at their original issuance and that will hold the notes as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, partnerships or pass-through entities for U.S. federal income tax purposes, traders in securities that elect to use mark-to-market method of accounting for their securities holdings, persons liable for alternative minimum tax or holders of notes whose "functional currency" is not the U.S. dollar. Furthermore, the discussion below is based upon the provisions of the Code, the Treasury regulations promulgated thereunder, rulings and judicial decisions now in effect, all of which are subject to change possibly with retroactive effect or possible differing interpretations so as to result in U.S. federal income tax consequences different from those discussed below. This summary assumes that there will be no substitution of another entity in the place of the Issuer as principal debtor in respect of the notes. Any special U.S. federal income tax considerations relevant to a particular issue of the notes will be provided in the applicable Final Terms. If a partnership holds notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partnership holding notes should consult its tax advisors.

As used herein, a "U.S. Holder" of a note means a beneficial owner that is, for U.S. federal income tax purposes, (i) a citizen or individual resident alien of the United States, (ii) a corporation created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (X) that is subject to the supervision of a court within the United States and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust or (Y) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

### **Characterization of the notes**

Whether a note is properly treated as debt for U.S. federal income tax purposes is an inherently factual question and no single factor is determinative. Unless otherwise specified in the applicable Final Terms, to the extent it is required to do so the Issuer intends to treat the notes as indebtedness for U.S. federal income tax purposes, although no opinions have been sought, and no assurances can be given, with respect to such treatment. The following discussion assumes that such treatment will be respected.

### **Payments of Interest**

Except as set forth below, interest on a note will generally be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder's method of tax accounting. Interest income (including original issue discount, if any, as discussed below) on the notes will generally be treated as foreign source income for purposes of the U.S. foreign tax credit.

## Original Issue Discount

U.S. Holders of notes issued with original issue discount (“OID”) will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of such notes should be aware that they generally must include OID in gross income as ordinary income in advance of the receipt of cash attributable to that income. However, U.S. Holders of such notes generally will not be required to include separately in income cash payments received on the notes, even if denominated as interest, to the extent such payments do not constitute “qualified stated interest” (as defined below). Notes issued with OID will be referred to as “Original Issue Discount Notes”.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described under “—*Foreign Currency Notes*” below. The following discussion does not address notes providing for contingent payments that do not constitute qualified stated interest.

For U.S. federal income tax purposes, a note with an “issue price” that is less than its stated redemption price at maturity (the sum of all payments to be made on the note other than “qualified stated interest”) will be issued with OID unless such difference is *de minimis* (i.e., less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of an Amortizing Note, the weighted average maturity). The “issue price” of each note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The term “qualified stated interest” means stated interest that is unconditionally payable over the entire term of the note in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments.

In the case of a note issued with *de minimis* OID, the U.S. Holder generally must include such *de minimis* OID in income as at the time principal payments on the note are made in proportion to the amount paid for the note. Any amount of *de minimis* OID that has been included in income will be treated as capital gain.

Certain notes may be redeemed prior to their Maturity at the option of the Issuer and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. In the case of notes that provide for alternative payment schedules, OID is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder’s yield and (ii) the issuer will exercise or not exercise options in a manner that minimizes the holder’s yield.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on 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 note’s “adjusted issue price” at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is a Floating Rate Note that is treated as a “variable rate debt instrument” under U.S. Treasury regulations, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its date of issue or, in

the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Floating Rate Note is indexed in any manner. Different rules may apply if a Floating Rate Note is treated as a “contingent payment debt instrument” under U.S. Treasury regulations.

U.S. Holders may elect to treat all interest on any note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. The election is to be made for the taxable year in which the U.S. Holder acquired the note, and may not be revoked without the consent of the U.S. Internal Revenue Service (“IRS”).

### **Notes Subject to Redemption**

Certain of the notes: (i) may be redeemable at the option of the Issuer prior to their maturity, (ii) may be repayable at the option of the holder prior to their stated maturity, or (iii) may be otherwise subject to mandatory redemption. Notes containing such features may be subject to rules that are different from the general rules discussed above, which will depend, in part, on the particular terms and features of such notes. The U.S. federal income tax consequences of the purchase, ownership and disposition of any such notes may be discussed in the applicable Final Terms.

