



## 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 Twelve Months or More from Date of Issue

We may issue at various times up to \$20,000,000,000 aggregate principal amount outstanding at any time of senior or subordinated medium-term notes denominated in U.S. dollars or in other currencies or composite currencies. The notes will be issued in series and each series will be the subject of final terms (each "**Final Terms**"). We are privately placing the notes on a delayed or continuous basis to the placement agents named below (the "**Placement Agents**") or through the Placement Agents to qualified institutional buyers as described in this Base Prospectus under the section entitled "**Plan of Distribution**." This document constitutes a base prospectus ("**Base Prospectus**") for the purposes of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in a relevant Member State of the European Economic Area (the "**Prospectus Directive**"). Application has been made to the United Kingdom Financial Conduct Authority (the "**FCA**"), in its capacity as competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the "**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**").

See the section entitled "**Risk Factors**" commencing on page 14 for a discussion of certain risks that you should consider prior to making an investment in the notes.

By its acquisition of the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority (as defined below) that may result in (i) the cancellation, write-down or reduction of all, or a portion, of the principal amount of, or interest on, the notes (including by variation of the notes) and/or (ii) any other modification of the notes and/or (iii) the conversion of all, or a portion, of the principal amount of, or interest on, the notes into our Core Capital Deferred Shares ("**CCDS**") or our or another person's shares or other securities or other obligations (including by variation of the notes) to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power, and the rights of the holders of the notes will be subject to the provisions of any UK bail-in power which are expressed to implement such a reduction, write-down, cancellation, modification or conversion. Each noteholder further acknowledges and agrees that the rights of the noteholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise by the relevant UK resolution authority of such UK bail-in power.

For purposes of the notes, a "**UK bail-in power**" is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the UK Banking Act 2009, as the same may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 or otherwise), and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the "**BRRD**"), pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the "**relevant UK resolution authority**" is to any authority with the ability to exercise a UK bail-in power).

By purchasing the notes, each noteholder (including each beneficial owner) waives any and all claims against The Bank of New York Mellon, as trustee, for, agrees not to initiate a suit against the trustee in respect of, and agrees that the trustee will not be liable for, any action that the trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes.

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

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

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

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

The Placement Agents expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company ("**DTC**"). Beneficial interests in the notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Clearstream Banking, *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. Each of Moody's Investors Service Limited ("**Moody's**"), Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and Fitch Rating Ltd. ("**Fitch**") is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. DBRS, Inc. ("**DBRS**") is not established in the European Union, and has not applied for registration under the CRA Regulation, but its ratings have been, or are expected to be, endorsed by DBRS Ratings Limited, which is established in the European Union and registered under the CRA Regulation. Each of Moody's, S&P, Fitch and DBRS Ratings Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. The European Securities and Markets Authority has indicated that ratings issued in the United States which have been endorsed by DBRS Ratings Limited may be used in the EU by the relevant market participants.

BARCLAYS

BOFA MERRILL LYNCH

CITIGROUP

CREDIT SUISSE

DEUTSCHE BANK SECURITIES

HSBC

J.P. MORGAN

MORGAN STANLEY

UBS INVESTMENT BANK

The date of this Base Prospectus is June 23, 2016

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## NOTICE TO INVESTORS

We are furnishing this Base Prospectus in connection with an offering exempt from registration under the Securities Act and applicable state securities laws solely for the purpose of enabling a prospective investor to consider the purchase of the notes. Delivery of this Base Prospectus to any person or any reproduction of this Base Prospectus, in whole or in part, without our consent is prohibited. The information contained in this Base Prospectus has been provided by us and other sources identified in this Base Prospectus. The source of third-party information is identified where used. Any information provided by a third-party has been accurately reproduced and as far as we are aware and are able to ascertain from information published by that third-party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Placement Agents or their respective representatives make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Base Prospectus, nor regarding the legality of any investment in the notes. None of the information contained in this Base Prospectus is, or should be relied upon as, a promise or representation by the Placement Agents. You should be aware that since the date of this Base Prospectus there may have been changes in our affairs or otherwise that could affect the accuracy or completeness of the information set forth in this Base Prospectus.

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

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

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

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

Some notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of such notes and the impact this investment will have on the potential investor's overall investment portfolio.

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

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

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

In connection with the issue of any tranche of notes, one or more relevant Placement Agents acting as the stabilizing manager(s) (or persons acting on behalf of any stabilizing manager(s)) may over-allot notes (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) in the European Economic Area, the aggregate principal amount of notes allotted does not exceed 105% of the aggregate principal amount of the relevant tranche) or effect transactions with a view to supporting the market price of the 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 CANADIAN INVESTORS

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

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

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

## **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 14 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 except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The notes will be offered in the United States only to qualified institutional buyers, as defined in Rule 144A, in transactions exempt from registration under the Securities Act. The notes may be offered outside the United States to non-U.S. persons in accordance with Regulation S. We hereby notify you that the sellers of the notes, other than ourselves, may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

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

We may issue additional notes of any series having identical terms to that of the original notes of that series but for the original issue discount (if any) 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 FCA and shall be deemed to be incorporated in, and form part of, this Base Prospectus:

- (1) our audited consolidated financial statements as of and for the financial years ended April 4, 2016, 2015 and 2014 and the auditors' reports thereon; and
- (2) the Terms and Conditions of the Notes (previously the "**Description of the Notes**") contained in the previous base prospectuses dated June 25, 2009, pages 102-130 (inclusive), July 1, 2010, pages 126-154 (inclusive), December 19, 2014, pages 191-220 (inclusive) and July 6, 2015, pages 164-198 (inclusive).

Following the publication of this Base Prospectus a supplement may be prepared by us and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus.

We will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference. Written requests for such documents should be directed to our Treasury Division at Nationwide Building Society, One Threadneedle Street, London EC2R 8AW, England. In addition, copies of this Base Prospectus and each document incorporated by reference herein are available on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

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

The table below sets out the relevant page references for our audited consolidated financial statements for the financial years ended April 4, 2016, 2015 and 2014 and the auditors' reports thereon.

### **Audited consolidated annual financial statements as of and for the financial year ended April 4, 2016**

Independent Auditors' Report	Page 195-201
Income statement	Page 202
Statement of comprehensive income	Page 203
Balance sheet	Page 204
Group statement of movements in members' interests and equity	Page 205
Society statement of movements in members' interests and equity	Page 206
Cash flow statement	Page 207
Notes to the consolidated annual financial statements	Page 208

### **Audited consolidated annual financial statements as of and for the financial year ended April 4, 2015**

Independent Auditors' Report	Page 188-194
Income statement	Page 195
Statement of comprehensive income	Page 196
Balance sheet	Page 197
Group statement of movements in members' interests and equity	Page 198
Society statement of movements in members' interests and equity	Page 199
Cash flow statement	Page 200
Notes to the consolidated annual financial statements	Page 201-269

### **Audited consolidated annual financial statements as of and for the financial year ended April 4, 2014**

Independent Auditors' Report	Page 172
Income statement	Page 177
Statement of comprehensive income	Page 178
Balance sheet	Page 179
Group statement of movements in members' interests	Page 180
Society statement of movement in members' interests	Page 181
Cash flow statement	Page 182
Notes to the consolidated annual financial statements	Page 183-253
Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.	



## PRESENTATION OF FINANCIAL INFORMATION

The financial information included in this Base Prospectus as of and for the financial years ended April 4, 2016, 2015 and 2014 has been extracted from our audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union (“**EU**”).

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

Certain amounts have been reclassified in respect of the year ended April 4, 2015. A summary of such reclassifications is provided in note 1 to the audited consolidated financial statements for the year ended April 4, 2016. There has been no impact on our consolidated net assets or members’ interest and equity at April 4, 2015 and no impact on our net cash flows generated from operating activities or cash and cash equivalents for the period ended April 4, 2015 as a result of the reclassifications as a consequence of the foregoing.

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

Unless otherwise indicated, all references in this Base Prospectus to “**pounds sterling**,” “**sterling**” and “**£**” are to the lawful currency of the United Kingdom, all references to “**U.S. dollars**,” “**dollars**,” “**USD**” and “**\$**” are to the lawful currency of the United States, all references to “**Canadian dollars**” or “**C\$**” are to the lawful currency of Canada and all references to “**euro**,” “**EUR**” or “**€**” are to the single currency of the participating member states of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

## 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, One Threadneedle Street, London EC2R 8AW, England.

As of the date of this Base Prospectus, we do not file reports or other information with the U.S. Securities and Exchange Commission. To preserve the exemption for 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 following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular tranche of notes, the applicable Final Terms.

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

Issuer .....	<p>Nationwide Building Society. We are a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended) of the United Kingdom (the “<b>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. We have 15 million members and customers.</p> <p>As a building society, we are a mutual organization managed for the benefit of our “<b>members</b>,” who are retail savings customers and residential mortgage customers.</p>
Placement Agents .....	<p>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 &amp; Smith Incorporated  Morgan Stanley &amp; Co. LLC  UBS Securities LLC</p>
Trustee .....	<p>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.</p>
Program Size .....	<p>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.</p>
Currencies.....	<p>Subject to any applicable legal or regulatory restrictions, we may issue notes in any currency as we may agree with the relevant Placement Agent.</p>

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>Terms and Conditions of the Notes—Negative Pledge</i> ,” unsecured obligations without any preference among themselves and will rank equally among themselves, junior to obligations required to be preferred by law (which from January 1, 2015 includes certain member share accounts which are given preferential status by law) and equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer.
Ranking of Subordinated Notes.....	The subordinated notes will constitute our direct and unsecured obligations and will rank <i>pari passu</i> and without any preference among themselves. The claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of our obligations) in respect of the subordinated notes will, in the event of our winding up or dissolution, be subordinated in the manner provided in “ <i>Terms and Conditions of the Notes—Status of the Subordinated Notes</i> ”.
Issue Price.....	We may offer notes at par or at a premium or discount to par as specified in the applicable Final Terms.
Maturities.....	The notes will mature in twelve months or longer as specified in the applicable Final Terms.
Redemption at Maturity.....	Subject to any purchase or early redemption, the notes will be redeemed at par on the maturity date.
Early Redemption.....	We are permitted to redeem the notes prior to maturity for taxation reasons and as specified in the applicable Final Terms. We are also permitted to redeem subordinated notes in the event that they cease, in full or in part (as specified in the applicable Final Terms), to qualify towards meeting our Tier 2 capital resources. 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.
Agreement with Respect to the Exercise of UK Bail-in Power.....	By its acquisition of the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority (as defined below) that may result in (i) the cancellation, write-down or reduction of all, or a portion, of the principal amount of, or interest on, the notes (including by variation of the notes) and/or (ii) any other modification of the notes and/or (iii) the conversion of all, or a portion, of the principal amount of, or interest on, the notes into our Core Capital Deferred Shares (“ <b>CCDS</b> ”) or our or another person's shares or other securities or other obligations (including by variation of the notes) to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power, and the rights of the holders of the notes will

be subject to the provisions of any UK bail-in power which are expressed to implement such a reduction, write-down, cancellation, modification or conversion. Each noteholder further acknowledges and agrees that the rights of the noteholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise by the relevant UK resolution authority of such UK bail-in power.

For purposes of the notes, a “UK bail-in power” is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the UK Banking Act 2009, as the same may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 or otherwise), and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the “**BRRD**”), pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power).

Repayment of principal and payment of interest after exercise of UK bail-in power .....

No repayment of the principal amount of the notes or payment of interest on the notes will become due and payable after the exercise of any UK bail-in power by the relevant UK resolution authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us after the exercise of such UK bail-in power.

Interest .....

Interest may accrue at a fixed rate or a floating rate. The floating rate may be determined by reference to a base rate, such as LIBOR, as we agree with the purchaser and describe in the applicable Final Terms.

Reset Notes .....

Interest on reset notes will be payable in arrear on the dates specified in the Final Terms at the initial rate specified in the Final Terms, and thereafter the rate may be reset with respect to a specified time period by reference to the Reset Reference Rate as described in “*Terms and Conditions of the Notes–Interest–Reset Notes*”. The rate of interest may be reset on more than one occasion.

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 \$200,000 and the subordinated notes in minimum denominations of \$250,000 or, in each case, in integral multiples of \$1,000 in excess of these minimum denominations, or the equivalent of these amounts in other currencies or composite currencies, and in any other denominations in excess of the minimum denominations as we specify in the applicable Final Terms.
Taxation.....	All payments in respect of the notes will be made without deduction for or on account of United Kingdom withholding taxes, unless the withholding is required by law. In that event, we will (subject to certain exceptions as described in “ <i>Terms and Conditions of the Notes—Payment of Additional Amounts</i> ”) pay such additional amounts as will result in the holder of any notes receiving such amounts as they would have received in respect of the notes had no such withholding been required.
Events of Default.....	As described in “ <i>Terms and Conditions of the Notes—Events of Default—Senior Notes</i> ” and “ <i>Terms and Conditions of the Notes—Events of Default—Subordinated Notes</i> ”.
Rating .....	The rating of certain series of notes to be issued under the program may be specified in the applicable Final Terms.
Form, Clearance and Settlement.....	<p>Notes of a series will initially be represented by a global note or global notes in fully registered form (“<b>Global Notes</b>”). Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes (“<b>U.S. Global Notes</b>”) and notes offered outside the United States in reliance on Regulation S will be represented by one or more international global notes (“<b>International Global Notes</b>”).</p> <p>The Global Notes will be issued in fully registered form and 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 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.
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 14 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.*

*In purchasing notes, investors assume the risk that we may become insolvent or otherwise be unable to make all payments due in respect of the notes. There is a wide range of factors which individually or together could result in us becoming unable to make all payments due in respect of the notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as we may not be aware of all relevant factors and certain factors which we currently deem not to be material may become material as a result of the occurrence of events outside our control. The following is a description of the principal risks associated with the notes and our business as of the date of this Base Prospectus; however, we do not represent that the risks set out in the statements below are exhaustive.*

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

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

***Our business and prospects are largely driven by the UK mortgage and savings markets, which in turn are driven by the UK economy. Consequently, we are subject to inherent risks arising from general economic conditions in the UK.***

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

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

The durability of the UK economic recovery, along with its concomitant impacts on our profitability, remains a risk. There is potential for activity and prices to decline should the labour market deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy. Credit quality could be adversely affected by a renewed increase in unemployment. Any related significant reduction in the demand for our products and services could have a material adverse effect on our operating results, financial condition and prospects.

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

Conversely, a strengthened UK economic performance may increase the possibility of a higher interest rate environment. In such a scenario other market participants might offer more competitive product pricing resulting in increased customer attrition. Under such conditions we may also experience an increase in our cost of funding, as described under “—An increasing interest rate environment could affect the financial condition of our customers, clients and counterparties, including governments and other financial institutions, which could in turn adversely impact our financial and operational performance.”

Additionally, house price growth has been accelerating faster than earnings, with housing affordability becoming more stretched. There is a risk that house price growth could outstrip earnings and higher house prices, and potentially higher interest rates, will increase mortgage payments, which could lead to higher retail loan losses.

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

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

We are directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies, particularly the Eurozone. The dislocations in financial markets that have occurred since the global financial crisis of 2007-2008 were accompanied by recessionary conditions and trends in the UK and a period of significant turbulence and uncertainty for many financial institutions in the UK and around the world, including us and many of our counterparties. Any future disruptions could again pose systemic risks that negatively affect, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, the availability and cost of credit, transaction volumes in wholesale and retail markets, the liquidity of the global financial markets and market interest rates, which in turn could have a material adverse effect on our business, operating results, financial conditions and prospects.

In the Eurozone, weak growth and deflationary pressures, together with high levels of private and public debt, outstanding weaknesses in the financial sector and reform fatigue, are a concern. The possibility of prolonged low growth in the Eurozone could inhibit the UK’s own economic recovery, given the extensive economic and financial linkages between the UK and the Eurozone. The UK’s trade and current account balances with the Eurozone would be likely to deteriorate further, negatively affecting UK growth. The possibility of a sovereign default or the exit of one or more member states from the European Monetary Union could also pose a threat to the stability of financial markets and could cause other risks. For further information, see “—If the United Kingdom withdraws from the European Union, we would face risks to our business and legal uncertainties for some time, which could be significant,” and “—If Greece or another member state were to leave the eurozone, economic or financial instability or contagion could develop, which could adversely affect us.”

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

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



Like all major financial institutions, we are dependent on the short- and long-term wholesale funding markets for liquidity. Our business is subject to risks concerning liquidity, which are inherent in financial institutions operations. If access to liquidity is constrained for a prolonged period of time, this could affect our profitability.

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

In past years, the UK government (“**Government**”) has provided significant support to UK financial institutions, including the Bank of England’s (“**BoE**”) Funding for Lending Scheme (“**Funding for Lending**”), which commenced on August 1, 2012 and was closed to mortgage lending on January 31, 2014. The withdrawal of government support schemes such as Funding for Lending means that our reliance upon fundraising in the wholesale markets has increased and become increasingly important in the future. There is a risk that we may be unable to raise funds, or that the cost of our funding could increase, reducing our margins and profitability.

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 our 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. Increases in the cost of such funding in the wake of the financial crisis together with the low base rate environment have had a negative impact on our margins and profit. Such pressures could re-emerge and, in extreme circumstances, a loss of consumer confidence could result in high levels of withdrawals from our retail deposit base, upon which we rely for lending and which could have a material adverse effect on our business, financial position and results of operations.

In addition, given that other financial institutions also have increased needs for funding in the absence of Government support, we expect to face increased competition for funding, particularly retail funding on which we are reliant in the future. This competition could further increase our funding costs and so adversely impact our results of operations and financial position.

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

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

Stimulus measures in the UK and elsewhere have been highly accommodative in recent years, including Funding for Lending and the Help to Buy scheme (“**Help to Buy**”), a Government scheme designed to

enable buyers to put down a 5.0% deposit on a home with the Government guaranteeing up to 20.0% of the mortgage (40% in London) funded by a commercial lender. Such measures have helped to support demand at a time of fiscal tightening and balance sheet repair. Such a long period of stimulus has increased uncertainty over the impact of its reduction, which could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence, higher levels of unemployment or underemployment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices in the markets in which we operate, and consequently to an increase in delinquency rates and default rates among customers. Moreover, higher prevailing interest rates would affect our cost of funding with depositors and creditors, which could adversely affect our profitability, to the extent our margins decline.