### **Short-Term Notes**

In the case of Original Issue Discount Notes having a term of one year or less (“**Short-Term Notes**”), under the U.S. Treasury regulations relating to OID all payments (including all stated interest) will be included in the stated redemption price at maturity and will not be qualified stated interest. Thus, U.S. Holders will generally be taxable on the discount in lieu of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short-Term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. Holders of a Short-Term Note are not required to include accrued discount in their income currently unless they elect to do so (but may be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short-Term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions of all or a portion of the U.S. Holder’s interest expense with respect to any indebtedness incurred or continued to purchase or carry such notes.

### **Further Issuances**

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

### **Market Discount**

If a U.S. Holder purchases a note (other than an Original Issue Discount Note) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its adjusted issue price, the amount of the difference will be treated as “market discount” for U.S. federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a U.S. Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such note at the time of such payment or disposition. In addition, the U.S. Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such note.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless the U.S. Holder elects to accrue on a constant yield method. This election to accrue market discount on a constant interest method is to be made for the taxable year in which the U.S. Holder acquired the note, applies only to that note, and may not be revoked without the consent of the IRS. A U.S. Holder of a note may elect to include market discount in income currently as it accrues (on either a ratable or constant-yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

### **Acquisition Premium; Amortizable Bond Premium**

A U.S. Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest will be considered to have purchased such note at an “acquisition premium”. Under the acquisition premium rules, the amount of OID which such U.S. Holder must include in its gross income with respect to such note for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

A U.S. Holder that purchases a note (including an Original Issue Discount Note), for an amount in excess of the sum of all amounts payable on the note after the purchase date other than qualified stated interest will be considered to have purchased the note at a “bond premium”. A U.S. Holder generally may elect to amortize bond premium over the remaining term of the note on a constant yield method as an offset to interest when includible in income under the U.S. Holder’s regular accounting method. In the case of instruments that provide for alternative payment schedules, bond premium is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder’s yield and (ii) the issuer will exercise or not exercise options in a manner that minimizes the holder’s yield except with respect to call options for which the issuer is assumed to exercise such call options in a manner that maximizes the holder’s yield. Bond premium on a note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the note. The election to amortize premium on a constant yield method once made applies to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

### **Sale, Exchange and Retirement of Notes**

A U.S. Holder’s tax basis in a note will, in general, be the U.S. Holder’s cost therefor, increased by OID, market discount or any income attributable to *de minimis* OID or *de minimis* market discount with respect to a Short-Term Note previously included in income by the U.S. Holder and reduced by any amortizable bond premium and any cash payments on the note other than qualified stated interest. Upon the sale, exchange, retirement or other disposition of a note, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid qualified stated interest, which will be treated as a payment of interest for U.S. federal income tax purposes) and the adjusted tax basis of the note. Except as with respect to certain Short-Term Notes or market discount as described above, with respect to gain or loss attributable to changes in exchange rates, with respect to certain Foreign Currency Notes as described below, and with respect to contingent payment debt instruments which this summary generally does not discuss, such gain or loss will be capital gain or loss. Gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a note will generally be treated as U.S. source gain or loss. Capital gains of individuals derived in respect of capital assets held for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### **Foreign Currency Notes**

The following is a summary of the principal U.S. federal income tax consequences to a U.S. Holder of the ownership of a note denominated in a currency other than the U.S. dollar (a “**Foreign Currency Note**”).

#### *Qualified Stated Interest Payments*

Cash basis U.S. Holders are required to include in income the U.S. dollar value of the amount of interest received, based on the “spot rate” for such foreign currency in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. No exchange gain or loss is recognized with respect to the receipt of such payment.

Accrual basis U.S. Holders may determine the amount of income recognized with respect to such interest payment in accordance with either of two methods. Under the first method, the U.S. Holder will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued. Under the second method, an accrual basis holder may elect to translate interest income at the spot rate on the last day of the accrual period (or last day of the taxable year in the case of 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. Upon receipt of an interest payment on such note (including, upon the sale of such note, the receipt of proceeds that include amounts attributable to accrued interest previously included in income), such U.S. Holder will recognize ordinary income or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date received) and the U.S. dollar value of the interest income that such U.S. Holder has previously included in income with respect to such payment.

#### *Original Issue Discount*

OID on a note that is also a Foreign Currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars in the same manner as interest income accrued by a holder on the accrual basis, as described above. Additionally, a U.S. Holder will recognize exchange gain or loss when the OID is paid (including, upon the sale of such note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date of payment) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a note will be viewed: first, as the receipt of any stated interest payments called for under the terms of the note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

#### *Market Discount*

The amount of market discount on Foreign Currency Notes includible in income will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the Foreign Currency Note is retired or otherwise disposed of. If the U.S. Holder has elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period. A U.S. Holder will recognize exchange gain or loss with respect to market discount which is accrued currently using the approach applicable to the accrual of interest income as described above.

#### *Amortizable Bond Premium*

Bond premium on a Foreign Currency Note will be computed in the applicable foreign currency. With respect to a U.S. Holder that elects to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss (which is generally ordinary income or loss) will be realized based on the difference between spot rates at such time and at the time of acquisition of the Foreign Currency Note. A U.S. Holder that does not elect to amortize bond premium will translate the bond premium, computed in the applicable foreign currency, into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

#### *Sale or Other Disposition of Foreign Currency Notes*

Upon the sale, exchange, retirement or other taxable disposition of a Foreign Currency Note, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid interest, which will be treated as a payment of interest for federal income tax purposes) and the U.S. Holder's adjusted tax basis in the Foreign Currency Note.

If a U.S. Holder receives foreign currency on the sale, exchange or retirement of a Foreign Currency Note, then the amount realized generally will be based on the spot rate of the foreign currency on the date of sale, exchange or retirement. For purchases and sales of Foreign Currency Notes traded on an established securities market as defined in applicable Treasury regulations by a cash method taxpayer, however, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the

same treatment with respect to the purchase and sale of Foreign Currency Notes traded on an established securities market, provided that the election is applied consistently. This election cannot be changed without the consent of the IRS.

A U.S. Holder's tax basis in a Foreign Currency Note generally will be the U.S. Holder's cost therefore, which, in the case of a U.S. Holder that purchases a Foreign Currency Note with foreign currency, will be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note determined at the time of such purchase. If the Notes are traded on an established securities market, as defined in applicable Treasury regulations, cash method taxpayers (and electing accrual method taxpayers) will determine the U.S. dollar cost of the note on the settlement date. A U.S. Holder that purchases a note with previously owned foreign currency will recognize exchange gain or loss at the time of purchase attributable to the difference at the time of purchase, if any, between the U.S. Holder's tax basis in such foreign currency and the fair market value of the note in U.S. dollars on the date of purchase. Such gain or loss will be ordinary income or loss.

Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other disposition of a Foreign Currency Note will generally be treated as U.S. source gain or loss. Subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other disposition, the note has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

A U.S. Holder will recognize exchange gain or loss attributable to the movement in exchange rates between the time of purchase and the time of disposition (including the sale, exchange, retirement or other disposition) of a Foreign Currency Note. Such gain or loss will be treated as ordinary income or loss (and will not be treated as interest income or expense, except to the extent provided in U.S. Treasury regulations or administrative pronouncements of the IRS) and generally will be U.S. source gain or loss. The realization of such gain or loss will be limited to the amount of overall gain or loss realized on the disposition of a Foreign Currency Note.

#### *Exchange Gain or Loss With Respect to Foreign Currency*

A U.S. Holder's tax basis in foreign currency received as interest on (or OID with respect to), or received on the sale, exchange, retirement or other disposition of, a Foreign Currency Note will be the U.S. dollar value thereof at the spot rate at the time the holder received such foreign currency. As discussed above, if the Foreign Currency Notes are traded on an established securities market, a cash basis U.S. Holder (or, upon election, an accrual basis U.S. Holder) will determine the U.S. dollar value of the foreign currency by translating the foreign currency received at the spot rate of exchange on the settlement date of the sale, exchange or retirement. Accordingly, no foreign currency gain or loss will result from currency fluctuations between the trade date and settlement date of a sale, exchange or retirement. Any gain or loss recognized by a U.S. Holder on a sale, exchange, retirement or other disposition of foreign currency will be ordinary income or loss and generally will be U.S. source gain or loss.