The personal sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. As a result of, among other factors, increases and decreases in the BoE base rate, interest rates payable on a significant portion of our outstanding mortgage loan products fluctuate over time. Rising interest rates would put pressure on borrowers whose loans are linked to the BoE base rate because such borrowers may experience financial stress in repaying at increased rates in the future. A significant portion of our outstanding mortgage loan products are potentially subject to changes in interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers taking out new loans and those repaying existing variable rate loans, regardless of special or introductory rates, and these rates are expected to increase as general interest rates return to historically more normal levels. Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

In an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Increased unemployment could lead to borrowers who are made redundant being unable to service the loan payments in a timely fashion which would result in higher levels of arrears, both in our secured residential mortgage loan and unsecured consumer loan portfolios which, in turn, would lead to an increase in our impairment charges in respect of these portfolios. Declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses. For further discussion see "*Management's Discussion and Analysis of Financial Condition and Results of Operation—Results of Operations for the Year Ended April 4, 2016 Compared with the Year Ended April 4, 2015—Operating expenses and similar charges—Impairment losses on loans and advances to customers.*"

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

***If the United Kingdom withdraws from the European Union, we would face risks to our business and legal uncertainties for some time, which could be significant.***

On June 23, 2016, a referendum will be held at which UK voters will decide upon continuing EU membership. If the referendum results in an exit of the UK from the EU, the effects on the UK and European economy are impossible to predict and protect fully against in view of (i) economic and financial instability in the Eurozone and the UK, (ii) the severity of the recent global financial crisis, (iii) difficulties in predicting

whether the current signs of recovery will be sustained and at what rate, (iv) the uncertain legal position, and (v) the fact that many of the risks related to the business are totally, or in part, outside of our control. We anticipate that effects may include (a) significant market dislocation, (b) heightened counterparty risk, (c) an adverse effect on the management of market risk and, in particular, asset and liability management due, in part, to redenomination or relocation of financial assets and liabilities, (d) an indirect risk of counterparty failure, (e) increased liquidity risk, or (f) further political uncertainty in the UK. Any such adverse changes and any further deterioration in global macro-economic conditions, could have a material adverse effect on the Group's results of operations, financial condition or prospects.

***If Greece or another member state were to leave the eurozone, economic or financial instability or contagion could develop, which could adversely affect us.***

The spectre of the 2015 negotiations between Greece and the so-called "troika" (the International Monetary Fund, the European Central Bank, and the European Commission) and the potential for continued difficulties Greece faces in remaining in the Eurozone mean risks of renewed market turmoil and the future potential of Greece's exit from the Eurozone. Any default on the sovereign debt of Greece or another distressed Eurozone country could have a negative impact on other Eurozone countries and the UK, and could have a material adverse effect on our business.

The exit of a member state from the European Union and/or European Monetary Union could result in deterioration in the economic and financial environment in the UK and Eurozone that would materially affect the capital and the funding position of participants in the banking industry, including us. This could also give rise to operational disruptions to our business. The effects on the European and global economy of the exit of one or more European Union member states or the redenomination of financial instruments from the Euro to a different currency, are impossible to predict and protect fully against in view of (i) economic and financial instability in the Eurozone, (ii) the severity of the recent global financial crisis, (iii) difficulties in predicting whether the current signs of recovery will be sustained and at what rate, (iv) the uncertain legal position, and (v) the fact that many of the risks related to the business are totally, or in part, outside our control. However, if any such events were to occur they would likely result in significant market dislocation, heightened counterparty risk, an adverse effect on the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities, or a material adverse effect on our results of operations, financial condition or prospects.

***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.

***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 impairment charges and negative fair value adjustments in our results over the last three financial years with respect to securities and other investments held. Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of our 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.

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

If sentiment towards banks, building societies and/or other financial institutions operating in the United Kingdom, including us, 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 us. Any such events could affect the market value of the notes.

Any future declines in those aspects of our business identified by the rating agencies as significant could adversely affect the rating agencies' perception of our credit and cause them to take further negative ratings actions. Any downgrade in our credit ratings could adversely affect our liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts, undermine confidence in our business, increase our borrowing costs, limit our access to the capital markets, or limit the range of counterparties willing to enter into transactions with us. We have experienced all of these effects when downgraded in the past, although the precise effects experienced on each downgrade have varied based on the reasons for the particular downgrade and the extent to which the downgrade had been anticipated by the market. Our credit ratings are subject to change and could be downgraded as a result of many factors, including the failure to successfully implement our strategies. A downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on our business, results of operations and financial condition.

If the ratings analysis of any agency that rates our credit is updated to reflect lower forward-looking assumptions of systemic support in the current environment or higher assumptions of the risks in the financial sector, it could result in a further downgrade to the outlook or to the credit ratings of UK financial institutions, including us, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including us. A further downgrade could also create new obligations or requirements for us under existing contracts with our counterparties that may have a material adverse effect on our business, financial condition, liquidity or results of operations.

Additionally, any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilize the markets, impact our rating, our borrowing costs and our ability to fund ourselves and have a material adverse effect on our operating results and financial condition. A perceived further downgrade may also negatively impact the marketability and trading value of the notes, our own credit ratings, borrowing costs and our ability to fund ourselves.

A further 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 and/or reducing asset prices. These risks are exacerbated by concerns over the levels of the public debt of, the risk of further sovereign downgrades of, and the weakness of the economies in, GIIPS in particular. Further instability within these countries or others within the eurozone might lead to instability in the UK and in the global financial markets. Our financial performance has been and will continue to be affected by general economic conditions in the UK, the eurozone and elsewhere, and other adverse developments in the UK or global financial markets would cause our earnings and profitability to decline.

***Competition in the UK personal financial services markets may adversely affect 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, and recent technological advances have heightened the potential for different kinds of competitors to emerge within the traditional financial services arena. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of Economic Conditions in the United Kingdom Generally and Outlook.*”

In the UK, most major retail banks see the mortgage market as an attractive and high priority focus for expansion. Additionally, smaller institutions are also seeking to build share of the mortgage market, including new ventures and businesses with a base outside the traditional financial services industry. Competition for the highest quality mortgages is intense and is likely to continue, putting downward pressure on returns available for the lowest risk-weighted mortgage assets. At the same time, price comparison websites have become more popular and widely used, allowing customers more easily to compare products and make buying decisions based on price. As a consequence, there is a risk that industry pricing will be forced lower, negatively impacting our ability to deliver our strategic income targets and our financial performance.

Competition for deposits has, on the whole, been less intense, but there is a possibility that this could change were interest rates to rise or if the Government-owned funding agency, National Savings and Investments, were to increase its market share. The personal current account market is currently the focus of intense competition, both across the private sector and from National Savings and Investments, which may offer savings products with government guarantees or subsidies. A range of institutions see this product as the key to broader customer relationships and seek to make inroads into the large established market share of the major banking groups.

Competition may intensify 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. For example, the Competition and Markets Authority is investigating the supply of personal current accounts and the supply of banking services to small and medium-sized enterprises. A provisional decision on remedies was published on May 17, 2016, which is proposing a package of measures designed to make markets for financial services to individual and business customers more competitive. If this investigation were to lead, directly or indirectly, to regulatory actions designed to promote competition, there can be no assurance that our customer base, levels of deposits or market share would not be adversely affected. Additionally, the implementation of the Independent Commission on Banking's (the "ICB") recommendation to separate retail banking activities from the wholesale and investment banking activities carried out by large banking groups operating in the UK no later than 2019 could reduce the distinctiveness of the building society model, which we consider to be a competitive advantage for us. This may, in time, alter the business models of ring-fenced banks and may therefore alter adversely the competitive position of us and other mutual institutions.

The rise of digital banking is changing customer expectations of the availability of banking services. As digital changes make transactions easier and more convenient, we expect customers to transact more, and in many different ways. We may not be able to manage service provision ahead of rising customer expectations or may have competitors who are more successful in meeting demand for digital banking services.

In addition, if our customer service levels were perceived by the market to be materially below those of competitor 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 borrower or counterparty fails to pay interest or to repay the principal on a loan or other financial instrument (e.g. bond) on time. 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 business is 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. In particular, increased digital interconnectivity across the Group, its customers and suppliers, and the need for cyber security, remains an evolving risk to financial institutions including us. Although we maintain measures designed to ensure the integrity of key systems and processes, we may be the victim of cyber-attacks, which could disrupt service for customers, and cause financial loss and reputational damage. 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 under the Financial Services and Markets Act 2000, as amended (“FSMA”).

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

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

The performance of financial markets may cause changes in the value of our investment and liquidity portfolios. Although we have implemented risk management methods 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 if our reputation or the reputation of the Nationwide brand is damaged. Failure to address, or appearing to fail to address, 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; breaching, or facing allegations of having breached, legal and regulatory requirements; acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices); adequacy of anti-money laundering and anti-terrorism financing processes; privacy issues; failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping; technology failures that impact upon customer services and accounts; 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.***

There is currently significant regulatory scrutiny of the sales practices and reward structures that financial institutions have used when selling financial products. No assurance can be given that financial institutions, including us, will not incur liability for past actions which are determined to have been inappropriate and any such liability incurred could be significant and materially adversely affect our results of operations and financial position. No assurance can be given that we will not incur liability in connection with any past non-compliance with such legislation or with other similar legislation, and any such non-compliance could be significant and materially adversely affect our results of operations and financial position or our reputation. Primarily:

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

In addition, we face both financial and reputational risk where legal or regulatory proceedings, or complaints before the FOS, or other complaints are brought against us or members of our industry generally in the UK High Court or elsewhere. For example, a UK High Court judgment in 2011 on the misselling of payment protection insurance (“PPI”) resulted in very significant provisions for customer redress made by several UK financial services providers. We made a charge for customer redress of £127 million in the year ended April 4, 2016, with the increase primarily relating to Payment Protection Insurance, as compared to a charge for customer redress of £59 million in the year ended April 4, 2015. Although our PPI product sales ceased in 2007, we continue to see a number of PPI claims and there can be no assurance that our estimates for potential liability are correct, and our reserves taken to date might prove inadequate.

In November 2014, the UK Supreme Court ruled in *Plevin v. Paragon Personal Finance Ltd* (“Plevin”) that a failure to disclose to a client a large commission payment on a single premium PPI policy made the relationship between a lender and the borrower unfair under section 140A of the Consumer Credit Act 1974 (the “CCA”). As a result, the FCA announced on May 27, 2015 that it was considering whether additional rules or guidance on PPI complaints are required subsequent to the Plevin decision. On October 2, 2015, the FCA announced that it was proposing to consult, by the end of 2015, on the introduction of a deadline by which businesses would need to make their PPI complaints or else lose their rights to have them assessed by the Financial Ombudsman Service. As part of this, the FCA is also consulting on rules and guidance for lenders to comply with when handling PPI complaints based on Plevin style unfair relationship claims. The FCA published its consultation paper CP 15/39: Rules and guidance on payment protection insurance complaints on November 26, 2015 and was due to conclude its consultation in February 2016.

The FCA is consulting on a deadline falling two years from the date the proposed rule comes into force – which, subject to the Consultation, would not, the FCA anticipates, be before Spring 2016 – hence PPI consumers would have until at least Spring 2018 to complain.

The FCA has also decided to consult at the same time on proposed rules and guidance concerning the handling of PPI complaints in light of the Supreme Court’s decision in Plevin.

Further announcements from the FCA are expected in the coming months, and there can be no assurance that additional rules or guidance will not result in further costs or requirements in relation to customer redress by institutions which have historically sold PPI.

In addition, a number of financial institutions, including us, have agreed, following discussions with the FCA, to repay customers who were sold card protection insurance and identity protection products issued by Card Protection Plan Limited (“**CPP**”). As well as CPP selling directly to customers, a number of third-party financial institutions, including us, introduced customers to CPP’s products. Several institutions, including us, agreed to a scheme with the FCA that CPP redress would be paid through a scheme of arrangement that commenced in February 2014, under which customers could submit claims until August. Consequently, the extent of claims we will take under the scheme remains uncertain.

In light of a review of compliance-oriented legislation being undertaken across the industry, we are undertaking a comprehensive revision of our own documentation and processes relating to consumer protection and sales practices. A number of areas which require further enquiry have been identified and while our investigations are still at a relatively early stage, we have recognized the aforementioned charge in the year ended April 4, 2016 of £127 million (£59 million in the year ended April 4, 2015) in respect of potential costs in relation to matters which may require remediation. No assurance can be given that we will not incur liability in connection with any past non-compliance with such legislation or with other similar legislation, and any such non-compliance could be significant and materially adversely affect our results of operations and financial position or our reputation.

***Future legislative and regulatory changes could impose operational restrictions on us, causing us to raise further capital, increase our expenses and/or otherwise adversely affect our business, results, financial condition or prospects.***

We conduct our business subject to ongoing regulation by the PRA and the FCA, which oversee our prudential arrangements and the sale of 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 comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

This is particularly the case in the current market environment, which 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.

A range of legislative and regulatory changes have been made by regulators and other bodies in the UK and the EU which could impose operational restrictions on us, causing us to raise further capital, increase our expenses and/or otherwise adversely affect our business results, financial condition or prospects. These include, among others:

- At an EU level, structural reform measures that are similar to some of those contained in the Banking Reform Act 2013 (concerning the ring-fencing of retail banking services in the UK) are also under consideration, following the report of the European Commission's high level expert group on reforming the structure of the EU Banking Sector (the “**Liikanen Group**”). This report's proposals were heavily influenced by the UK experience. We do not anticipate that the report's proposals will have any impact on the UK building societies due to the Banking Reform Act and existing restrictions, provided the UK obtains a derogation under the EU proposals, but there can be no assurance that the proposals will not have an adverse effect on our operations, business, results, financial condition or prospects.
- Changes to the Markets in Financial Instruments Directive (“**MiFID**”) and its various implementing measures, which together regulate the provision of “investment services and activities” in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis,



suitability and appropriateness, transparency obligations and transaction reporting. MiFID is in the process of being replaced by a revised directive (“**MiFID II**”) and a new regulation (Markets in Financial Instruments Regulation or “**MiFIR**”), which entered into force on 2 July 2014. The changes to MiFID include expanded supervisory powers that include the ability to ban specific products, services or practices. The majority of the provisions of MiFID II and MiFIR and the implementing laws and regulations are currently scheduled to apply from 3 January 2018.

- Revisions to the Payment Services Regulations 2009 (SI 2009/209) (the “**PSRs**”) will need to take place in the future to reflect the revised directive on payment services (Directive (EU) 2015/2366) (“**PSD2**”). PSD2 came into force on 12 January 2016 and member states, including the UK, are required to transpose it into national law by 13 January 2018. Key changes include the requirement for account Information Services (“**AIS**”) and payment Initiation services (“**PIS**”) to now be regulated, new security requirements and increased focus on consumer protection. There are also changes to the scope of the conduct of business rules and the list of exemptions.
- In September 2016 the Payment Accounts Directive will be implemented in the UK with aims to improve payment account fees comparison, payment account switching, and the ability for non-residents to open payment accounts. The Payment Accounts Directive was published in the Official Journal of the EU on 28 August 2014 and is being implemented in the UK through the Payment Accounts Regulations 2015 (2015/2038) which generally come into force on 18 September 2016. We may incur additional costs, for example, to put processes in place to meet the requirements regarding the comparison of fees, payment account switching and the ability for non-residents to open payment accounts.

At this point it is impossible to predict the effect that any of the proposed changes will have on our operations, business and prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the Government and/or the European Commission. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on our operations, structure, costs and/or capital requirements. Accordingly, we cannot assure investors that the implementation of any of the foregoing matters 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.

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

#### ***Risks relating to the UK Banking Act 2009 and the BRRD.***

In Europe, the BRRD provides for a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The UK implemented the majority of the measures under the BRRD into English law, by way of amendment to the Banking Act 2009 (the “**Banking Act**”) on January 1, 2015.

Under the Banking Act substantial powers have been granted to HM Treasury, the PRA, the FCA and the BoE (the “**Authorities**”) as part of a special resolution regime (the “**SRR**”). These powers enable the Authorities, among other things, to resolve a bank or building society in circumstances in which the Authorities consider its failure has become highly likely and a threat is posed to the public interest. In respect of UK building societies, the relevant tools (together, the “**Stabilization Options**”) include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society and (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building

society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the society to a company. In each case, the Banking Act grants additional powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. If a bail-in power is exercised in respect of the notes, losses may be imposed on noteholders as described under “—*Risks related to the Notes—The relevant UK resolution authority could exercise the bail-in power in the Banking Act, once in force, which could impose losses on an investment in the notes.*”

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

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

In addition, the Banking Act contains a separate power, often referred to as the “capital write-down tool”, enabling the Authorities to write down (including to nil) an institution’s Additional Tier 1 and Tier 2 capital instruments, or to convert them into common equity tier 1 instruments, if the Authorities consider that the institution is at the “point of non-viability” and certain other conditions are met. The capital write-down tool may be used separately from the resolution tools, and may be used whether or not the institution enters into resolution. Subordinated notes issued under the program may be Tier 2 capital instruments, and any such subordinated notes would be subject to the capital write-down tool.

Other powers contained in the Banking Act and required by the BRRD may affect the value of an investment in the notes. The exercise of these powers may impact how we are managed as well as, in certain circumstances, the rights of creditors. There can be no assurance that actions taken under the Banking Act will not adversely affect noteholders.

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

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

On August 6, 2015, the European Banking Authority (the “EBA”) published guidelines on the circumstances in which an institution shall be deemed as “failing or likely to fail” by supervisors and resolution authorities. These applied from January 1, 2016. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

Although the Banking Act provides for conditions to the exercise of any resolution powers and the EBA guidelines set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the Authorities would assess such conditions in any particular situation. The relevant Authorities are also not required to provide any advance notice to noteholders of their decision to exercise any

resolution power. Therefore, noteholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on us or the notes.

A partial transfer of our business may result in a deterioration of our creditworthiness. If we were made subject to the SRR and a partial transfer of our business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with us (which may include the notes) may result in a deterioration in our creditworthiness and, as a result, increase the risk that we may be unable to meet our obligations in respect of the notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

Noteholders may lose all of their investment in the notes, including the principal amount plus any accrued interest, if the UK bail-in power is acted upon and any remaining outstanding notes or securities into which the notes are converted may be of little value at the time of conversion and thereafter.

***We are subject to regulatory capital requirements which may change.***

We are subject to capital requirements that could have an impact on our operations. Changes to the capital requirements under which we operate could hinder growth by prescribing more stringent requirements than those with which we currently comply. UK regulators and international policymakers are reviewing a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include minimum requirements for firms' loss-absorbing capacity, capital requirements for residential mortgages, use of the standardised approach for credit risk, and review of IRB model framework.