#### *Dual Currency Notes*

If so specified in the applicable Final Terms relating to a Foreign Currency Note, the Issuer may have the option to make all payments of principal and interest scheduled after the exercise of such option in a currency (the "**Optional Payment Currency**") other than the Specified Currency. Applicable Treasury regulations generally (i) apply the principles contained in regulations governing contingent debt instruments to Dual Currency Notes in the "predominant currency" of the Dual Currency Notes and (ii) apply the rules discussed above with respect to Foreign Currency Notes with OID for the translation of interest and principal into U.S. dollars.

A U.S. Holder of a Dual Currency Note with respect to which the Issuer's option has been exercised may be considered to have exchanged a Note denominated in the Specified Currency for a Note denominated in the Optional Payment Currency. If the exercise of the option by the Issuer is not treated as a deemed exchange, a U.S. Holder of a Dual Currency Note will not recognize gain or loss and the U.S. Holder's basis in the Note will be unchanged. If the exercise of the option is treated as a taxable exchange, a U.S. Holder will recognize gain or loss, if any, equal to the difference between the holder's basis in the Note denominated in the Specified Currency and the value of the Note denominated in the Optional Payment Currency.

### **Extendable Maturity Notes**

If so specified in the applicable Final Terms, a holder may have the option to extend the maturity of a note. There is no direct authority on how to apply the relevant U.S. federal income tax rules to an instrument with terms like the Extendable Maturity Notes.

### **Index Linked Notes**

The tax treatment of a U.S. Holder of an Index Linked Note will depend on factors including the specific index or indices used to determine indexed payments on the note and the amount and timing of any contingent payments of principal and interest.

### **Tax Return Disclosure Requirements**

Treasury regulations issued under the Code (the “**Tax Shelter 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 the Tax Shelter Regulations, certain transactions may be characterized as Reportable Transactions based upon any of several indicia, including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Note or foreign currency received in respect of a Foreign Currency Note to the extent that such sale, exchange, retirement or other taxable disposition results in a tax loss in excess of a threshold amount.

### **Information Reporting and Backup Withholding**

In general, information reporting requirements will apply to certain payments of principal, interest, premium and accrual of OID on notes and to the proceeds of sale of a note made to U.S. Holders other than certain exempt recipients (such as corporations). A backup withholding tax generally will apply to such payments (including payments of accrued OID) if the U.S. Holder fails to provide a taxpayer identification number or certification of exempt status otherwise to comply with the applicable backup withholding requirements.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against such holder’s U.S. federal income tax liability provided the required information is timely furnished to the IRS.

### **New Legislation**

Recently enacted legislation imposes new reporting requirements on the holding of certain foreign financial assets, including debt of foreign entities, by individuals if the aggregate value of all of these assets exceeds \$50,000. An individual may be subject to these new reporting requirements unless the notes are regularly traded on an established securities market and held in an account at a domestic financial institution. U.S. Holders should consult their tax advisors regarding the application of this legislation.

## UK TAXATION

The following is a summary of the United Kingdom (“UK”) withholding taxation treatment as at the date of this Base Prospectus in relation to payments of principal and interest in respect of the notes issued by Nationwide and does not deal with other UK tax aspects of acquiring, holding or disposing of the notes. This summary relates only to the position of persons who are absolute beneficial owners of the notes. Prospective holders should be aware that the particular terms of issue of any series of the notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of notes. This summary is a general guide and does not purport to be a complete analysis of all tax considerations relating to the notes, and you should treat it with appropriate caution.

You should seek independent professional advice should you have any doubt as to your tax position. If you may be liable to taxation in jurisdictions other than the UK in respect of your acquisition, ownership, holding and disposition of notes, you are particularly advised to consult your professional advisers as to whether you are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the notes. In particular, you should be aware that you may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the notes, even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK

### UK Withholding Tax on Interest

#### *Notes Listed on a Recognized Stock Exchange*

Notes issued by Nationwide which carry a right to interest will constitute “**quoted Eurobonds**” provided they are and continue to be listed on a recognized stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognized stock exchange for those purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided that the notes are and continue to be quoted Eurobonds, payments of interest on the notes may be made without withholding or deduction for or on account of UK income tax.

#### *Other Cases*

If the notes do not qualify as quoted Eurobonds, as described in “—*Notes Listed on a Recognized Stock Exchange*”, interest on the notes will generally (subject to certain other exemptions which may be available in certain circumstances) be paid under deduction of UK income tax at the rate of (currently) 20%, subject to such relief as may be available under the provisions of any applicable double taxation treaty.

#### *Provision of Information*

Holders of notes may wish to note that, in certain circumstances, H.M. Revenue & Customs (“**HMRC**”) has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a holder of notes. HMRC also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of amounts payable on the redemption of deeply discounted securities where such amounts are paid on or before 5 April 2012. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the holder of notes is resident for tax purposes.

#### *Other Rules Relating to UK Withholding Tax*

Where notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax and reporting requirements as outlined above.

In addition to the above, in relation to UK withholding tax, where interest has been paid under deduction of UK income tax, holders of notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to “interest” in this UK Taxation summary mean “interest” as understood in UK tax law. The statements in this summary do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation. This description of the UK withholding tax position assumes that there will be no substitution of the Issuer of the notes pursuant to the terms and conditions of the notes and does not consider the tax consequences of any such substitution.

### **UK Withholding Tax on Guarantee Payments**

Holders of Guaranteed Notes should be aware that the withholding tax treatment of payments under the Guarantee is not free from uncertainty and any holder of Guaranteed Notes who is in any doubt as to the tax treatment of payments under the Guarantee is advised to obtain professional advice.

Subject to the availability of any relief, payments under the Guarantee may be subject to United Kingdom withholding tax at a maximum rate of 20%. Investors should note that in the event that any payment made by H.M. Treasury in respect of the Guarantee is made subject to deduction or withholding for or on account of any taxes, duties, assessments or governmental charges of any nature neither H.M. Treasury, Nationwide, any paying agent nor any other person may be required to pay any additional amounts in respect of such deduction or withholding.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC (the “**Directive**”) on the taxation of savings income, each member state is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

## TRANSFER RESTRICTIONS

We have not registered the notes and the Guarantee under the Securities Act or any other applicable securities laws, and they may not be offered or sold except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States, to qualified institutional buyers, commonly referred to as “QIBs”, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or
- outside of the United States, to certain persons, other than U.S. persons within the meaning of Regulation S, in offshore transactions meeting the requirements of Rule 903 of Regulation S.

### *Purchasers’ Representations and Restrictions on Resale*

Each purchaser of notes (other than a Placement Agent in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein, will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States within the meaning of Regulation S;
- (2) It is not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Issuer and is not acting on the Issuer’s behalf;
- (3) It acknowledges that the notes and, where relevant, the Guarantee in respect thereof have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (4) It understands and agrees that notes initially offered in the United States to QIBs will be represented by U.S. Global Notes and that notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by International Global Notes;
- (5) If the purchaser is in the United States or is a U.S. person, it shall not resell or otherwise transfer any of such notes except (a) to Nationwide or a Placement Agent or by, through, or in a transaction approved by a Placement Agent, (b) within the United States to a QIB in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States, in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- (6) If the purchaser is outside the United States and is not a U.S. person, if it should resell or otherwise transfer the notes prior to the expiration of the Distribution Compliance Period (as defined in Regulation S) applicable to such notes, it will do so only (a) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (b) to a QIB in compliance with Rule 144A;
- (7) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- (8) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- (9) It acknowledges that the trustee for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to Nationwide and such trustee that the restrictions set forth herein have been complied with; and
- (10) It acknowledges that Nationwide, the Placement Agents and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of

the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify Nationwide and the Placement Agents. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

A legend to the following effect will appear on the face of notes, other than International Global Notes, and which will be used to notify transferees of the foregoing restrictions on transfer. Additional copies of this notice may be obtained from the trustee.