The package of reforms developed by the Basel Committee on Banking Supervision to the regulatory capital framework ("**Basel III**") (including additional capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, a new leverage ratio and liquidity requirements) was implemented in the European Economic Area (the "**EEA**") through a regulation (the Capital Requirements Regulation (the "**CRR**")) and an associated directive (Capital Requirements Directive (the "**CRD**")) (together, "**CRD IV**"). The regulation established a single set of harmonized prudential rules which apply directly to all credit institutions in the EEA, with the directive containing less prescriptive provisions to be transposed into national law. The regulation gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation began from January 1, 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

Our capital is reported as a ratio of risk-adjusted assets expressed as a percentage in different measures: Common Equity Tier 1 capital, Additional Tier 1 capital and total capital. If we fail, or are perceived to be likely to fail, to meet our minimum regulatory capital requirements, this may result in administrative actions or regulatory sanctions.

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

In December 2013, the PRA published its policy statement PS7/13 “Strengthening capital standards: implementing CRD IV, feedback and final rules” on the UK rules, as applicable to us, which implement certain permitted national discretions in CRD IV. This included accelerating implementation of CRD IV deductions, with most applying in full from 2014. The PRA also changed the treatment of Pillar 2A from January 1, 2015, where firms are required to meet Pillar 2A with at least 56% in Common Equity Tier 1 capital, no more than 44% in Additional Tier 1 capital and at most 25% in Tier 2 capital.

On July 29, 2015, the PRA published its feedback statement, supervisory statement and statement of policy on changes to its Pillar 2 framework which came into force on January 1, 2016. It outlined methodologies for Pillar 2A capital requirements, introduced new governance and risk management capital buffer requirements, and renamed the Capital Planning Buffer as the PRA Buffer. Where the PRA assesses a firm’s risk management and governance to be significantly weak, it may also set the PRA buffer to cover the risk posed by those weaknesses until they are addressed. Accordingly, there is a risk that we will be required to hold higher levels of or better quality capital than is currently anticipated or planned for. If and to the extent that the PRA adopts capital or other requirements which exceed existing capital requirements, this may adversely impact our competitiveness relative to any banks and financial institutions subject to less stringent requirements.

On 12 May 2016, the PRA published a consultation paper on Pillar 2 liquidity (“CP21/16”), which proposes a statement of policy on its approach to three aspects of Pillar 2 liquidity: intraday risk, debt buyback and non-margined derivatives. It also outlines the PRA’s Pillar 2 objectives and scope. In addition, it provides an early overview of planned future work to develop the Pillar 2 approach where the PRA is not yet setting out proposals.

CRD IV also introduced a leverage ratio requirement. The leverage ratio is a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The leverage calculation determines a ratio based on the relationship between tier 1 capital and total exposure (total exposure is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet items).

On March 25, 2015 secondary legislation was enacted writing the Financial Policy Committee (“FPC”) Leverage recommendations (published October 31, 2014) into law. This grants the FPC powers of direction over the leverage ratio and introduced requirements under which Nationwide would be subject to a minimum leverage ratio of 3%, a supplementary leverage ratio buffer and a countercyclical leverage ratio buffer from 2019. Currently, and over Nationwide’s business planning horizon, Nationwide expects to remain above its regulatory leverage ratio requirement. Should Nationwide fail, or be perceived likely to fail, to meet leverage requirements this may result in administrative actions or regulatory sanctions.

In July 2015, the PRA published a consultation paper (“C24/15”) regarding the implementation of a UK leverage ratio framework. On December 7, 2015, the PRA published the Policy Statement (“PS27/15”) and final rules, which came into force from January 1, 2016. In-scope firms will be required to meet a minimum leverage ratio requirement and to consider whether they hold an amount of Common Equity Tier 1 (“CET1”) that is greater than or equal to their countercyclical leverage ratio buffer (“CCLB”). There are also requirements for leverage ratio reporting and disclosure.

Following the FPC’s March 2016 meeting, they have announced a 0.5% countercyclical buffer (“CCyB”) on UK exposures for implementation in March 2017. The FPC intend that the risk-based countercyclical buffer will be offset by the PRA buffer, but no offsets will apply to the leverage equivalent. The FPC have set out that they would intend the CCyB to be set at 1% and the CCLB to be set at 0.4% in normal economic conditions, and we expect increases in due course. The supplementary leverage ratio buffer will not apply until 2019, and will only apply to firms with a balance sheet size over £175bn. Nationwide is at the lower end of this range, therefore the supplementary leverage ratio buffer is likely to be 0.35%. On June 12, 2014 the BRRD (Directive 2014/59/EU) was published in the Official Journal of the European Union, which outlined provisions for its loss absorbing capacity measure, minimum requirements for own funds and eligible liabilities (“MREL”). MREL is expressed as the ratio of own funds and eligible liabilities to own funds and total liabilities.

On July 3, 2015 the EBA published final draft technical standards specifying the criteria used to set MREL (requirements include amounts for loss absorption, recapitalization, the impact of retail deposit

guarantees, adjustment for the eligibility of certain liabilities, and supervisory judgment following the Supervisory Review and Evaluation Process (“SREP”). The final draft technical standards were amended on November 3, 2015. The amendments primarily seek to remove a presumption in favour of a certain minimum requirement, with applicable MREL requirements to be decided on a case by case basis. MREL requirements came into force on January 1, 2016, with provisions allowing for supervisory discretion in allowing transitional implementation of these requirements.

The current version of the technical standards is set out in a Delegated Regulation that was adopted by the Commission on 23 May 2016. The Delegated Regulation specifies the assessment criteria relating to the methodology for setting MREL. It made changes to the EBA’s draft technical standards to ensure compatibility with the BRRD. The Delegated Regulation will enter into force 20 days after its publication in the Official Journal of the EU.

On December 11, 2015, the PRA published a consultation paper (“CP44/15”) setting out its proposals regarding the relationship between MREL, regulatory buffers and the PRA’s threshold conditions. Alongside this, the BoE published a consultation paper on its proposed approach to setting MREL, including in relation to the calibration of the quantum of externally-issued MREL. The BoE proposed that MREL requirements will be double minimum capital requirements plus buffers, yet we expect them to set the finalised requirement shortly. Such measures may have an adverse effect on Nationwide’s business activities, including its lending business.

In December 2015 and March 2016, the Basel Committee issued a second consultative document regarding revisions to the standardised approach for credit risk and operational risk respectively. It proposes to change the approach to risk weighting exposures to banks and corporates, with the aim to enhance risk sensitivity, without leading to an overall increase in firms’ capital requirements.

The Basel Committee have revised their December 2014 proposals for a new capital floor which will replace the Basel 1 floor. The calibration of this capital floor is yet to be finalised, however the Basel Committee do not intend for this to increase the overall level of capital in the system.

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

The FSMA 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 our share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. 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. In March 2012, the FSCS and HM Treasury agreed the refinancing of £20.4 billion in loans made to the FSCS by HM Treasury to fund the compensation payments made by the FSCS to customers whose savings were put at risk by bank failures in 2008 and 2009. As a result, the FSCS is required to pay a significantly increased amount of interest which it recovers through additional levies on the financial services industry.

In common with other financial institutions which are subject to the FSCS, we also have a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure. For example, the administration of the Dunfermline Building Society resulted in additional levies on the industry to the banking failures of 2008 and 2009 amounting to £365 million, of which £42 million was paid by the Group across the financial year ended April 4, 2014 and April 4, 2015.

The latest communications from the FSCS are that there are no known shortfalls for recovery of the outstanding amount of £15.6 billion and that the costs associated with the Dunfermline failure have now been recovered. However there can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by us. Any such increases in our costs and liabilities related to the levy may have a material adverse effect on our results of

operations. Further costs and risks may also arise from discussions at national and EU 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. The amount provided for in our accounts to meet the Group's obligations to the FSCS was £84 million as at April 4, 2016 (£126 million as at April 4, 2015). This comprises £41 million of levies relating to the 2016/17 FSCS scheme year and £43 million relating to the 2015/16 scheme year. The amount relating to the 2015/16 scheme year is payable by September 1, 2016.

As mentioned within the March 2016 Budget, HM Treasury are exploring a major sales programme of Bradford & Bingley mortgages. The amount provided for within our accounts does not reflect any potential impact of such a transaction and the Group will continue to monitor the progress of this and assess the financial impact as more information becomes available.

In April 2014, the new EU directive on deposit guarantee schemes (“DGSD”) was adopted and member states were required to implement it into national law on or before July 3, 2015. The revised DGSD requires EU Member States to ensure that by July 3, 2024 the available financial means of the deposit guarantee schemes reach a minimum target level of 0.8% of the covered deposits of credit institutions; the schemes are to be funded through regular contributions before the event (ex-ante) to the deposit guarantee schemes. (The UK has previously operated an ex-post financing where fees are required after a payment to depositors has occurred.) In case of insufficient ex-ante funds, the deposit guarantee scheme will collect immediate after the event (ex-post) contributions from the banking sector, and, as a last resort they will have access to alternative funding arrangements such as loans from public or private third parties. HMT and the PRA have brought in to force final requirements on the UK implementation of the DGSD. These requirements provide for amongst other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the UK FSCS include the introduction of temporary high balance deposit protection, up to £1 million (an increase to the deposit protection limit, which is currently £75,000), for up to six months for certain limited types of deposits and changes to the types of depositors that are eligible for compensation. It is possible, as a result of the new directive, that future FSCS levies on us may differ from those we have incurred historically, and such reforms could result in us incurring additional costs and liabilities, which may adversely affect our business, financial conditions and/or results of operations.

### **Risks Related to the Notes**

***Under the terms of the notes, investors will agree to be bound by and consent to the exercise of any UK bail-in power by the relevant UK resolution authority which gives such authority the ability to cancel, write-down the principal and/or interest, convert the notes into equity securities or make other modifications to notes.***

By acquiring the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK resolution authority.

For purposes of the notes, a “UK bail-in power” is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the Banking Act, as the same may be amended from time to time, and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement the BRRD, pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power).

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

- transferring the notes out of the hands of the holders;

- delisting the notes;
- writing down (which may be to nil) the notes or converting the notes into another form or class of securities; and/or
- modifying or disapplying certain terms of the notes, which could include modifications to (without limitation) the maturity date (which may be to extend the maturity date), the interest provisions (including reducing the amount of interest payable, the manner in which interest is calculated and/or the scheduled interest payment dates), and/or the redemption provisions (including the timing of any redemption options and/or the amount payable upon redemption), and may result in the disapplication of acceleration rights or events of default under the terms of the notes or the effect thereof.

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

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

The taking of any such actions could materially adversely affect the rights of noteholders, the price or value of their investment in the notes, the liquidity and/or volatility of any market in the notes and/or our ability to satisfy our obligations under the notes. In such circumstances, noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

Mandatory write-down and conversion of capital instruments may affect the subordinated notes. As noted above, in addition to the stabilisation options which may be used in a resolution of an institution, the Banking Act contains a capital write-down tool which enables (and, if the institution enters into resolution, requires) the relevant Authorities permanently to write-down, or convert into common equity tier 1 instruments (which, in our case could be core capital deferred shares), any Additional Tier 1 capital instruments and Tier 2 capital instruments at the point of non-viability of the relevant entity and before or together with the exercise of any stabilisation power.

For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity will no longer be viable unless the relevant capital instruments are written-down or converted or the relevant entity requires extraordinary public support without which, the relevant U.K. resolution authority determines that, the relevant entity would no longer be viable.

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

result in the holders losing some or all of their investment. The “no creditor worse off” safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised.

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

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

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

Pursuant to the Banking Act, the relevant UK resolution authority should have regard to the insolvency treatment principles when exercising the UK bail-in power in respect of the notes. The insolvency treatment principles are that (i) the exercise of the UK bail-in power should be consistent with treating all liabilities of the bank in accordance with the priority that they would enjoy on a liquidation and (ii) (subject to certain exceptions) any creditors who would have equal priority on a liquidation should bear losses on an equal footing with each other. The UK Treasury may, by order, specify further matters or principles to which the relevant UK resolution authority must have regard when exercising the UK bail-in power. These principles may be specified in addition to, or instead of, the insolvency treatment principles. If the relevant UK resolution authority departs from the insolvency treatment principles when exercising the UK bail-in power, it must report to the Chancellor of the Exchequer stating the reasons for its departure.

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

Moreover, to the extent the UK bail-in power is exercised pursuant to the Banking Act or otherwise, we do not expect any securities issued upon conversion of the notes to meet the listing requirements of any securities exchange. Any securities received by holders of the notes upon conversion of the notes (whether debt or equity) may not be listed for at least an extended period of time, if at all, or may be on the verge of being delisted by the relevant exchange. Additionally, there may be limited, if any, disclosure with respect to the business, operations or financial statements of the issuer of any securities issued upon conversion of the notes, or the disclosure with respect to any existing issuer may not be current to reflect changes in the business, operations or financial statements as a result of the exercise of the UK bail-in power. As a result, there may not be an active market for any securities held after the exercise of the UK bail-in power.

***The circumstances under which the relevant UK resolution authority would exercise its UK bail-in power are uncertain, which may affect the value of the notes.***

There is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimizing taxpayers' exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the relevant UK resolution authority would consider in deciding whether to exercise the UK bail-in power with respect to the relevant financial institution and/or securities, such as the notes, issued by that institution. While the Banking Act provides some guidance as to how and when the bail-in option may be utilized by the relevant UK resolution authority, the Banking Act and the BRRD (which, as discussed above, has been transposed by amendments to the Banking Act) allow for discretion and there is no certainty as to how the relevant UK resolution authority will exercise any bail-in power with respect to a financial institution and/or securities, such as the notes, issued by that institution. As there may be many factors, including factors outside of our control or not directly related to us, which could result in such a determination, holders of the notes may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such UK bail-in power.



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

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

Under the Banking Act, holders of securities will have a right to be compensated under a bail-in compensation order which is based on the principle that such investors should receive no less favorable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the UK bail-in power. The holders of the notes otherwise have limited rights to challenge any decision of the relevant UK resolution authority to exercise the UK bail-in power.

***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 “*Terms and Conditions of the Notes—Supplemental Indentures.*”

#### ***Reset Notes***

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

***Further issuances may affect the market value of the original notes if they are treated as a separate series for U.S. federal income tax purposes.***

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

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

We will pay principal and interest on the notes in the Specified Currency (as defined below). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency equivalent yield on the notes, (2) the Investor’s Currency equivalent value of the principal payable on the notes and (3) the Investor’s Currency equivalent market value of the notes.

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

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

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

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

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

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

***The 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 deferred shares, including CCDS) 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.

***Certain liabilities of ours will be preferred by law in the event of our winding-up.***

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

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

The Depositor Preference Order (i) extended the scope of preferential debts in respect of deposits and (ii) further aligned creditor hierarchy in United Kingdom building societies with the depositor preference

requirements introduced in consequence of the BRRD to ensure that any sums due to building society members in relation to their shareholding in respect of deposits that do not benefit from the depositor preference requirements will nevertheless rank *pari passu* with all other (non-preferred) senior unsecured creditors.

These changes also have the effect of granting:

(i) a first-ranking preference to those deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which are actually protected by the Financial Services Compensation Scheme (the “FSCS”) (i.e. are eligible for protection and do not exceed the FSCS coverage limit (which stand at £75,000 with effect from January 1, 2016), which will rank equally with all other preferential debts; and

(ii) a second-ranking preference to deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which would be eligible for FSCS protection but for the fact that they either (a) exceed the £75,000 coverage limit of the FSCS or (b) were made through a branch outside the EU. Such deposits and share accounts (or the relevant part thereof) will rank after the preferential debts referred to in paragraph (i) above but in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency.

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

As a result, in the event of insolvency or winding up of the Issuer:

(a) our assets would be applied first to satisfying in full all claims in respect of those deposits and share accounts which enjoy preferential status (as described above) before any recovery would be made on claims in respect of senior notes (and the claims in respect of senior notes would rank *pari passu* with those deposits and share accounts which are not afforded preferential status); and

(b) no recovery would be made on claims in respect of subordinated notes unless and until the claims in respect of all deposit and share accounts, as well as claims in respect of our senior notes and any other unsubordinated liabilities, have first been satisfied in full.

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

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

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

The credit ratings of our medium-term note program may not reflect the potential impact of all risks relating to the value of the notes. In addition, real or anticipated changes in our credit ratings or the credit ratings of the notes will generally affect the market value of the notes. These credit ratings could change due to a wide range of factors, including but not limited to those discussed under “—Risks Related to Our Business—Rating downgrade and/or market sentiment with respect to us, our sector, the 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 such as Euroclear or Clearstream. 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.

***If we have the right to redeem any notes at our option, this may limit the market value of the notes concerned.***

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

***If we redeem any notes at our option, or are required to redeem any notes, an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.***

We may be expected to redeem notes with an optional redemption feature when our cost of borrowing is lower than the interest rate on the notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the notes being redeemed and may only be able to do so at a significantly lower rate. Additionally, we may redeem the notes at times when prevailing interest rates are relatively low, and accordingly investors may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the notes. Potential investors should consider reinvestment risk in light of other investments available at that time.

***If we have the right to convert the interest rate on any notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the notes concerned.***

Floating Rate/fixed rate notes may bear interest at a rate that 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 our notes.

***Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.***

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

***The value of the notes could be adversely affected by a change in the laws of the State of New York, English law or administrative practice.***

The conditions of the notes are based on the laws of the State of New York in effect as at the date of this Base Prospectus, except that the subordination provisions in each of the indenture and the subordinated notes are based on the laws of England and Wales in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any notes affected by it.

***The value of fixed rate notes may be adversely affected by movements in market interest rates.***

Investment in fixed rate notes involves the risk that if market interest rates subsequently increase above the rate paid on the fixed rate notes, this will adversely affect the value of the fixed rate notes.

## **USE OF PROCEEDS**

We will use the net proceeds of each issue of notes for general corporate purposes and, with regard to subordinated notes, to strengthen our capital base. We may also use a portion of the net proceeds from any note issuance to acquire companies or assets that are complementary to our business, although we do not currently have any acquisitions planned. See the section entitled “*Description of Business*” for a detailed description of our funding needs.

## 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**”):

For the financial year ended	U.S. Dollars Per Pound Sterling			Year End
	High	Low	Average <sup>(1)</sup>	
	<i>(U.S. dollars per pound sterling)</i>			
April 4, 2013.....	1.63	1.49	1.58	1.52
April 4, 2014.....	1.68	1.49	1.59	1.66
April 4, 2015.....	1.72	1.47	1.61	1.49
April 4, 2016.....	1.59	1.39	1.51	1.43

For the month of	U.S. Dollars Per Pound Sterling			Period End
	High	Low	Average <sup>(2)</sup>	
	<i>(U.S. dollars per pound sterling)</i>			
December 2015.....	1.52	1.48	1.50	1.48
January 2016.....	1.47	1.42	1.44	1.42
February 2016.....	1.46	1.39	1.43	1.39
March 2016.....	1.45	1.40	1.43	1.44
April 2016.....	1.46	1.41	1.43	1.46
May 2016.....	1.47	1.44	1.45	1.45
June 2016 (through June 10).....	1.46	1.43	1.45	1.43

Notes:

- (1) The average of the noon-buying rates on the last business day of each month during the relevant period.
- (2) The average of the daily noon-buying rates during the relevant period.