“THE SECURITIES EVIDENCED HEREBY [AND THE GUARANTEE IN RESPECT THEREOF] (THE “**NOTES**”) HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR ANY OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THE NOTES, (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT (“**RULE 144A**”)), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE U.S. SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF THE NOTES (OR OF ANY PREDECESSOR THEREOF) OR THE LAST DAY ON WHICH THE NATIONWIDE BUILDING SOCIETY (THE “**ISSUER**”) OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THE NOTES (OR ANY PREDECESSOR THEREOF) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “**RESALE RESTRICTION TERMINATION DATE**”), OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THE NOTES EXCEPT (I) TO THE ISSUER OR ONE OR MORE PLACEMENT AGENTS FOR THE NOTES (EACH, A “**PLACEMENT AGENT**” AND COLLECTIVELY, THE “**PLACEMENT AGENTS**”) OR BY, THROUGH OR IN A TRANSACTION APPROVED BY A PLACEMENT AGENT, (II) SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (III) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT OR (VI) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION. THE HOLDER OF THE NOTES, BY PURCHASING THE NOTES, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THE NOTES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (VI) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.”

“THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN”.

A legend to the following effect will appear on the face of the International Global Notes.

“THE SECURITIES EVIDENCED HEREBY [AND THE GUARANTEE IN RESPECT THEREOF] (THE “**NOTES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see the section entitled “*Description of the Notes—Form, Transfer, Exchange and Denomination*”.

## PLAN OF DISTRIBUTION

The notes are being offered on a continuous basis for sale by us to or through Barclays Capital Inc., Deutsche Bank Securities Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and UBS Securities LLC together with such other Placement Agent as may be appointed by us with respect to a particular tranche of notes. We refer collectively to these entities as the “Placement Agents”. One or more Placement Agents may purchase notes, as principal, from us from time to time for resale to investors and other purchasers at varying prices relating to prevailing market prices at the time of resale as determined by any Placement Agent, or, if so specified in the applicable Final Terms, for resale at a fixed offering price. If we and a Placement Agent agree, a Placement Agent may also utilize its reasonable efforts on an agency basis to solicit offers to purchase the notes. Any Placement Agents of the notes that are not U.S. registered broker-dealers will agree that they will offer and sell the notes within the United States only through U.S. registered broker-dealers. Unless otherwise described in an applicable Final Terms, we will pay a commission to a Placement Agent, ranging from 0.125% to 0.750% of the principal amount of each note depending upon its stated maturity, for notes sold through such Placement Agent as agent. Commissions with respect to notes with stated maturities in excess of 30 years that are sold through a Placement Agent as an agent of ours will be negotiated between us and that Placement Agent at the time of such sale.

Unless otherwise specified in an applicable Final Terms, any note sold to one or more Placement Agents as principal will be purchased by such Placement Agents at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. A Placement Agent may sell notes it has purchased from us as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with such purchase. The Placement Agent may allow, and such dealers may reallow, a discount to certain other dealers. After the initial offering of notes, the offering price (in the case of notes to be resold at a fixed offering price), the concession and the reallowance may be changed.

We may withdraw, cancel or modify the offering contemplated hereby without notice and may reject offers to purchase notes in whole or in part. Each Placement Agent shall have the right to reject in whole or in part any offer to purchase notes received by it on an agency basis.

In connection with an offering of notes purchased by one or more Placement Agents as principal on a fixed offering price basis, such Placement Agent(s) will be permitted to engage in transactions that stabilize the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If the Placement Agent creates or the Placement Agents create, as the case may be, a short position in notes, that is, if it sells or they sell notes in an aggregate principal amount exceeding that set forth in the applicable Final Terms, such Placement Agent(s) may reduce that short position by purchasing notes in the open market. In general, purchase of notes for the purpose of stabilization or to reduce a short position could cause the price of notes to be higher than it might be in the absence of such purchases.

Neither we nor any of the Placement Agents makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of notes. In addition, neither we nor the Placement Agents make any representation that the Placement Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

We have agreed to indemnify the Placement Agents against some liabilities (including liabilities under the Securities Act) or to contribute to payments the Placement Agents may be required to make in respect thereof. We have also agreed to reimburse the Placement Agents for some other expenses.

The Placement Agents may from time to time purchase and sell notes in the secondary market, but they are not obligated to do so, and there can be no assurance that there will be a secondary market for the notes or liquidity in the secondary market if one develops. From time to time, the Placement Agents may make a market in the notes.

Certain of the Placement Agents and/or their affiliates have, directly or indirectly, performed investment and commercial banking or financial advisory services for us, for which they have received customary fees and commissions, and they expect to provide these services to us and our affiliates in the future, for which they also expect to receive customary fees and commissions.

Each Placement Agent subscribing for or purchasing notes will be required to represent and agree (i) that it will not offer or sell notes (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Placement Agent or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all notes of the tranche of which such notes are a part (such period, the “**Distribution Compliance Period**”), within the United States or to, or for the account or benefit of, U.S. persons other than in accordance with Rule 144A and (ii) that it will send to each dealer to which it sells any notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Placement Agent subscribing for or purchasing notes agrees and each further purchasing agent appointed under the medium-term note program described in this Base Prospectus that subscribes for or purchases notes will be required to represent and agree that:

- (1) It has complied and will comply with all applicable provisions of the UK Financial Services and Markets Act 2000 with respect to anything done by it in relation to any notes in, from or otherwise, involving the United Kingdom; and
- (2) It has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the UK Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the UK Financial Services and Markets Act 2000 would not, if Nationwide was not an authorized person, apply to Nationwide.

## **SETTLEMENT**

Unless otherwise specified in the applicable Final Terms, you must pay the purchase price of the notes in immediately available funds in the applicable specified currency in New York City three business days after the trade date.

## **INDEPENDENT AUDITORS**

The financial statements as at April 4, 2011, 2010 and 2009, and for the years then ended, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports incorporated by reference herein.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for us by Allen & Overy LLP, our United States and English counsel, with respect to matters of New York law, U.S. federal law and English law and for the Placement Agents by Linklaters LLP, London, England with respect to matters of New York law, and U.S. federal law, and English law.

## GENERAL INFORMATION

1. Nationwide's principal office is Nationwide House, Pipers Way, Swindon SN38 1NW, England.
2. The admission of the program to trading on the regulated market of the London Stock Exchange is expected to take effect on or around February 27, 2012. The price of the notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any series of notes intended to be admitted to trading on the regulated market of the London Stock Exchange will be so admitted to trading upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in New York after the day of the transaction, unless otherwise specified in the relevant Final Terms.
3. The global notes have been accepted for clearance through DTC or its nominees. If the global notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.
4. Neither Nationwide nor its subsidiaries is or has been involved in any 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 its subsidiaries, nor, so far as Nationwide is aware, are any such proceedings pending or threatened.
5. Since April 4, 2011, being the date to which our most recent audited consolidated financial statements have been prepared, there has been no material adverse change in the financial position or prospects of Nationwide and its subsidiaries and since September 30, 2011, being the date of our most recent unaudited condensed consolidated financial statements, there has been no significant change in the financial or trading position of Nationwide and its subsidiaries.
6. For so long as the medium-term note program described in this Base Prospectus remains in effect or any notes shall be outstanding, copies and, where appropriate, the following documents may be inspected during normal business hours at the specified office of the paying agent and from our Treasury Division, at Nationwide Building Society, Kings Park Road, Moulton Park, Northampton, NN3 6NW, England, including:
  - (a) our constitutive documents;
  - (b) this Base Prospectus in relation to the senior and subordinated medium-term note program, together with any amendments;
  - (c) the Private Placement Agency Agreement;
  - (d) the Indenture;
  - (e) our most recent publicly available audited consolidated financial statements beginning with such financial statements for the years ended April 4, 2011, 2010 and 2009 and our unaudited condensed consolidated financial statements for the six month periods ended September 30, 2011 and 2010 and the Independent Review Report thereon appearing on pages 36-52 and 60, respectively of our Half-Yearly Financial Report for the period ended September 30, 2011;
  - (f) the report of PricewaterhouseCoopers LLP in respect of our audited consolidated financial statements for the financial year ended April 4, 2011; and
  - (g) any Final Terms relating to notes issued under the medium-term note program described in this Base Prospectus that are listed, traded and/or quoted on a stock exchange.
7. There are no material contracts having been entered into outside the ordinary course of our business, and which could result in any group member being under an obligation or entitlement that is material to our ability to meet our obligation to noteholders in respect of the notes being issued.
8. Issue of notes under the Program have been authorized by resolutions of our Board of Directors passed on March 16, 2005 and minutes of delegation of our Group Finance Director dated October 28, 2008.