The translations of pounds sterling into U.S. dollars in this Base Prospectus 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 April 4, 2016:

	<b>As at April 4, 2016</b> <i>(£ million)</i>
<b>Consolidated Indebtedness<sup>(1)</sup></b>	
Deposits from banks .....	2,095
Amounts due to customers and other deposits.....	13,836
Debt securities in issue .....	36,085
<b>Total Senior Debt.....</b>	<b>52,016</b>
<b>Subordinated Debt<sup>(1)(2)</sup></b>	
Comprising one issue maturing in 2018, one issue maturing in 2019, two issues maturing in 2020, one issue maturing in 2022 and one issue maturing in 2023. ....	1,848
<b>Total Subordinated Debt.....</b>	<b>1,848</b>
<b>Permanent Interest Bearing Shares<sup>(1)(3)</sup></b>	
Comprising nine issues of permanent interest bearing shares callable (subject to relevant supervisory consent) in 2016, 2019, 2021, 2024, 2026 and 2030, respectively. The floating rate shares are only repayable in the event of the winding up of the Society. ....	419
<b>Total Permanent Interest Bearing Shares</b>	<b>419</b>
<b>Members' Funds</b>	
CCDS <sup>(1)</sup> .....	531
Other equity instruments <sup>(1)</sup> .....	992
General reserve .....	8,921
Revaluation reserve .....	64
Other reserves .....	422
UK retail member deposits <sup>(1)(4)</sup> .....	138,715
<b>Total members' funds .....</b>	<b>149,645</b>
<b>Total capitalization .....</b>	<b>203,928</b>

Notes:

- (1) If we were to go into liquidation the claims of non-member depositors and other unsubordinated creditors to the extent they are afforded preferred status under the Depositor Preference Order and before those 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 ("PIBS") rank behind those of all other creditors, including subordinated debt holders. Other equity instruments rank the same as PIBS securities holders. CCDS holders rank behind the claims of other equity instruments and PIBS securities holders.
- (2) For consistency with other indebtedness, accrued interest of £31 million is included.
- (3) For consistency with other indebtedness, accrued interest of £6 million is included.
- (4) Our rules provide that members may withdraw all or any of their investments by giving appropriate notice specifying the amount to be withdrawn. Members may also make an immediate withdrawal of their investments subject to a possible loss of interest. Our board of directors (the "Board") has the power to suspend or limit the payment of withdrawals when, in its discretion, it considers it necessary.

Except as otherwise disclosed in this Base Prospectus, there has been no material change in our consolidated capitalization, indebtedness, guarantees or contingent liabilities since April 4, 2016.



## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been extracted from our unaudited consolidated financial statements as at and for the audited consolidated financial statements as at and for the years ended April 4, 2016, 2015 and 2014.

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 financial year ended April 4,			
	2016 <sup>(1)</sup>	2016	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>
	(\$ million) (unaudited)	(£ million)	(£ million) (audited)	(£ million)
<b>Income Statement Data:</b>				
Interest receivable and similar income .....	7,555	5,294	5,347	5,295
Interest expense and similar charges .....	(3,151)	(2,208)	(2,475)	(2,864)
<b>Net interest income .....</b>	<b>4,404</b>	<b>3,086</b>	<b>2,872</b>	<b>2,431</b>
Fee and commission income.....	611	428	447	489
Fee and commission expense.....	(274)	(192)	(169)	(135)
Income from investments .....	4	3	4	4
Other operating income .....	11	8	9	134
Gains/(losses) from derivatives and hedge accounting.....	56	39	(20)	(79)
<b>Total income.....</b>	<b>4,812</b>	<b>3,372</b>	<b>3,143</b>	<b>2,844</b>
Administrative expenses.....	(2,172)	(1,522)	(1,412)	(1,329)
Depreciation and amortization expenses .....	(464)	(325)	(294)	(282)
Impairment losses on loans and advances to customers.....	(116)	(81)	(233)	(380)
Provisions for liabilities and charges .....	(247)	(173)	(142)	(173)
Impairment losses on investment securities.....	11	8	(18)	(3)
<b>Profit before tax.....</b>	<b>1,825</b>	<b>1,279</b>	<b>1,044</b>	<b>677</b>
Analyzed as:				
Underlying profit before tax.....	1,908	1,337	1,227	952
Financial Sector Compensation Scheme .....	(66)	(46)	(83)	(104)
Transformation costs.....	(14)	(10)	(52)	(75)
Bank levy .....	(59)	(41)	(28)	(17)
Gains/(losses) from derivatives and hedge accounting .....	56	39	(20)	(79)
<b>Statutory profit before tax .....</b>	<b>1,826</b>	<b>1,279</b>	<b>1,044</b>	<b>677</b>
Taxation.....	(420)	(294)	(205)	(128)
<b>Profit .....</b>	<b>1,406</b>	<b>985</b>	<b>839</b>	<b>549</b>

Notes:

- (1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements as of and for year ended April 4, 2016 using the exchange rate of \$1.427556 to £1.00.
- (2) To provide a more meaningful presentation of the Group's residual economic foreign exchange exposure, amounts in relation to the retranslation of foreign currency monetary items have been reclassified from 'interest expense and similar charges' to 'gains/(losses) from derivatives and hedge accounting' in the income statement.

As at the financial year ended April 4,				
	2016 <sup>(1)</sup>	2016	2015	2014
	(\$ million)	(£ million)	(£ million)	(£ million)
	(unaudited)		(audited)	
<b>Balance Sheet Data:</b>				
<b>Assets:</b>				
Cash .....	12,558	8,797	4,325	5,342
Loans and advances to banks.....	5,126	3,591	3,392	2,110
Investment securities available for sale ..	15,149	10,612	11,037	10,563
Derivative financial instruments.....	5,566	3,898	3,337	3,020
Fair value adjustment for portfolio hedged risk.....	1,079	756	592	221
Loans and advances to customers.....	255,256	178,807	170,647	166,541
Investments in equity shares.....	180	126	26	29
Intangible assets.....	1,700	1,191	1,040	956
Property, plant and equipment.....	1,175	823	856	852
Investment properties .....	11	8	8	9
Accrued income and expenses prepaid...	237	166	192	185
Deferred tax assets.....	50	35	38	33
Other assets.....	184	129	90	32
<b>Total assets .....</b>	<b>298,271</b>	<b>208,939</b>	<b>195,580</b>	<b>189,893</b>
<b>Liabilities:</b>				
UK retail member deposits .....	198,022	138,715	132,373	130,468
Deposits from banks .....	2,991	2,095	1,974	1,984
Other deposits .....	10,899	7,635	9,076	7,135
Due to customer.....	8,852	6,201	6,119	6,208
Fair value adjustment for portfolio hedged risk.....	19	13	14	33
Debt securities in issue .....	51,513	36,085	28,105	28,557
Derivative financial instruments.....	4,943	3,463	4,048	2,391
Other liabilities .....	591	414	475	269
Provisions for liabilities and charges .....	490	343	295	310
Accruals and deferred income .....	411	288	369	428
Subordinated liabilities .....	2,594	1,817	2,121	2,269
Subscribed capital.....	590	413	415	601
Deferred tax liabilities .....	266	186	53	25
Current tax liabilities .....	183	128	116	74
Retirement benefit obligations.....	304	213	286	235
Core capital deferred shares (CCDS) .....	758	531	531	531
Other equity instrument .....	1,416	992	992	992
General reserve.....	12,735	8,921	7,995	7,363
Revaluation reserve .....	91	64	68	71
Cash flow hedge reserve.....	614	430	129	-
Available-for-sale reserve.....	(11)	(8)	26	(51)
<b>Total reserves and liabilities .....</b>	<b>298,271</b>	<b>208,939</b>	<b>195,580</b>	<b>189,893</b>

Note:

- (1) Dollar amounts are unaudited and have been derived from our audited consolidated financial statements as of and for the year ended April 4, 2016 using the exchange rate of \$1.427556 to £1.00.

For the financial year ended April 4, <sup>(5)</sup>			
	2016	2015	2014
<b>Other Financial Data</b>			
Return on average total assets <sup>(1)</sup> .....	0.49%	0.44%	0.29%
Net interest margin <sup>(2)</sup> .....	1.52%	1.47%	1.27%
Wholesale funding ratio.....	24.8%	23.3%	22.7%
Loan to deposit ratio .....	117.2%	115.6%	115.8%
<b>Ratio of earnings to fixed charges<sup>(3)</sup></b>			

Including interest on retail deposits .....	1.58%	1.42%	1.24%
Excluding interest on retail deposits .....	3.30%	3.03%	2.25%
<b>Capital ratios</b>			
Common Equity Tier 1 (CET1) .....	23.2%	19.8%	14.5%
<b>Total Tier 1</b> .....	26.1%	22.5%	16.9%
<b>Total regulatory capital</b> .....	30.9%	27.0%	22.1%
Ratio of administrative expenses to mean total assets <sup>(4)</sup> .....	0.91%	0.89%	0.85%

Notes:

- (1) Return on average total assets represents profit on ordinary activities after tax as a percentage of average total assets. Average balances are based on the balance as at the end of each month during the financial year.
- (2) Net interest margin represents net interest income as a percentage of weighted average total assets.
- (3) 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.
- (4) This ratio represents administrative expenses plus depreciation as a percentage of the average of total assets at the start and end of each period.
- (5) Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains/losses from derivatives and hedge accounting as described in note 1 to the 2016 financial statements.

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

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

### Overview

We are a building society, regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. Our core business is providing personal financial services, primarily residential mortgage lending funded largely through retail savings. As a mutual organization, other than a small amount of CCDS, we are not funded by shareholders, which means that 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.

### Financial Performance

Consistent with our mutual heritage, we offer a range of products designed to provide transparency, fairness and value. Alongside this, we have delivered a strong financial performance and improved our capital position. As a result, our Common Equity Tier 1 ratio has risen to 23.2% as of April 4, 2016.

Our financial performance builds on our success in developing new products, investing in technologies which provide our members and customers greater choice in the way they manage their financial affairs and rewarding loyal members with exclusive market product offers. Strong business volumes, combined with a strengthening in our net interest margin, have contributed to a 5% increase in underlying income to £3,333 million for the year ended April 4, 2016 from £3,163 million for the year ended April 4, 2015.

Our underlying profit increased by 9% in the year ended April 4, 2016, growing to £1,337 million from £1,227 million in the year ended April 4, 2015. Statutory profit before tax increased by 23% in the year ended April 4, 2016, growing to £1,279 million from £1,044 million in the year ended April 4, 2015.

The underlying cost income ratio has deteriorated to 53.9% (April 4, 2015: 51.4%) reflecting our investment in new products and services such as Nationwide Now and Apple Pay functionality, our ongoing investment in improving and strengthening our IT infrastructure, increasing sales and service capacity and our response to new regulation.

Underlying administrative expenses have increased by 10% to £1,796 million for the year ended April 4, 2016 from £1,626 million for the year ended April 4, 2015, reflecting ongoing investment in the business. At a statutory level administrative expenses have increased by 8% to £1,847 million.

Impairment losses for the year of £73 million are 71% lower than in the year ended April 4, 2015 primarily as a result of an improvement in asset quality and divestment of our commercial lending portfolio.

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

Our financial performance in the period ahead is likely to be influenced by a number of themes in line with the guidance we provided at our half year results:

- clear evidence of more sustained competition within the mortgage market, resulting in further margin pressure during 2016/17; and

- our continued to investment in long term product development, services and security in order to meet our members' current and future needs by providing good, long term value products, services and security.

These two factors combine such that we anticipate profits are likely to moderate in the period ahead.

The threat of cyber-attacks has increased, and will require ongoing focus and investment as we seek constantly to maintain the resilience of our systems and protect the interests of our members. The continual evolution of technology, changing customer preferences and regulatory change will affect the whole industry, and we will continue to invest to ensure we are able to deliver value to our members and maintain excellent relationships with regulators.

Uncertainty surrounding the global economic outlook is likely to have some impact on UK economic activity in the near term. Our central expectation is that if this uncertainty lifts and the global economy gradually strengthens, UK economic growth will move back towards its long term trend rate of 2% to 2.5% per annum. The household sector is expected to remain a main driving force, underpinned by continued healthy gains in employment and rising real earnings. We expect the housing market to remain resilient, with any dampening of activity from modest increases in interest rates offset by a strengthening labour market and an under-supply of housing.

Nationwide is a unique organisation with a proud history and an optimistic future. We have the potential to build an even stronger society serving the needs of today's and tomorrow's members, by focusing on tangible service excellence and long term value.

### Net Interest Income

Net interest income has increased 7% to £3,086 million (April 4, 2015: £2,872 million) due to a 4% growth in average assets, reflecting a 21.4% market share of net residential mortgage lending in the year, and a 5 basis points improvement in net interest margin to 152 basis points.

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	<i>(£ million, except percentages)</i>	
Net interest income .....	3,086	2,872
Weighted average total assets .....	203,623	195,429
<b>Net interest margin</b> .....	<b>1.52%</b>	<b>1.47%</b>

Interest income during the year reflects our consistent support for the housing market over recent years, providing mortgages to customers over a period when a number of our competitors constrained their lending. In the four years to April 4, 2016, the Group accounted for over one-third of net lending in the market. Savings rates have continued to fall across the industry and this reduction in retail funding costs has underpinned our margin performance. We estimate that our average margin on savings balances measured against relevant market indices (swaps or Bank base rate) was circa 50 basis points over the year in comparison to circa 70 basis points during the year to April 4, 2015. Notwithstanding this, our savings range has been very competitively positioned throughout the year with savings rates often better, and sometimes significantly so, than equivalent products offered by our high street peer group.

The benefit to net interest margin ("NIM") of lower retail funding costs has been partly offset by a decrease in mortgage margins. Over the last year there has been increased competition in both the prime and buy to let mortgage markets, resulting in new business gross margins falling by an average of 24 basis points during the year ended April 4, 2016. In addition, the reduction in our mortgage back book balances continues, including the run off of our base mortgage rate ("BMR") book which has reduced by £8 billion to £35 billion at April 4, 2016. This back book attrition reflects the highly competitive new business rates available across the market which have increased switching and redemption behaviours of customers.

Whilst our average NIM has increased year on year by 5 bps, the quarterly picture for the financial year ended April 4, 2016 shows a downward trend, caused by the repricing of assets described above. Our spot margin at the end of the financial year was 10 bps lower than the rate of 152 bps reported for the year as a whole. Whilst we expect the impact to moderate, we nevertheless anticipate further margin compression

throughout the financial year ended April 4, 2017 as competition is sustained and we focus on delivering long term value to members.

The macroeconomic environment could pose further risks to NIM, in particular sustained low interest rates and deterioration in the global economy, which could lead to a downturn in the UK economy, and could have an impact on the cost of wholesale 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 years ended April 4, 2016, 2015 and 2014:

	<b>For the year ended April 4,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Daily average three-month sterling LIBOR .....	0.58%	0.55%	0.52%
Average BoE base rate .....	0.5%	0.5%	0.5%

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.

Low and flat interest rates have continued to dominate, driven by reduced expectations for economic growth. Market conditions continue to be characterised by low interest rates with an uncertain economic environment leading to volatility in these rates. The BoE base rate remains unchanged, but underlying rates in longer term debt securities markets, principally gilts, have fallen.

A significant proportion of our mortgages are at our BMR, which we have guaranteed will never be more than 2% above the BoE base rate. This rate is significantly lower than the equivalent standard variable rate charged by peers, or the SMR onto which our more recent mortgage advances mature. This has the effect of compressing our mortgage margins and reducing the flexibility with which these margins can be managed. However, the BMR portfolio is well seasoned, has low loan to value ("LTV"), low arrears rates and low possession rates. The low risk nature of the portfolio partly compensates for the low margin it yields.

## Results of Operations for the Year Ended April 4, 2016 Compared with the Year Ended April 4, 2015

### Introduction

We believe that our results indicate a strong performance for the year ended April 4, 2016 with an underlying profit before tax (as explained below) of £1,337 million, and a statutory profit before tax of £1,279 million.

Underlying profit before tax (as explained below) for the year ended April 4, 2016 is up 9% at £1,337 million from £1,227 million for the year ended April 4, 2015. Total underlying income increased by 5% to £3,333 million in the year ended April 4, 2016, as compared to the year ended April 4, 2015.

Our financial performance for the year ended April 4, 2016 has been strong with statutory profit before tax up 23% year on year, reflecting a 7% increase in net interest income, underpinned by our strong operating performance, and an improvement in asset quality with impairments falling 71%.

Underlying administrative expenses have increased by 10% to £1,796 million, reflecting ongoing investment in the business. At a statutory level administrative expenses have increased by 8% to £1,847 million.

Employee costs have increased by £65 million to £736 million reflecting the impact of annual pay awards averaging 3.0% and 2.5% in each of the last two years and higher costs resulting from enhancements to the Nationwide Group Personal Pension Plan. In addition, employee numbers have increased by 3% year on year as the Group continues to build greater capacity to support our members' needs and strengthen risk and control functions.

Other administrative expenses have increased by £74 million to £735 million, driven by increased brand development costs and revenue costs associated with our ongoing commitment to a targeted programme of strategic investment. During the year, this investment has included enhancements in our digital capability, including Nationwide Now, Apple Pay functionality and PayM, IT resilience and investment in core product platforms to meet additional business volumes, and ensuring compliance with UK and European Union regulatory requirements. Depreciation charges have risen by £31 million to £325 million as a consequence of strategic investment in the business.

Transformation costs are significantly lower than the prior year as a result of the successful completion of the integration of the Dunfermline, Cheshire and Derbyshire brands which have resulted in ongoing savings of £20 million per annum. Activities relating to changes in the Group's IT service delivery model have also completed which has enabled the Group to deliver increased investment in the business at a lower cost through the utilisation of strategic partner capabilities.

The cost income ratio, on an underlying basis, has deteriorated to 53.9% (April 4, 2015: 51.4%) as a result of the growth in administrative expenses described above, which reflects our focus on improving product propositions and services for members whilst remaining strong, safe and secure.

Performance of the mortgage portfolios continues to improve with the number of residential mortgages more than three months in arrears reducing in both the prime and specialist mortgage books. 0.45% of the Group's mortgages are more than three months in arrears, which compares favourably to the Council of Mortgage Lenders (the "CML") industry average of 1.04%.

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

**For the year ended April 4, 2016**

	<b>Statutory profit</b>	<b>FSCS and bank levy</b>	<b>Transformation Costs</b>	<b>Gain from derivatives and hedge accounting</b>	<b>Underlying profit</b>
			<i>(£ million)</i>		
Net interest income.....	3,086	-	-	-	3,086
Other income .....	247	-	-	-	247
Movements on derivatives and hedge accounting .....	39	-	-	(39)	-
<b>Total income.....</b>	<b>3,372</b>	-	-	<b>(39)</b>	<b>3,333</b>
Administrative expenses.....	(1,847)	41	10	-	(1,796)
<b>Pre-provision underlying profit .....</b>	<b>1,525</b>	<b>41</b>	<b>10</b>	<b>(39)</b>	<b>1,537</b>
Impairment losses.....	(73)	-	-	-	(73)
Provisions for liabilities and charges.....	(173)	46	-	-	(127)
<b>Profit before tax.....</b>	<b>1,279</b>	<b>87</b>	<b>10</b>	<b>(39)</b>	<b>1,337</b>

**For the year ended April 4, 2015**

	<b>Statutory profit</b>	<b>FSCS and bank levy</b>	<b>Transformation Costs</b>	<b>Losses from derivatives and hedge accounting</b>	<b>Underlying profit</b>
			<i>(£ million)</i>		
Net interest income.....	2,872	-	-	-	2,872

**For the year ended April 4, 2015**

	<b>Statutory profit</b>	<b>FSCS and bank levy</b>	<b>Transformation Costs</b>	<b>Losses from derivatives and hedge accounting</b>	<b>Underlying profit</b>
			( <i>£ million</i> )		
Other income .....	291	-	-	-	291
Movements on derivatives and hedge accounting .....	(20)	-	-	20	-
<b>Total income.....</b>	<b>3,143</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>3,163</b>
Administrative expenses.....	(1,706)	28	52	-	(1,626)
<b>Pre-provision underlying profit .....</b>	<b>1,437</b>	<b>28</b>	<b>52</b>	<b>20</b>	<b>1,537</b>
Impairment losses.....	(251)	-	-	-	(251)
Provisions for liabilities and charges.....	(142)	83	-	-	(59)
<b>Profit before tax.....</b>	<b>1,044</b>	<b>111</b>	<b>52</b>	<b>20</b>	<b>1,227</b>

The following discussion considers our results for the year ended April 4, 2016 compared to our results for the year ended April 4, 2015:

***Total income***

Our total income increased to £3,372 million in the year ended April 4, 2016 compared to £3,143 million in the year ended April 4, 2015. The following table sets forth the components of income for the years ended April 4, 2016 and 2015, respectively:

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	( <i>£ million</i> )	
Net interest income .....	3,086	2,872
Net fees and commissions .....	236	278
Income from investments .....	3	4
Other operating income .....	8	9
Gains/(losses) from derivatives and hedge accounting .....	39	(20)
<b>Total.....</b>	<b>3,372</b>	<b>3,143</b>

***Net interest income***

Net interest income increased by 7% to £3,086 million for the year ended April 4, 2016 compared with £2,872 million for the year ended April 4, 2015.

The following table sets forth the components of net interest income for the years ended April 4, 2016 and 2015, respectively:

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	( <i>£ million</i> )	
<b>Interest and similar income:</b>		
On residential mortgages .....	5,009	4,981
On other loans .....	835	953
On investment securities .....	403	412
On other liquid assets .....	33	28
Net expense on financial instruments hedging assets .....	(986)	(1,027)
<b>Total interest and similar income.....</b>	<b>5,294</b>	<b>5,347</b>
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(1,577)	(1,897)
On subscribed capital .....	(26)	(42)
<b>On deposits and other borrowings:</b>		
Subordinated liabilities .....	(99)	(115)



	For the year ended April 4, 2016	For the year ended April 4, 2015
	(£ million)	
Other .....	(577)	(171)
Debt securities in issue .....	(690)	(725)
Net income on financial instruments hedging liabilities .....	768	481
Pension interest cost .....	(7)	(6)
<b>Total interest expense and similar charges .....</b>	<b>(2,208)</b>	<b>(2,475)</b>
<b>Net interest income .....</b>	<b>3,086</b>	<b>2,872</b>

Interest and similar income decreased by 1% to £5,294 million in the year ended April 4, 2016 from £5,347 million in the year ended April 4, 2015.

#### *On residential mortgages*

Interest on residential mortgages increased slightly by 1% to £5,009 million in the year ended April 4, 2016 from £4,981 million in the year ended April 4, 2015.

#### *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 decreased by 12% to £835 million in the year ended April 4, 2016 from £953 million in the year ended April 4, 2015.

#### *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 2% to £403 million for the year ended April 4, 2016, compared with £412 million for the year ended April 4, 2015.

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

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets.” In the year ended April 4, 2016, we incurred a net expense of £986 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £1,027 million in the year ended April 4, 2015.

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

Interest expense and similar charges decreased by 11% in the year ended April 4, 2016 to £2,208 million from £2,475 million in the year ended April 4, 2015.

#### *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 to £1,577 million in the year ended April 4, 2016 from £1,897 million in the year ended April 4, 2015.

The average interest rate that we paid to depositors decreased slightly to 1.2% for the year ended April 4, 2016 compared with 1.4% for the year ended April 4, 2015, which accounted for the majority of the decrease in interest paid. There was also an increase of 2% in the average balance of UK retail member deposits held to £135,258 million in the year ended April 4, 2016 from £133,095 million in the year ended April 4, 2015.

Over the previous twelve months we have increased our market share of the personal current account market to 7.1% as at the end of February 2016 (February 2015: 6.8%). We have been a supporter and beneficiary of the drive to make account switching quicker and easier, averaging a 12.5% share of all account switching in the year ended April 4, 2016.

### *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, 2016, interest on subordinated liabilities decreased to £99 million from £115 million in the year ended April 4, 2015. Average balances decreased to £1,866 million in the year ended April 4, 2016 from £2,202 million in the year ended April 4, 2015.

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, 2016, other interest expense on deposits and other borrowings increased by 237% to £577 million from £171 million in the year ended April 4, 2015. This increase includes an expense of £439 million (April 4, 2015: £50 million) in relation to the redemption and maturity of protected equity bonds (“PEB”) deposits which have returns linked to the performance of specified stock market indices. The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities includes income of £398 million (April 4, 2015: £1 million) in relation to the associated derivatives.

### *Debt securities in issue*

Debt securities in issue includes interest that we pay on certificates of deposit, time deposits, commercial paper, covered bonds, medium-term notes and securitisations. In the year ended April 4, 2016, interest expense on debt securities in issue decreased by 5% to £690 million from £725 million in the year ended April 4, 2015.

### *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, 2016, net income on financial instruments used to hedge our fixed rate liabilities was £768 million, compared with a net income of £481 million in the year ended April 4, 2015.

### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the year ended April 4, 2016 and 2015 respectively:

	<b>For the year ended April 4, 2016</b>			<b>For the year ended April 4, 2015</b>		
	<b>Income</b>	<b>Expense</b>	<b>Net</b>	<b>Income</b>	<b>Expense</b>	<b>Net</b>
			(£ million)			
Current account and savings .....	199	(126)	73	191	(108)	83
General insurance .....	78	-	78	88	-	88
Protection and investments .....	73	-	73	75	-	75
Mortgage .....	20	(3)	17	21	(1)	20
Credit card .....	46	(36)	10	67	(41)	26
Other fees and commissions .....	12	(27)	(15)	5	(19)	(14)
<b>Fee and commission .....</b>	<b>428</b>	<b>(192)</b>	<b>236</b>	<b>447</b>	<b>(169)</b>	<b>278</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, 2016, net fees and commissions decreased by 15% to £236 million compared with £278 million in the year ended April 4, 2015.

### *Other operating income*

In the year ended April 4, 2016, other operating income decreased to £8 million, compared with £9 million in the year ended April 4, 2015.

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

All derivatives we enter into are recorded on the balance sheet at fair value with any fair value movements accounted for in the income statement. Derivatives, our use of which is regulated by the UK

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

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

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

Gains from derivatives and hedge accounting were £39 million in the year ended April 4, 2016 compared to losses of £20 million in the year ended April 4, 2015. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

Included within the gain of £39 million (April 4, 2015: loss of £20 million) was the impact of the following:

- Gains of £85 million (April 4, 2015: losses of £46 million) from fair value hedge accounting. This includes gains of £66 million (April 4, 2015: losses of £30 million) from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts. In addition, further gains of £19 million relate to micro hedges (April 4, 2015: losses of £16 million) due to a combination of hedge ineffectiveness, maturities and disposals.
- Losses of £46 million (April 4, 2015: £53 million) relating to the mortgage pipeline. The income statement includes the full fair value movement of forward starting interest rate swaps economically hedging the pipeline; however the Group only elects to fair value certain underlying mortgage business within the pipeline.
- Losses of £37 million (April 4, 2015: gains of £93 million) from portfolio valuation adjustments and volatility on other derivatives which are not currently in an IAS 39 hedge accounting relationship.
- Gains of £36 million (April 4, 2015: losses of £11 million) from the retranslation of foreign currency monetary items.

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

Operating expenses and similar charges were stable in the year ended April 4, 2016 at £2,093 million compared to £2,099 million in the year ended April 4, 2015. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2016 and 2015, respectively:

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	<i>(£ million)</i>	
Administrative expenses.....	1,522	1,412
Depreciation and amortization.....	325	294
Impairment losses on loans and advances to customers .....	81	233
Provisions for liabilities and charges .....	173	142
Impairment (recoveries)/losses on investment securities.....	(8)	18
<b>Total.....</b>	<b>2,093</b>	<b>2,099</b>

### *Administrative expenses*

Administrative expenses increased by 8% in the year ended April 4, 2016 to £1,522 million from £1,412 million in the year ended April 4, 2015 largely driven by ongoing investment in the business, general inflation and increased levels of business activity.

The following table sets forth the components of administrative expenses for the years ended April 4, 2016 and 2015, respectively:

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	<i>(£ million)</i>	
Employee costs:		
Salaries, bonuses and social security costs.....	617	584
Pension costs.....	119	87
Other administrative expenses.....	786	741
<b>Total.....</b>	<b>1,522</b>	<b>1,412</b>

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

We operate both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund (the “**Fund**”). This is a contributory defined benefit arrangement, with both final salary and career average revalued earnings (“**CARE**”) sections. The Fund was closed to new entrants in 2007, and since then new employees have been able to join a defined contribution arrangement. The final salary section of the Fund was closed to future service on March 31, 2011. Service already built up in the final salary section will continue to be linked to final salary, while future benefits now accrue within the CARE section.

In the year ended April 4, 2016, salaries and social security costs increased by 6% to £617 million from £584 million in the year ended April 4, 2015 due to higher costs resulting from enhancements to the Nationwide Group Personal Pension Plan and an increase in employee costs that reflects the impact of annual pay awards averaging 3.0% and 2.5% respectively in each of the last two years, combined with a 3% increase in employee numbers year on year. Within employee costs, the pension charge increased by 37% to £119 million for the year ended April 4, 2016 from £87 million in the year ended April 4, 2015.

Other administrative costs increased by 6% to £786 million for the year ended April 4, 2016 from £741 million for the year ended April 4, 2015. This increase is driven by increased brand development costs and revenue costs associated with our ongoing commitment to a targeted programme of strategic investment. This investment has included enhancements in our digital capability, including Nationwide Now, Apple Pay functionality and PayM, IT resilience and investment in core product platforms to meet additional business volumes, and ensuring compliance with UK and European Union regulatory requirements.

The cost income ratio has deteriorated on an underlying basis to 53.9% (April 4, 2015: 51.4%) and on a statutory basis to 54.8% (April 4, 2015: 54.3%) as a result of the growth in administrative expenses described above, which reflects our focus on improving product propositions and services for members whilst remaining strong, safe and secure.

### *Depreciation and amortization*

For the year ended April 4, 2016 depreciation and amortization expenses increased by 11% to £325 million as a consequence of strategic investment in the business.

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

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

Impairment losses on loans and advances to customers for the year ended April 4, 2016 decreased by 65% to £81 million from £233 million for the year ended April 4, 2015, primarily as a result of a significant improvement in the level of impairment suffered on our commercial lending portfolio.

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2016 and 2015, respectively:

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	<i>(£ million)</i>	
Residential mortgages.....	18	58
Commercial lending .....	(34)	52
Consumer banking .....	96	89
Other lending .....	1	34
<b>Total.....</b>	<b>81</b>	<b>233</b>

Residential lending impairment charges of £18 million (April 4, 2015: £58 million) comprise a reduction in provision requirement of £9 million as a result of moderate house price growth combined with the continued reduction in our mortgage arrears to 0.45% (April 4, 2015: 0.49%). This has been more than offset by increased provisions of £27 million due to refinements in our credit risk impairment assumptions to take account of the impacts of a prolonged period of low interest rates and the risks attaching to interest only mortgages.

Commercial lending impairments relate exclusively to commercial real estate (“CRE”) lending, with no arrears in our registered social landlords and Project Finance portfolios. The continued improvement in market conditions for CRE, as asset values improve and liquidity strengthens, has driven a high level of provision reversals and recoveries.

Consumer banking impairments have increased by 8% to £96 million (April 4, 2015: £89 million). Of this charge, £29 million reflects a reassessment of assumptions embedded within provisioning models across each of the consumer banking products to ensure that they remain appropriate in a low interest rate environment. Excluding these model changes, the underlying consumer banking impairment charge has reduced by 25%, predominantly a result of improving economic conditions combined with improved credit underwriting for personal loans.

#### *Impairment losses/gains on investment securities*

Impairment recoveries on investment securities of £8 million were recognized for the year ended April 4, 2016 (April 4, 2015: £18 million loss).

#### *Provisions for liabilities and charges*

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	<i>(£ million)</i>	
FSCS.....	46	83
Customer redress provision .....	127	59
<b>Total.....</b>	<b>173</b>	<b>142</b>

We pay levies to the FSCS based upon our share of protected deposits. The FSCS charge has reduced by 45% to £46 million, reflecting the Group’s expected share of interest costs in relation to the 2016/17 FSCS scheme year and final confirmation of previous scheme year charges. During the year, the FSCS have confirmed that the non-Bradford & Bingley loan was fully repaid and any excess dividends received from the wind-up of these failed institutions will be used to pay the outstanding balance of the Dunfermline capital. As a result no capital costs have been included in the charge.

Further information is provided in Note 28 to the audited consolidated financial statements for the year ended April 4, 2016.

The charge for customer redress provisions of £127 million in the year ended April 4, 2016 (April 4, 2015: £59 million) relates to estimated costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory matters.

The income statement charge for provisions for liabilities and charges mainly reflects the Group's updated assumptions for provisions previously recognized. This includes a £95 million charge in relation to PPI, largely in response to the announcements made by the Financial Conduct Authority ("FCA") during the year and specifically the consultation paper CP15/39 issued in November 2015. In this consultation the FCA proposed an industry-funded communications campaign, combined with a deadline for any further complaints. It also proposed new rules and guidance in light of the Supreme Court's decision in the case of *Plevin v Paragon Personal Finance Limited*.

In light of these latest developments, it is considered appropriate for the Group to provide for the estimated total amount required to deal with all ongoing and future PPI complaints, including compensation and administrative costs associated with cases that the Group expects to uphold as well as the cost of processing invalid claims which the Group expects to receive. Previously, costs relating to the processing of invalid claims were expensed as incurred.

The remainder of the charge for the year is in respect of claims relating to consumer credit legislation.

#### *Taxes*

The statutory reported tax charge for the year of £294 million in the year ended April 4, 2016 (April 4, 2015: £205 million charge) represents an effective tax rate of 23%, which is higher than the statutory rate in the UK of 20%. The higher effective rate is due principally to the banking surcharge of 8% effective from January 1, 2016, equivalent to £22 million (April 4, 2015: £nil), together with the tax effect of disallowable bank levy and customer redress costs of £8 million and £7 million (April 4, 2015: £6 million and £nil) respectively.

This resulted in an overall statutory tax charge for the year ended April 4, 2016 of £294 million (April 4, 2015: £205 million) as set out in the table below:

	<b>For the year ended April 4, 2016</b>	<b>For the year ended April 4, 2015</b>
	<i>(£ million)</i>	
Charge on profits for the year .....	295	228
Adjustment in respect of prior years .....	(3)	(16)
Effect of corporation tax rate change .....	-	(7)
Effect of banking surcharge on deferred tax balances .....	2	-
<b>Statutory tax charge .....</b>	<b>294</b>	<b>205</b>

#### *Balance Sheet Review*

Weighted average total assets grew by just over 4% as the growth in retail lending outstripped reductions in treasury and commercial lending balances.

#### *Loans and advances to customers*

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 91.2% of our total loans and advances to customers at April 4, 2016. This is an increase from 90.0% as at April 4, 2015, reflecting the Group's strategy of exiting non-core commercial lending:

	<b>As at April 4, 2016</b>		<b>As at April 4, 2015</b>
	<i>(£ billion, except percentages)</i>		
Prime residential mortgages .....	129.9	73.0%	124.6
Specialist residential mortgages .....	32.3	18.2%	28.3
			73.4%
			16.6%

	As at April 4, 2016		As at April 4, 2015	
	<i>(£ billion, except percentages)</i>			
<b>Total residential mortgages</b> .....	<b>162.2</b>	<b>91.2%</b>	<b>152.9</b>	<b>90.0%</b>
Commercial lending .....	11.7	6.6%	13.2	7.8%
Consumer banking .....	3.9	2.2%	3.8	2.2%
<b>Gross balances</b> .....	<b>177.8</b>	<b>100.0%</b>	<b>169.9</b>	<b>100.0%</b>
Impairment provisions .....	(0.4)		(0.7)	
Fair value adjustments for micro hedged risk.....	1.4		1.4	
<b>Total</b> .....	<b>178.8</b>		<b>170.6</b>	

### Residential mortgage portfolio

Residential mortgages include prime and specialist loans, with new lending in the specialist portfolio comprised entirely of buy to let lending. Gross mortgage lending in the period was £32.6 billion (April 4, 2015: £27.1 billion), representing a market share of 13.7% (April 4, 2015: 13.4%).

Mortgage balances grew by £9.3 billion in the year ended April 4, 2016 of which £5.3 billion was prime lending and £4.0 billion related to specialist mortgages.

Buy to let lending has accounted for 22% of total new business, up from 18% in 2015, primarily due to the growing importance of the private rental sector for UK housing needs as a whole, reflecting long term economic and social trends. New lending performance was boosted in the final quarter as many investors sought to complete purchases ahead of the imposition of the additional 3% stamp duty for buy to let properties at the end of March 2016.