## GLOSSARY OF FINANCIAL TERMS

Certain financial terminology used by building societies in the United Kingdom differs from that used by financial institutions in the United States. The following is a summary of such differences as they relate to our consolidated financial statements. We have used some of the following U.S. terms and descriptions throughout this Base Prospectus.

<b>UK Term used in financial statements</b>	<b>U.S. equivalent or brief description</b>
Accounts	Financial statements
Allotted	Issued
Amounts written off	Amounts charged off, or written-off
Cash in hand	Cash
Debt securities in issue	Debt
Fees and commissions payable	Fees and commissions expense
Fees and commissions receivable	Fees and commissions income
Freehold	Ownership with absolute rights in perpetuity
General reserve	Retained earnings
Income and Expenditure Account	Income Statement
Interest payable	Interest expense
Interest receivable	Interest income
Life assurance	Life insurance
Loans and advances	Loans or Lendings
Loans fully secured on residential property	Residential mortgage loans
Loans in arrears	Past due loans
Loans in repossession	Acquired property, foreclosed assets or Other Real Estate Owned (“ <b>OREO</b> ”)
Loans with interest suspended	Loans in non-accrual status
Permanent interest bearing shares and subscribed capital	No direct U.S. equivalent
Profit	Income
Provisions for bad and doubtful debts (in the balance sheet)	Allowance for loan losses
Provisions for bad and doubtful debts (in the income statement)	Provisions for loan losses
Revaluation reserve	No direct U.S. equivalent
Shares (UK retail member deposits)	No direct U.S. equivalent
Tangible fixed assets	Property, Plant & Equipment or Fixed Assets

**PRINCIPAL OFFICE OF THE ISSUER**

Nationwide House  
Pipers Way  
Swindon SN38 1NW  
England

**PLACEMENT AGENTS**

**Barclays Capital Inc.**  
745 Seventh Avenue  
New York, New York 10019  
U.S.A.

**Citigroup Global Markets Inc.**  
388 Greenwich Street  
New York, New York 10013  
U.S.A.

**Credit Suisse Securities (USA) LLC**  
Eleven Madison Avenue  
New York, New York 10010  
U.S.A.

**Deutsche Bank Securities Inc.**  
60 Wall Street  
New York, New York 10005  
U.S.A.

**HSBC Securities (USA) Inc.**  
452 Fifth Avenue  
New York, New York 10018  
U.S.A.

**J. P. Morgan Securities LLC**  
383 Madison Avenue  
New York, New York 10179  
U.S.A.

**Merrill Lynch, Pierce, Fenner & Smith Incorporated**  
One Bryant Park  
New York, New York 10036  
U.S.A.

**Morgan Stanley & Co. LLC**  
1585 Broadway, 4th Floor  
New York, New York 10036  
U.S.A.

**UBS Securities LLC**  
677 Washington Boulevard  
Stamford, Connecticut 06901  
U.S.A.

**TRUSTEE**

**The Bank of New York Mellon**  
Corporate Finance  
101 Barclay Street, 8W  
New York, New York 10286  
U.S.A.

**PRINCIPAL PAYING AGENT**

**The Bank of New York Mellon**  
101 Barclay Street  
New York, New York 10286  
U.S.A.

**PAYING AGENT**

**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL  
England

**PAYING AGENT**

**Credit Agricole Indosuez Luxembourg, S.A.**  
39, Allee Scheffer  
L-2520 Luxembourg

**LEGAL ADVISERS**

*To Nationwide  
as to New York, U.S. federal and English law:*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
England

*To the Placement Agents  
as to New York, U.S. federal law and English law:*

**Linklaters LLP**  
One Silk Street  
London, EC2Y 8HQ  
England

**AUDITORS TO NATIONWIDE**

**PricewaterhouseCoopers LLP**  
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England