Prime residential mortgages are primarily Nationwide-branded advances made through our branch network and intermediary channels. Within prime lending, first time buyers accounted for an increased share of overall lending, up to 28% compared to 26% in 2015. The Group has widened its offering of mortgages at 90 to 95% LTV, and revised its existing Save to Buy proposition to align to the government's Help to Buy ISA to give first time buyers a further contribution to a deposit. As a consequence the average LTV of new business, the proportion of lending at higher LTVs and the loan to income metric have increased as the Group maintains its support for first time buyers, whilst remaining within its risk appetite.

In addition to our support for first time buyers, we have continued with our policy of rewarding our members by providing a loyalty discount to our mortgage rates to existing mortgage customers wishing to move homes, switch products or take a further advance. We have also maintained our BMR at 2% above the BoE base rate.

Arrears have continued to fall across both prime and specialist lending over the period reflecting the continuing favourable economic conditions and low interest rate environment, supported by a robust credit assessment and affordability controls at the point of lending. The proportion of loans that are more than three months in arrears fell from 0.49% to 0.45%; the proportion of non-performing loans and overall levels of impairment loss also fell. The Group has taken action during the year to increase the provision for losses which have been incurred but not specifically reported at the balance sheet date; this limited the fall in provisions which ended the year at £102 million (April 4, 2015: £110 million).

In March 2016 the PRA issued a consultation paper aimed at strengthening buy to let underwriting standards across the industry. It would require lenders to ensure their approach to affordability includes a provision for the usual costs associated with a buy to let property together with suitable allowances for tax liabilities. This follows changes to income tax relief on buy to let properties announced by the Chancellor in 2015 which are due to be phased in from April 2017 to March 2021. These changes will impact existing landlords and may also impact investor demand as net rental yields are reduced. As tax will be charged on rental income without deducting mortgage interest payments, there is a possibility that a number of investors will move from a basic rate to high rate tax band, and some borrowers may find that the tax charge exceeds the current net profit they make from rent after interest payments.

As patterns of housing tenure continue to evolve, with greater numbers of people choosing to rent rather than buy, our subsidiary, The Mortgage Works (UK) plc ("TMW"), has continued to be a leading provider of high quality loans to the specialist mortgages sector. Our total specialist mortgage book now stands

at £32.2 billion at April 4, 2016 (April 4, 2015: £28.3 billion), representing 19.9% of our total residential lending portfolio at April 4, 2016 (April 4, 2015: 18.5%).

As at April 4, 2016, buy-to-let mortgages made up 89% of total specialist lending, 7% related to self-certification mortgages, 3% related to near prime and 1%, amounting to £0.35 billion, related to subprime.

The Group's buy to let lending continues to benefit from a number of enhanced controls implemented since the financial crisis, including the use of a stressed interest rate when applying interest cover ratio criteria. However the Group recognizes that the changes to tax relief will materially affect the cash flow and affordability of many investors, and has taken steps to ensure that buy to let borrowing remains sustainable and affordable for landlords as the tax changes are phased in. The Group has increased its minimum interest coverage ratio ("ICR") from 125% to 145% with effect from May 11, 2016, and also lowered its maximum LTV for buy to let borrowing from 80% to 75%. The Group will continue to review its approach to underwriting as the PRA consultation concludes to ensure that asset quality is maintained and new regulations are met.

House prices in London have been outstripping the wider UK market in recent years. The gap between the price of a typical London house and the UK equivalent is at, or close to, record levels, with London houses worth twice as much on average as houses in the UK as a whole. The house price to earnings ratio for London has increased above 11, above its previous pre-crisis peak of 8.3, and rental yields have dropped below 3.5%. Demand in London has in part been driven by the growth in buy to let activity (which is more heavily concentrated in London) and there is a risk that the stretched affordability and yield metrics, combined with a change in economic conditions or reduced investor demand, could cause a correction to house prices (source: Nationwide House Price Index).

Exposures in London are controlled through maximum loan sizes for new business tiered by LTV which limit individual exposures, and mean that where prices are higher, higher equity coverage is required. Both prime and buy to let lending is subject to affordability assessments using stressed interest rates (based on a five-year forward view) to ensure that lending will remain affordable for borrowers even in the event of an increase in interest rates. The Group has conducted stress tests which demonstrate that even in the event of a reduction in house prices of around 40%, any losses that were to occur would not undermine the Group's capital strength. The Group continues to monitor potential levels of negative equity should three years' of house price increases reverse, and intends to take steps to control the concentration of lending in London should this become necessary.

The Group is exposed to higher LTV lending (up to 95% for new business) and is a strong participant in schemes designed to support first time buyers, such as the Help to Buy (Shared Equity) scheme where a deposit of 5% from the borrower is supported by an equity loan of up to 20% from the government. The Group believes that these schemes are well designed and offer valuable support to buyers, as well as providing additional credit protection for the lender. The Group controls its risk exposure to higher LTV business and shared equity schemes through a combination of risk appetite limits, credit scoring controls, and exposure limits on large new build development sites.

	<u>As at April 4, 2016</u>	<u>As at April 4, 2015</u>
	<i>(percentages)</i>	
<b>LTV distribution of residential mortgages:</b>		
0% - 60% .....	26	26
60% - 75% .....	40	42
75% - 80% .....	9	10
80% - 85% .....	12	10
85% - 90% .....	11	11
90% - 95% .....	2	1
>95% .....	-	-
<b>Total</b> .....	<b>100</b>	<b>100</b>
 Average loan to value of stock .....	 55	 56
Average loan to value of new business.....	69	69
<b>New business profile:</b>		



	<b>As at April 4, 2016</b>	<b>As at April 4, 2015</b>
	<i>(percentages)</i>	
First-time buyers.....	28	26
Home movers.....	31	32
Remortgagers.....	18	23
Buy-to-let.....	22	18
Other.....	1	1
<b>Total.....</b>	<b>100</b>	<b>100</b>

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

Total residential balance sheet provisions at April 4, 2016 are £102 million, compared with £110 million at April 4, 2015.

	<b>As at April 4, 2016</b>	<b>As at April 4, 2015</b>
	<i>(percentages)</i>	
<b>Cases three months or more in arrears as % of total book of residential mortgages</b>		
Prime .....	0.35	0.36
Specialist.....	0.90	1.12
<b>Total Group residential mortgages .....</b>	<b>0.45</b>	<b>0.49</b>
<b>CML industry average .....</b>	<b>1.04</b>	<b>1.30</b>

Reflecting our low risk profile, performance of the mortgage books has remained strong with the number of residential mortgages more than three months in arrears reducing in both the specialist and prime mortgage books. Our overall arrears percentage of 0.45% compares favourably with the CML industry average of 1.04% (April 4, 2015: 1.30% as reported by CML).

The table below shows possessions as a percentage of our total residential mortgages as at April 4, 2016 and April 4, 2015:

	<b>As at April 4, 2016</b>	<b>As at April 4, 2015</b>
	<i>(percentages)</i>	
<b>Possessions as % of total residential mortgages (number of properties)</b>		
Prime .....	0.01	0.01
Specialist.....	0.04	0.10
<b>Total Group residential mortgages .....</b>	<b>0.01</b>	<b>0.03</b>

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2016, the properties taken into possession decreased to 174, representing only 0.01% of the Group's book compared to the industry average of 0.03% (source: CML).

The table below provides further information on the residential mortgage portfolio by payment due status as at April 4, 2016, 2015 and April 4, 2014:

	<b>As at April 4, 2016</b>				<b>As at April 4, 2015</b>			
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Total</b>	<b>%</b>	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Total</b>	<b>%</b>
	<i>(£ billion, except percentages)</i>							
<b>Not impaired:</b>								
Neither past due nor impaired.....	128.0	31.0	159.0	98%	122.5	26.9	149.4	98%
Past due up to 3 months but not impaired.....	1.6	0.8	2.4	1%	1.7	0.9	2.8	1%
Impaired .....	0.4	0.4	0.1	0.9	0.4	0.5	1.0	1%
<b>Total.....</b>	<b>129.9</b>	<b>32.3</b>	<b>162.2</b>	<b>100%</b>	<b>124.6</b>	<b>28.3</b>	<b>153.2</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 which are not in possession have collective impairment provisions set aside to cover credit losses.

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

	As at April 4, 2016				As at April 4, 2015			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
	<i>(£ million, except percentages)</i>							
<b>Impaired status:</b>								
Past due 3 to 6 months.....	170	188	358	46%	190	207	397	44%
Past due 6 to 12 months.....	115	115	230	30%	120	143	263	30%
Past due over 12 months .....	75	91	166	21%	72	97	169	19%
Possessions .....	6	18	24	3%	14	52	66	7%
<b>Total .....</b>	<b>366</b>	<b>412</b>	<b>778</b>	<b>100%</b>	<b>396</b>	<b>499</b>	<b>895</b>	<b>100%</b>

We offer a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended April 4, 2016 to ensure alignment to good practice as defined by the regulator. The options offered may be classified into three categories:

- change in terms;
- forbearance; and
- repair

#### *Change in terms*

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows, these are not offered as a means of forbearance. The options available include:

- Payment holidays;
- Term extensions;
- Payment concessions; and
- Interest-only conversions (withdrawn March 2012).

#### *Payment holidays*

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months. £3,425 million of loans have been subject to payment holidays at any point since January 2008 and are still on the books as at April 4, 2016 (April 4, 2015: £3,890 million). The performance of loans on payment holiday is in line with that of the wider portfolio and therefore no adjustment is made to the Group’s provisioning methodology for these loans.

#### *Term extensions*

The Group allows performing customers to apply to extend the term of their mortgage; £6,725 million of loans have been subject to term extensions at any point since January 2008 and are still on the books as at

April 4, 2016 (April 4, 2015: £7,065 million). Performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### *Payment concessions*

Customers in arrears may be offered a temporary payment concession allowing them to make reduced or nil payments for an agreed period of time. £954 million of loans have been subject to payment concessions at any point since January 2008 and are still on the books as at April 4, 2016 (April 4, 2015: £989 million).

#### *Permanent interest-only conversions*

Historically, performing customers who meet specific criteria could apply for a permanent interest only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy, this facility was completely withdrawn in March 2012, although a temporary interest only arrangement may be available under forbearance as described below. £1,831 million of loans have been subject to interest only conversions at any point since January 2008 and are still on the books as at April 4, 2016 (April 4, 2015: £2,027 million). The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### *Forbearance*

The only forbearance option which we offer customers in financial distress is an interest-only concession. Interest-only concessions are offered to customers on a temporary basis with formal periodic review subject to an affordability assessment. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase and will remain as at the beginning of the concession.

#### *Repair*

The Group offers two forms of repair, capitalization and term extension (at term expiry), as set out below.

#### *Capitalization*

When a customer emerges from financial difficulty, the Group offers the ability to capitalise arrears, resulting in the account being repaired. Once capitalised, the loans are categorised as not impaired as long as contractual repayments are maintained. £558 million of loans have had an arrears capitalization at any point since January 2008 and are still on the books as at April 4, 2016 (April 4, 2015: £580 million).

#### *Term extension (at term expiry)*

Customers on interest only mortgages who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible whilst ensuring the monthly payment remains manageable to the customer. £541 million of loans have had an extension at term expiry at any point since January 2008 and are still on the books as at April 4, 2016 (April 4, 2015: £511 million). No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. The table below shows the stock of loans still on the books as at April 4, 2016 that have been subject to forbearance at some point:

As at April 4, 2016		As at April 4, 2015 <sup>(2)</sup>	
		<i>(unaudited)</i>	
	% of total prime loans and advances		% of total prime loans and advances
£ million		£ million	

	As at April 4, 2016		As at April 4, 2015 <sup>(2)</sup>	
	<i>(unaudited)</i>			
	<b>£ million</b>	<b>% of total prime loans and advances</b>	<b>£ million</b>	<b>% of total prime loans and advances</b>
Change in terms <sup>(1)</sup> .....	11,518	7	12,408	8
Forbearance <sup>(1)</sup> .....	1,553	1	1,659	1
Repair <sup>(1)</sup> .....	1,091	1	1,085	1

Notes:

- (1) The three categories above are not mutually exclusive. The information above has been extracted from our management information systems.
- (2) Comparatives have been restated to include data from the Dunfermline, Derbyshire and Cheshire mortgage portfolios which had not previously been included.

The following table presents negative equity on residential mortgages:

	As at April 4, 2016		As at April 4, 2015	
	<b>Prime lending</b>	<b>Specialist lending</b>	<b>Prime lending</b>	<b>Specialist lending</b>
	<i>(£ million)</i>			
Past due but not impaired .....	2	4	2	7
Impaired .....	1	10	2	9
Possessions .....	-	1	-	6
<b>Total</b> .....	<b>3</b>	<b>15</b>	<b>4</b>	<b>22</b>

### Commercial loan portfolio

Our commercial lending portfolio of £11.8 billion as at April 4, 2016 (April 4, 2015: £13.2 billion) comprises £3.0 billion secured on CRE (April 4, 2015: £4.0 billion), £7.6 billion advanced to Registered Social Landlords (April 4, 2015: £7.8 billion) and £1.2 billion advanced under Project Finance, principally via the Private Finance Initiative (“PFI”) (April 4, 2015: £1.4 billion). Our CRE portfolio is diverse both in terms of sectors and geographic spread.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with our forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired CRE loans amounted to £171 million as at April 4, 2016 (April 4, 2015: £608 million) and provisions held against the portfolio amounted to £59 million (April 4, 2015: £322 million) representing a coverage ratio of 35% (April 4, 2015: 53%).

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

	As at April 4, 2016	As at April 4, 2015
	<i>(£ million, except percentages)</i>	
<b>Gross balances</b>	3,009	4,043
Impaired balances .....	171	608
Impaired balances as a % of gross balances .....	6%	15%
<b>Commercial provisions:</b>		
Individual .....	54	313
Collective .....	5	9
Total provisions .....	59	322
<b>Provision coverage ratios:</b>		
Individual provisions as a % of impaired balances .....	32%	51%
Total provisions as a % of non-performing balances .....	26%	47%
Total provisions as a % of total gross balances .....	2%	8%

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amounted to £133 million (78% of impaired balances) as at April 4, 2016 and £367 million (60% of impaired balances) as at April 4, 2015. There are no cases classified as impaired or with payment arrears in our Registered Social Landlord or PFI portfolios.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for CRE lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cash flow performance or capital value is unlikely. Our strategy remains one of prudent loss mitigation over the medium term in a market which is both cyclical and currently experiencing extremely low investor demand. We make refinancing available for existing exposures where we are satisfied that we continue to have a constructive relationship with the borrower which recognizes our interests, and can achieve a level of expected return which reflects current funding costs or where there is a realistic likelihood that recovery over the medium term in the hands of the borrower represents a better prospect than short-term disposal. To the extent this strategy leads to forbearance on loans which are renewed at “off-market” interest rates or where the most likely outcome remains an ultimate financial loss, impairment provisions are then recognized in accordance with relevant accounting requirements.

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

The total other lending portfolio of £20 million as at April 4, 2016 (April 4, 2015: £29 million) represents 0.01% (April 4, 2015: 0.02%) of the Group’s loans and advances to customers. The portfolio primarily consists of secured loans relating to a European commercial loan facility which is held by one of the Group’s subsidiaries, Cromarty CLO Ltd (“**Cromarty**”). The portfolio has reduced during the year through ongoing loan maturities and amortisation and remains in run-off.

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

	As at April 4, 2016				As at April 4, 2015			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired .....	2.7	92%	-	-	3.3	83%	-	-
Past due up to 3 months but not impaired...	0.1	2%	-	-	0.1	2%	-	-
Impaired.....	0.2	6%	-	-	0.6	15%	-	-
<b>Total.....</b>	<b>3.0</b>	<b>100%</b>	<b>-</b>	<b>-</b>	<b>4.0</b>	<b>100%</b>	<b>-</b>	<b>-</b>

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

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses.

Impaired balances in other operations total £5 million as at April 4, 2016 (April 4, 2015: £10 million).

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

	As at April 4, 2016				As at April 4, 2015			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ million, except percentages)</i>							
<b>Impaired status:</b>								
Past due 0 to 3 months .....	115	68%	-	-	413	68%	5	50%
Past due 3 to 6 months .....	21	12%	-	-	59	10%	-	-

	As at April 4, 2016				As at April 4, 2015			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ million, except percentages)</i>							
Past due 6 to 12 months.....	4	2%	-	-	56	9%	-	-
Past due over 12 months.....	28	16%	5	100%	79	13%	5	50%
Possessions .....	3	2%	-	-	1	-	-	-
<b>Total.....</b>	<b>171</b>	<b>100%</b>	<b>5</b>	<b>100%</b>	<b>608</b>	<b>100%</b>	<b>10</b>	<b>100%</b>

Impaired loans include those balances which are more than three months in arrears, or have a provision against them.

Possession balances represent loans against which we have taken ownership of properties pending their sale. Assets over which possession has been taken are realized in an orderly manner via open market or auction sales to derive the maximum benefit for all interested parties, and any surplus proceeds are distributed in accordance with the relevant insolvency regulations. We do not normally occupy repossessed properties for our business use or use assets obtained in our operations.

Although collateral can be an important mitigant of credit risk, it is our practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than rely on the value of the security offered. In the event of default, we may use the collateral as a source of repayment.

Primary collateral is a fixed charge over freeholder or long leasehold properties, but may be supported by other liens, floating charges over company assets and, occasionally, unsupported guarantees. The collateral will have a significant effect in mitigating our exposure to credit risk.

The table below quantifies the estimated value of indexed collateral held against non-performing or impaired assets:

	As at April 4, 2016		As at April 4, 2015	
	<i>(£ million, except percentages)</i>			
Past due but not impaired .....	55	100%	77	100%
Impaired.....	133	78%	367	60%
<b>Total .....</b>	<b>188</b>	<b>83%</b>	<b>444</b>	<b>65%</b>

The percentage, in the table above, is the cover over the asset. The indexed collateral value is based on the most recent valuation indexed using the Investment Property Databank ("IPD") monthly index for the relevant property sector. The indexed value of the collateral is based on the most recent formal valuation. We reserve the right to request a revaluation of any property currently charged in support of facilities advanced or upon an act of default. Although a revaluation is not automatically obtained, the merits of obtaining a revaluation are considered at each facility review and whenever a report is submitted to the Group Risk Division.

Our valuation policy stipulates the maximum period between formal valuations, relative to the risk profile of the lending. Particular attention is paid to the status of the facilities, for instance whether it is, or is likely to require an impairment review where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis.

	As at April 4, 2016	As at April 4, 2015
	<i>(£ million, except percentages)</i>	
	<i>(unaudited)</i>	

**Performing loans**  
Fully collateralized

	<b>As at April 4, 2016</b>		<b>As at April 4, 2015</b>	
	<i>(£ million, except percentages) (unaudited)</i>			
<b>LTV ratio:</b>				
less than 25% .....	220		321	
25% to 50% .....	1,659		1,417	
51% to 75% .....	830		1,208	
76 to 90% .....	62		362	
91% to 100% .....	6		23	
<b>Total .....</b>	<b>2,777</b>	<b>92%</b>	<b>3,331</b>	<b>82%</b>
<b>Partially collateralized</b>				
More than 100% (A) .....	6	-	27	1%
Collateral value of (A).....	4		25	
Negative equity on (A).....	2		2	
<b>Total performing loans.....</b>	<b>2,783</b>	<b>92%</b>	<b>3,358</b>	<b>83%</b>
<b>Non-performing loans</b>				
<b>Fully collateralized</b>				
<b>LTV ratio:</b>				
less than 25% .....	19		1	
25% to 50% .....	24		52	
51% to 75% .....	30		45	
76 to 90% .....	21		50	
91% to 100% .....	6		31	
<b>Total.....</b>	<b>100</b>	<b>4%</b>	<b>179</b>	<b>4%</b>
<b>Partially collateralized</b>				
More than 100% (A) .....	126	4%	506	13%
Collateral value of (A).....	88		265	
Negative equity of (A).....	38		241	
<b>Total non-performing loans .....</b>	<b>226</b>	<b>8%</b>	<b>685</b>	<b>17%</b>
<b>Total CRE loans.....</b>	<b>3,009</b>	<b>100%</b>	<b>4,043</b>	<b>100%</b>

The overall proportion of partially collateralized non-performing loans has reduced to 4% in the year ended April 4, 2016 (April 4, 2015: 13%) and the shortfall on collateral for non-performing CRE loans has reduced by £203 million during the year ended April 4, 2016 to £38 million (April 4, 2015: £241 million).

The level of negative equity based upon the indexation of property values for the non-performing and impaired assets is detailed below:

	<b>As at April 4, 2016</b>	<b>As at April 4, 2015</b>
	<i>(£ million)</i>	
Past due but not impaired .....	-	-
Impaired.....	38	240
Possessions .....	-	1
<b>Total .....</b>	<b>38</b>	<b>241</b>

### Consumer banking

Consumer banking comprises retail balances relating to personal loans of £1.9 billion (April 4, 2015: £1.8 billion), credit cards of £1.7 billion (April 4, 2015: £1.8 billion) and current account overdrafts of £0.2 billion (April 4, 2015: £0.2 billion). Total balances across these portfolios have grown by 2.1% during the period to £3.7 billion (April 4, 2015: £3.8 billion), despite the continued intense competition across all lenders in the unsecured market. This is evident in the increasing duration of introductory offers for credit cards, switching incentives for current accounts and lower rates for personal loans.

	<b>As at April 4, 2016</b>	
	<b>Delinquent balances</b>	<b>Balances before provisions</b>
	<i>(£ million)</i>	
FlexAccount (overdraft balances) .....	25	247
Personal loans .....	121	1,901
Credit cards.....	135	1,721
<b>Total</b> .....	<b>281</b>	<b>3,869</b>

The following table presents the percentage of FlexAccounts, personal loans and credit card accounts more than 30 days in arrears:

	<b>As at April 4, 2016</b>	<b>As at April 4, 2015</b>
	<i>(percentages)</i>	
FlexAccount (overdraft balances).....	10.9	10.9
Personal loans .....	4.2	5.5
Credit cards.....	2.4	2.6

Unsecured customers have limited forbearance options. Credit card customers experiencing financial distress may agree a payment plan, which is typically less than the minimum payment. Additionally, credit card and personal loan customers who have maintained the required payment performance over a sustained period may be re-aged. The volume of payment plans and re-aging is low and therefore no specific treatment is made within our provisioning methodology.

	<b>As at April 4, 2016</b>		<b>As at April 4, 2015</b>	
	<b>Consumer banking</b>	<b>%</b>	<b>Consumer banking</b>	<b>%</b>
	<i>(£ million, except percentages)</i>			
<b>Not impaired:</b>				
Neither past due nor impaired.....	3.5	91%	3.5	91%
Past due up to 3 months but not impaired...	0.1	2%	0.1	3%
Impaired.....	0.1	2%	0.1	3%
Charged off <sup>(1)</sup> .....	0.2	5%	0.1	3%
<b>Total</b> .....	<b>3.9</b>	<b>100%</b>	<b>3.8</b>	<b>100%</b>

Note:

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

Impaired loans are broken down further in the following table:

	<b>As at April 4, 2016</b>		<b>As at April 4, 2015</b>	
	<b>Consumer banking</b>	<b>%</b>	<b>Consumer banking</b>	<b>%</b>
	<i>(£ million, except percentages)</i>			
<b>Impaired status:</b>				
Past due 3 to 6 months .....	26	41%	30	41%
Past due 6 to 12 months .....	17	27%	25	35%
Past due over 12 months .....	20	32%	17	24%
Possessions .....	-	-	-	-
<b>Total</b> .....	<b>63</b>	<b>100%</b>	<b>72</b>	<b>100%</b>

**Country exposure**



The following section summarizes our direct exposure to institutions, corporates, and other issued securities domiciled in the peripheral eurozone countries. The exposures are shown at their balance sheet carrying values.

<b>As at April 4, 2016</b>					
	<b>Ireland</b>	<b>Italy</b>	<b>Portugal</b>	<b>Spain</b>	<b>Total</b>
	<i>(£ million)</i>				
Mortgage backed securities .....	-	21	22	85	128
Covered bonds .....	-	-	-	31	31
Other corporate .....	-	3	-	-	3
<b>Total .....</b>	<b>-</b>	<b>24</b>	<b>22</b>	<b>116</b>	<b>162</b>

<b>As at April 4, 2015</b>					
	<b>Ireland</b>	<b>Italy</b>	<b>Portugal</b>	<b>Spain</b>	<b>Total</b>
	<i>(£ million)</i>				
Mortgage backed securities .....	-	45	32	206	283
Covered bonds .....	-	-	-	29	29
Other corporate .....	-	3	-	-	3
<b>Total .....</b>	<b>-</b>	<b>48</b>	<b>32</b>	<b>235</b>	<b>315</b>

Movements in our exposure to peripheral eurozone countries between the years ended April 4, 2015 and 2016 relate to disposals, maturities and fair value movements and there has been no new investment in the current financial year.

None of our exposures to the peripheral eurozone countries are in default, and we did not incur any impairment on these assets in the year ended April 4, 2016. We continue to monitor closely the exposures to these countries. In addition, our exposure in respect of other eurozone countries and the rest of the world is shown below at their balance sheet carrying value as at April 4, 2016:

<b>As at April 4, 2016</b>							
	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Netherlands</b>	<b>USA</b>	<b>Rest of the world</b>	<b>Total</b>
	<i>(£ million)</i>						
Government bonds .	242	-	365	82	902	-	1,591
Mortgage backed securities .....	-	-	-	385	35	17	437
Covered bonds .....	23	52	-	-	-	383	458
Senior debt .....	-	-	-	-	-	522	522
Loans to banks .....	-	60	107	-	350	627	1,144
Other assets .....	-	66	102	-	365	-	533
Other corporate .....	-	4	3	-	-	-	7
<b>Total .....</b>	<b>265</b>	<b>182</b>	<b>577</b>	<b>467</b>	<b>1,652</b>	<b>1,549</b>	<b>4,692</b>

<b>As at April 4, 2015</b>							
	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Netherlands</b>	<b>USA</b>	<b>Rest of the world</b>	<b>Total</b>
	<i>(£ million)</i>						
Government bonds .	231	-	253	411	305	-	1,200
Mortgage backed securities .....	-	4	-	551	49	27	631
Covered bonds .....	21	125	37	27	-	315	525
Senior debt .....	-	-	-	-	-	495	495
Loans to banks .....	-	146	229	-	527	823	1,725
Other assets .....	-	88	169	-	420	-	677
Other corporate .....	2	7	5	3	-	-	17
<b>Total .....</b>	<b>254</b>	<b>370</b>	<b>693</b>	<b>992</b>	<b>1,301</b>	<b>1,660</b>	<b>5,270</b>

We remain active in the above Eurozone jurisdictions and in the USA. The above balances are affected by asset pay downs, plus fair value and exchange rate movements.

## Results of Operations for the Year Ended April 4, 2015 Compared with the Year Ended April 4, 2014

### Introduction

We believe that our results indicate a strong performance for the year ended April 4, 2015 with an underlying profit before tax (as explained below) of £1,227 million, and a statutory profit before tax of £1,044 million.

Underlying profit before tax (as explained below) for the year ended April 4, 2015 is up 29% at £1,227 million from £952 million for the year ended April 4, 2014. Total income increased by 11% to £3,143 million in the year ended April 4, 2015, as compared to the year ended April 4, 2014.

Increased profitability has been driven mainly by the continued improvement in net interest income and reduced impairment losses and provisions for liabilities and charges, offset in part by increased administrative expenses and lower other income.

Underlying administrative expenses have increased by 7% to £1,626 million, reflecting ongoing investment in the business and increased employee costs. At a statutory level administrative expenses have increased by 6% to £1,706 million.

Between the years ended April 4, 2014 and 2015, the increase in employee costs reflects the impact of annual pay awards averaging 2.4% and 2.5% respectively in each of the last two years, and growth in bonus costs of £14 million driven by improving business performance and higher numbers of employees. Employee headcount has increased by 1.9% in the year ended April 4, 2015 as we continue to strengthen Risk and Control functions in light of the evolving regulatory agenda and build business capability to support our developing digital strategy.

Other administrative expenses have increased by £60 million for the year ended April 4, 2015. This reflects continued enhancement of our digital capability, including Nationwide Now, mobile and tablet banking, together with investment in IT systems, regulatory programs and brand development. The reported year on year increase is net of cost savings realised from integration of the regional brands and a reduction in administration costs for activity in relation to customer complaints.

Transformation costs of £52 million for the year ended April 4, 2015 relate to investment to enable IT support and development to be delivered in a more efficient and resilient manner, combined with investment related to the integration of the Dunfermline, Cheshire and Derbyshire brands. As these investments are nearing completion, related transformation costs are expected to reduce significantly in future periods.

Across the year, underlying income growth has run ahead of cost growth, resulting in an improvement in both the statutory and underlying cost income ratios to 54.3% (April 4, 2014: 56.6%) and 51.4% (April 4, 2014: 52.5%) respectively.

Performance of the mortgage portfolios continues to improve with the number of residential mortgages more than three months in arrears reducing in both the prime and specialist mortgage books. 0.49% of the Group's mortgages are more than three months in arrears, which compares favourably to the Council of Mortgage Lenders (the "CML") industry average of 1.30%.

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

For the year ended April 4, 2015				
Statutory profit	FSCS and bank levy	Transformation Costs	Losses from derivatives and hedge accounting	Underlying profit
(£ million)				
Net interest income.....	2,872	-	-	2,872
Other income .....	291	-	-	291
Movements on derivatives and hedge accounting .....	(20)	-	20	-
<b>Total income.....</b>	<b>3,143</b>	<b>-</b>	<b>20</b>	<b>3,163</b>

For the year ended April 4, 2015					
	Statutory profit	FSCS and bank levy	Transformation Costs	Losses from derivatives and hedge accounting	Underlying profit
			(£ million)		
Administrative expenses .....	(1,706)	28	52	-	(1,626)
<b>Pre-provision underlying profit.....</b>	<b>1,437</b>	<b>28</b>	<b>52</b>	<b>20</b>	<b>1,537</b>
Impairment losses.....	(251)	-	-	-	(251)
Provisions for liabilities and charges .....	(142)	83	-	-	(59)
<b>Profit before tax.....</b>	<b>1,044</b>	<b>111</b>	<b>52</b>	<b>20</b>	<b>1,227</b>

For the year ended April 4, 2014					
	Statutory profit	FSCS and bank levy	Transformation Costs	Losses from derivatives and hedge accounting	Underlying profit
			(£ million)		
Net interest income.....	2,431	-	-	-	2,431
Other income .....	492	-	-	-	492
Movements on derivatives and hedge accounting .....	(79)	-	-	79	-
<b>Total income.....</b>	<b>2,844</b>	<b>-</b>	<b>-</b>	<b>79</b>	<b>2,923</b>
Administrative expenses .....	(1,611)	17	75	-	(1,519)
<b>Pre-provision underlying profit.....</b>	<b>1,233</b>	<b>17</b>	<b>75</b>	<b>79</b>	<b>1,404</b>
Impairment losses.....	(383)	-	-	-	(383)
Provisions for liabilities and charges .....	(173)	104	-	-	(69)
<b>Profit before tax.....</b>	<b>677</b>	<b>121</b>	<b>75</b>	<b>79</b>	<b>952</b>

The following discussion considers our results for the year ended April 4, 2015 compared to our results for the year ended April 4, 2014:

#### **Total income**

Our total income increased to £3,143 million in the year ended April 4, 2015 compared to £2,844 million in the year ended April 4, 2014. The following table sets forth the components of income for the years ended April 4, 2015 and 2014, respectively:

	For the year ended April 4, 2015	For the year ended April 4, 2014
	(£ million)	
Net interest income .....	2,872	2,431
Net fees and commissions .....	278	354
Income from investments .....	4	4
Other operating income .....	9	134
Gains/(losses) from derivatives and hedge accounting .....	(20)	(79)
<b>Total.....</b>	<b>3,143</b>	<b>2,844</b>

#### **Net interest income**

Net interest income increased by 18% to £2,872 million for the year ended April 4, 2015 compared with £2,431 million for the year ended April 4, 2014.

The following table sets forth the components of net interest income for the years ended April 4, 2015 and 2014, respectively:

	For the year ended April 4, 2015	For the year ended April 4, 2014
	(£ million)	
<b>Interest and similar income:</b>		
On residential mortgages .....	4,981	4,825
On other loans .....	953	1,039
On investment securities .....	412	396
On other liquid assets .....	28	38
Net (expense) on financial instruments hedging assets .....	(1,027)	(1,003)
<b>Total interest and similar income.....</b>	<b>5,347</b>	<b>5,295</b>

	<b>For the year ended April 4, 2015</b>	<b>For the year ended April 4, 2014</b>
	( <i>£ million</i> )	
<b>Interest expense and similar charges:</b>		
On UK retail member deposits .....	(1,897)	(2,250)
On subscribed capital .....	(42)	(59)
On deposits and other borrowings:		
Subordinated liabilities .....	(115)	(129)
Other.....	(171)	(167)
Debt securities in issue .....	(725)	(814)
Foreign exchange differences .....	-	-
Net income on financial instruments hedging liabilities .....	481	570
Pension interest cost .....	(6)	(15)
<b>Total interest expense and similar charges .....</b>	<b>(2,475)</b>	<b>(2,864)</b>
<b>Net interest income .....</b>	<b>2,872</b>	<b>2,431</b>

Interest and similar income increased by 1% to £5,347 million in the year ended April 4, 2014 from £5,295 million in the year ended April 4, 2014.

#### *On residential mortgages*

Interest on residential mortgages increased slightly by 3% to £4,981 million in the year ended April 4, 2015 from £4,825 million in the year ended April 4, 2014. This includes adjustments to reflect the changes in our effective interest rate assumptions, including a charge of £2 million (April 4, 2014: £20 million) in respect of an update of early redemption charges and a credit of £13 million (April 4, 2014: £12 million), which resulted from an update to the effective interest rate assumptions applicable to the recognition of mortgage fee income.

#### *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 decreased by 8% to £953 million in the year ended April 4, 2015 from £1,039 million in the year ended April 4, 2014.

#### *On investment securities*

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

Interest and other income from investment securities increased by 4% to £412 million for the year ended April 4, 2015, compared with £396 million for the year ended April 4, 2014.

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

Derivative instruments are used to synthetically convert fixed rate assets to floating rate assets. The floating rate income and fixed rate expense on these derivatives are included as “net expense on financial instruments hedging assets.” In the year ended April 4, 2015, we incurred a net expense of £1,027 million on financial instruments used to hedge our fixed rate assets, compared with a net expense of £1,003 million in the year ended April 4, 2014.

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

Interest expense and similar charges decreased by 14% in the year ended April 4, 2015 to £2,475 million from £2,864 million in the year ended April 4, 2014.

#### *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 to £1,897 million in the year ended April 4, 2015 from £2,250 million in the year ended April 4, 2014.

The average interest rate that we paid to depositors decreased slightly to 1.4% for the year ended April 4, 2015 compared with 1.7% for the year ended April 4, 2014, which accounted for the majority of the decrease

in interest paid. There was also an increase of 2% in the average balance of UK retail member deposits held to £133,095 million in the year ended April 4, 2015 from £130,196 million in the year ended April 4, 2014.

Over the previous twelve months we have increased our market share of the personal current account market to 6.8% as at April 4, 2015 (April 4, 2014: 6.2%). We have been a supporter and beneficiary of the drive to make account switching quicker and easier, averaging an 8.4% share of all account switching in the year ended April 4, 2015.

#### *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, 2015, interest on subordinated liabilities decreased to £115 million from £129 million in the year ended April 4, 2014. This decrease is a result of changes in the mix of subordinated debt and average balances between the two periods. Average balances decreased to £2,202 million in the year ended April 4, 2015 from £2,433 million in the year ended April 4, 2014.

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, 2015, other interest expense on deposits and other borrowings increased by 2% to £171 million from £167 million in the year ended April 4, 2014. This increase is due to increases in market rates in the year ended April 4, 2015, compared with the year ended April 4, 2014.

#### *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 year ended April 4, 2015, interest expense on debt securities in issue decreased by 10.9% to £725 million from £814 million in the year ended April 4, 2014. This decrease reflects a 6.5% decrease in the average monthly balance of debt securities in issue to £28,677 million in the year ended April 4, 2015, compared with £30,680 million in the year ended April 4, 2014.

#### *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, 2015, net income on financial instruments used to hedge our fixed rate liabilities was £481 million, compared with a net income of £570 million in the year ended April 4, 2014.

#### *Net fees and commissions*

The following table sets forth the components of net fees and commissions for the year ended April 4, 2015 and 2014 respectively:

	<b>For the year ended April 4, 2015</b>			<b>For the year ended April 4, 2014</b>		
	<b>Income</b>	<b>Expense</b>	<b>Net</b>	<b>Income</b>	<b>Expense</b>	<b>Net</b>
	<i>(£ million)</i>					
Current account and savings .....	191	(108)	83	196	(85)	111
General insurance .....	88	-	88	101	-	101
Protection and investments .....	75	-	75	82	-	82
Mortgage .....	21	(1)	20	32	(2)	30
Credit card .....	67	(41)	26	70	(41)	29
Other fees and commissions .....	5	(19)	(14)	8	(7)	1
<b>Fee and commission .....</b>	<b>447</b>	<b>(169)</b>	<b>278</b>	<b>489</b>	<b>(135)</b>	<b>354</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, 2015, net fees and commissions decreased by 21% to £278 million compared with £354 million in the year ended April 4, 2014.

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

In the year ended April 4, 2015, other operating income decreased to £9 million, compared with £134 million in the year ended April 4, 2014, following the redemption of subscribed capital and redemption related fees (April 4, 2014: £125 million).

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

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

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

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

Losses from derivatives and hedge accounting were £20 million in the year ended April 4, 2015 compared to losses of £79 million in the year ended April 4, 2014. Income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting has not been adopted or is not achievable.

Included within the loss in the year ended April 4, 2015 was the impact of the following:

- Losses of £46 million (April 4, 2014: £66 million) on fair value hedge relationships. The 2015 charge includes losses of £30 million (April 4, 2014: £1 million) on macro hedges and £16 million (April 4, 2014: £65 million) on micro hedges, resulting from increased sterling interest rate movements throughout the year, bond maturities and disposals;
- Losses of £3 million (April 4, 2014: nil) on cash flow hedge relationships of cross currency swaps and index linked swaps;
- Losses of £53 million (April 4, 2014: £1 million gain) relating to mortgage pipeline transactions. The income statement includes the full fair value movement of interest rate swaps economically hedging the pipeline; however we only elect to fair value a portion of the underlying mortgage business within the pipeline; and
- Other derivatives gains of £82 million (April 4, 2014: £14 million loss). This includes a £58 million gain (April 4, 2014: £5 million) on cross currency swaps prior to the introduction of cash flow hedge accounting.

### ***Underlying Other Income Analyzed by Product Type***

	<b>For the year ended April 4, 2015</b>	<b>For the year ended April 4, 2014</b>
	<i>(£ million)</i>	
Current account .....	83	111
Protection and investments .....	75	82
General insurance .....	88	101
Mortgage.....	20	30
Credit card .....	26	29
Commercial .....	15	17
Gain on redemption of subscribed capital .....	-	125

	For the year ended April 4, 2015	For the year ended April 4, 2014
	<i>(£ million)</i>	
Other .....	(16)	(3)
<b>Total .....</b>	<b>291</b>	<b>492</b>

Total underlying other income decreased by £201 million to £291 million for the year ended April 4, 2015, primarily due to a one-off profit during the prior year of £125 million relating to the redemption of subscribed capital.

#### *Operating expenses and similar charges*

Operating expenses and similar charges were stable in the year ended April 4, 2015 at £2,099 million compared to £2,167 million in the year ended April 4, 2014. The following table sets forth the components of operating expenses and similar charges for the years ended April 4, 2015 and 2014, respectively:

	For the year ended April 4, 2015	For the year ended April 4, 2014
	<i>(£ million)</i>	
Administrative expenses .....	1,412	1,329
Depreciation and amortization .....	294	282
Impairment losses on loans and advances to customers .....	233	380
Provisions for liabilities and charges .....	142	173
Impairment losses on investment securities .....	18	3
<b>Total .....</b>	<b>2,099</b>	<b>2,167</b>

#### *Administrative expenses*

Administrative expenses increased by 6% in the year ended April 4, 2015 to £1,412 million from £1,329 million in the year ended April 4, 2014 largely driven by ongoing investment in the business, general inflation and increased levels of business activity.

The following table sets forth the components of administrative expenses for the years ended April 4, 2015 and 2014, respectively:

	For the year ended April 4, 2015	For the year ended April 4, 2014
	<i>(£ million)</i>	
Employee costs:		
Salaries and social security costs .....	584	550
Pension costs .....	87	86
Other administrative expenses .....	741	693
<b>Total .....</b>	<b>1,412</b>	<b>1,329</b>

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

We operate both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund (the “**Fund**”). This is a contributory defined benefit arrangement, with both final salary and career average revalued earnings (“**CARE**”) sections. The Fund was closed to new entrants in 2007, and since then new employees have been able to join a defined contribution arrangement. The final salary section of the Fund was closed to future service on March 31, 2011. Service already built up in the final salary section will continue to be linked to final salary, while future benefits now accrue within the CARE section.

In the year ended April 4, 2015, salaries and social security costs increased by 6% to £584 million from £550 million in the year ended April 4, 2014. The year on year increase in employee costs reflects the impact of

annual pay awards averaging 2.4% and 2.5% respectively in each of the last two years, combined with a 1.9% increase in employee numbers year on year.

Within employee costs, the pension charge increased by 1% to £87 million for the year ended April 4, 2015 from £86 million in the year ended April 4, 2014. Other administrative costs increased by 7% to £741 million for the year ended April 4, 2015 from £693 million for the year ended April 4, 2014. This reflects continued enhancement of our digital capability, including Nationwide Now, mobile and tablet banking, together with investment in IT systems, regulatory programs and brand development. The reported year on year increase is net of cost savings realised from integration of the regional brands and a reduction in administration costs for activity in relation to customer complaints.

During the year, underlying income growth exceeded cost growth, resulting in an improvement in both the statutory and underlying cost income ratios to 54.3% (April 4, 2014: 56.6%) and 51.4% (April 4, 2014: 52.5%) respectively.

#### *Depreciation and amortization*

For the year ended April 4, 2015 depreciation and amortization expenses increased by £12 million to £294 million compared to £282 million for the year ended April 4, 2014. This is primarily driven by the continued investment in key restructuring 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 is experiencing significant financial difficulty or default or delinquency in interest or principal payments.

Impairment losses on loans and advances to customers for the year ended April 4, 2015 decreased by 39% to £233 million from £380 million for the year ended April 4, 2014, primarily as a result of a significant improvement in the level of impairment suffered on our commercial lending portfolio.

The following table analyzes the impairment losses on loans and advances to customers for the years ended April 4, 2015 and 2014, respectively:

	<b>For the year ended April 4, 2015</b>	<b>For the year ended April 4, 2014</b>
	<i>(£ million)</i>	
Residential mortgages.....	58	-
Commercial lending .....	52	309
Consumer banking .....	89	60
Other lending .....	34	11
<b>Total .....</b>	<b>233</b>	<b>380</b>

House price growth has decreased to 5.1% for the year ended April 4, 2015 from 9.5% for the year ended April 4, 2014. With interest rates remaining low and improvement in earnings growth, we have seen a continued decline in arrears levels throughout the year. The impairment charge for the year includes £44 million from updates to our credit risk provision assumptions which have been refined to reflect updated segmental analysis of losses across the book, while also taking into account the impact of the prolonged low interest rate environment.

Commercial lending impairments relate exclusively to CRE lending, with no arrears in our social housing and Project Finance portfolios. The decrease in the impairment charge to £52 million (April 4, 2014: £309 million) reflects continued stabilisation of the commercial real estate market and the implementation of our deleveraging strategy which has seen impaired balances reduce by £ 2.5 billion to £ 0.6 billion (April 4, 2014: £ 3.1 billion). The level of impaired balances as a proportion of our total CRE exposure has fallen from 39% for



the year ended April 4, 2014 to 15% for the year ended April 4, 2015, reflecting the deleveraging and resolution of impaired assets.

Consumer banking impairments of £89 million are £29 million higher than for the year ended April 4, 2014, primarily as a result of a one-off credit included in 2014 of £27 million relating to an update to model assumptions for late state recoveries on defaulted balances. Excluding this adjustment, the underlying increase in consumer banking impairment is £2 million, consistent with stable underlying portfolio performance.

The 'other lending' impairment charge of £34 million and impairment losses on investment securities of £18 million relate to the out of policy treasury asset deleveraging activity undertaken during the year.

#### *Impairment losses/gains on investment securities*

Impairment losses on investment securities of £18 million were recognized for the year ended April 4, 2015 (year ended April 4, 2014: £3 million losses).

#### *Provisions for liabilities and charges*

	<b>For the year ended April 4, 2015</b>	<b>For the year ended April 4, 2014</b>
	<i>(£ million)</i>	
FSCS.....	83	104
Customer redress provision .....	59	69
<b>Total.....</b>	<b>142</b>	<b>173</b>

We pay levies to the FSCS based upon our share of protected deposits. The charge of £83 million for FSCS levies represents a decrease in interest for the 2014/15 scheme year, initially provided at April 4, 2014. The charge for 2015/16 will be recognized in the second half of the year. Further information is provided in Note 26 to the audited consolidated financial statements for the year ended April 4, 2015.

The charge for customer redress provisions of £59 million in the year ended April 4, 2015 (April 4, 2014: £69 million) relates to estimated costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory matters.

#### *Taxes*

The statutory reported tax charge for the year of £205 million in the year ended April 4, 2015 (April 4, 2014: £128 million charge) represents an effective tax rate of 19.6%, which is lower than the statutory rate in the UK of 21%. The lower rate is due principally to adjustments with respect to prior periods and the effect of the change in the UK corporation tax rate.

This resulted in an overall statutory tax charge for the year ended April 4, 2015 of £205 million (year ended April 4, 2014: £128 million) as set out in the table below:

	<b>For the year ended April 4, 2015</b>	<b>For the year ended April 4, 2014</b>
	<i>(£ million)</i>	
Charge on profits for the year.....	228	161
Adjustment in respect of prior years.....	(16)	(18)
Effect of corporation tax rate change.....	(7)	(15)
<b>Statutory tax charge .....</b>	<b>205</b>	<b>128</b>

#### *Balance Sheet Review*

Weighted average total assets grew by just under 2% as the growth in retail lending outstripped reductions in non-core treasury and commercial lending balances.

### Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 90.0% of our total loans and advances to customers at April 4, 2015. This is an increase from 87.3% as at April 4, 2014, reflecting the Group's strategy of exiting non-core commercial lending:

	As at April 4, 2015		As at April 4, 2014	
	(£ billion, except percentages)			
Prime residential mortgages .....	124.6	73.4%	119.3	71.5%
Specialist residential mortgages .....	28.3	16.6%	26.3	15.8%
<b>Total residential mortgages .....</b>	<b>152.9</b>	<b>90.0%</b>	<b>145.6</b>	<b>87.3%</b>
Commercial lending .....	13.2	7.8%	17.3	10.3%
Other lending .....	-	-	0.2	0.1%
Consumer banking .....	3.8	2.2%	3.9	2.3%
<b>Gross balances .....</b>	<b>169.9</b>	<b>100.0%</b>	<b>167.0</b>	<b>100.0%</b>
Impairment provisions .....	(0.7)		(1.3)	
Fair value adjustments for micro hedged risk.....	1.4		0.9	
<b>Total.....</b>	<b>170.6</b>		<b>166.6</b>	

### Residential mortgage portfolio

Prime residential mortgages are primarily Nationwide-branded advances made through our branch network and intermediary channels.

Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy-to-let lending. Gross mortgage lending in the period was £27.1 billion (April 4, 2014: £28.1 billion), representing a market share of 13.4% (April 4, 2014: 11.6%).

Mortgage balances grew by £7.2 billion in the year ended April 4, 2015 of which £5.2 billion was prime lending and £2.0 billion related to specialist mortgages.

The past financial year saw a number of competing forces cause the near term outlook for the UK mortgage market to become less predictable and challenge consumer sentiment. The FCA's rules on consumer pre-screening for mortgage affordability ("Mortgage Market Review") went live in April 2014 with the greater requirements of affordability assessments lengthening processes and leading to some capacity constraints. First time buyers continued to benefit from the Government's Help to Buy schemes, while localised concerns of excessive house price inflation in London were addressed by the Financial Policy Committee imposing additional constraints on lenders. Sentiment was further affected by uncertainty over the Scottish Referendum and the UK general election, with the consequence being a marked slowing of activity during the second half of the financial year, despite a supportive macroeconomic background.

First time buyer activity in particular was subdued in the second half of our financial year, down around 13% compared with the first half. Alongside the market slowdown, competition amongst lenders has intensified in recent months, with new mortgage rates driven to record lows.

Total lending in the period reflected a recent flattening of the housing market, actions taken to moderate new mortgage applications during the implementation of mortgage regulation through the Mortgage Market Review to ensure customer service experience was maintained, and a more aggressive competitive environment. At 13.4% our market share of new business is broadly in line with our market share of stock of 12.1% (April 4, 2014: 11.6%). Mortgage balances grew by £7.2 billion in the year ended April 4, 2015 of which £5.2 billion was prime lending and £2.0 billion related to specialist mortgages.

In addition to our support for first time buyers, we have continued with our policy of rewarding our members by providing a loyalty discount to our mortgage rates to existing mortgage customers wishing to move homes, switch products or take a further advance. We have also maintained our BMR at 2% above the BoE base rate.

As patterns of housing tenure continue to evolve, with greater numbers of people choosing to rent rather than buy, our subsidiary, The Mortgage Works (UK) plc ("TMW"), has continued to be a leading

provider of high quality loans to the specialist mortgages sector. Our total specialist mortgage book now stands at £28.3 at April 4, 2015 (April 4, 2014: £26.3 billion), representing 18.5% of our total residential lending portfolio at April 4, 2015 (April 4, 2014: 18.1%).

As at April 4, 2015, buy-to-let mortgages made up 86% of total specialist lending, 9% related to self-certification mortgages, 4% related to near prime and 1%, amounting to £0.4 billion, related to subprime.

	<u>As at April 4, 2015</u>	<u>As at April 4, 2014</u>
	<i>(percentages)</i>	
<b>LTV portfolio of residential mortgages:</b>		
0% - 60% .....	26	19
60% - 75% .....	42	38
75% - 80% .....	10	10
80% - 85% .....	10	15
85% - 90% .....	11	16
90% - 95% .....	1	2
>95% .....	-	-
<b>Total.....</b>	<b>100</b>	<b>100</b>
Average loan to value of stock (indexed) .....	47	48
Average loan to value of new business.....	66	69
<b>New business profile:</b>		
First-time buyers.....	26	31
Home movers.....	32	32
Remortgagers.....	23	22
Buy-to-let.....	18	14
Other .....	1	1
<b>Total.....</b>	<b>100</b>	<b>100</b>

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

Total residential balance sheet provisions at April 4, 2015 are £110 million, compared with £102 million at April 4, 2014.

	<u>As at April 4, 2015</u>	<u>As at April 4, 2014</u>
	<i>(percentages)</i>	
<b>Cases three months or more in arrears as % of total book of residential mortgages</b>		
Prime .....	0.36	0.46
Specialist.....	1.12	1.53
<b>Total Group residential mortgages .....</b>	<b>0.49</b>	<b>0.63</b>
CML industry average .....	1.30	1.59

Reflecting our low risk profile, performance of the mortgage books has remained strong with the number of residential mortgages more than three months in arrears reducing in both the specialist and prime mortgage books. Our overall arrears percentage of 0.49% compares favourably with the CML industry average of 1.30% (April 4, 2014: 1.59% as reported by CML).

The table below shows possessions as a percentage of our total residential mortgages as at April 4, 2015 and April 4, 2014:

	<u>As at April 4, 2015</u>	<u>As at April 4, 2014</u>
	<i>(percentages)</i>	
Prime .....	0.01	0.01
Specialist.....	0.10	0.14
<b>Total Group residential mortgages .....</b>	<b>0.03</b>	<b>0.03</b>

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year ended April 4, 2015, the number of properties taken into possession decreased to 409, representing only 0.03% of the Group's book compared to the industry average of 0.05% (source: CML).

The table below provides further information on the residential mortgage portfolio by payment due status as at April 4, 2015 and April 4, 2014:

	As at April 4, 2015				As at April 4, 2014			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
<i>(£ billion, except percentages)</i>								
<b>Not impaired:</b>								
Neither past due nor impaired.....	122.5	26.9	<b>149.4</b>	97.7%	117.0	24.7	<b>141.7</b>	97.3%
Past due up to 3 months but not impaired....	1.7	0.9	<b>2.6</b>	1.7%	1.8	1.0	<b>2.8</b>	1.9%
Impaired.....	0.4	0.5	<b>0.9</b>	0.6%	0.5	0.6	<b>1.1</b>	0.8%
<b>Total.....</b>	<b>124.6</b>	<b>28.3</b>	<b>152.9</b>	<b>100.0%</b>	<b>119.3</b>	<b>26.3</b>	<b>145.6</b>	<b>100.0%</b>

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

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

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

	As at April 4, 2015				As at April 4, 2014			
	Prime lending	Specialist lending	Total	%	Prime lending	Specialist lending	Total	%
<i>(£ million, except percentages)</i>								
Past due 3 to 6 months .....	190	207	<b>397</b>	44%	225	269	<b>494</b>	43%
Past due 6 to 12 months .....	120	143	<b>263</b>	30%	164	183	<b>347</b>	30%
Past due over 12 months .....	72	97	<b>169</b>	19%	100	138	<b>238</b>	21%
Possessions.....	14	52	<b>66</b>	7%	15	61	<b>76</b>	6%
<b>Total .....</b>	<b>396</b>	<b>499</b>	<b>895</b>	<b>100%</b>	<b>504</b>	<b>651</b>	<b>1,155</b>	<b>100%</b>

We offer a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended April 4, 2015 to ensure alignment to good practice as defined by the regulator. The options offered may be classified into three categories:

- change in terms;
- forbearance; and
- repair

#### *Change in terms*

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows, these are not offered as a means of forbearance. The options available include:

- Payment holidays;
- Term extensions;

- Payment concessions; and
- Interest-only conversions (withdrawn March 2012).

#### *Payment holidays*

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months. £3,890 million of loans have been subject to payment holidays at any point since January 2008 and are still on the books as at April 4, 2015 (April 4, 2014: £4,360 million); of these only £90 million remain on a payment holiday as at April 4, 2015 (April 4, 2014: £98 million). The performance of loans on payment holiday is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### *Term extensions*

The Group allows performing customers to apply to extend the term of their mortgage; £6,989 million of loans have been subject to term extensions at any point since January 2008 and are still on the books as at April 4, 2015 (April 4, 2014: £7,376 million). During the year ended April 4, 2015, £948 million of loans (April 4, 2014: £2,082 million) had terms extended. Performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### *Payment concessions*

Customers in arrears may be offered a temporary payment concession allowing them to make reduced or nil payments for an agreed period of time. £891 million of loans have been subject to payment concessions at any point since January 2008 and are still on the books as at April 4, 2015 (April 4, 2014: £890 million); of these only £16 million remain subject to payment concessions as at April 4, 2015 (April 4, 2014: £21 million).

#### *Permanent interest-only conversions*

Historically, performing customers who meet specific criteria could apply for a permanent interest only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy, this facility was completely withdrawn in March 2012, although a temporary interest only arrangement may be available under forbearance as described below. £1,990 million of loans have been subject to interest only conversions at any point since January 2008 and are still on the books as at April 4, 2015 (April 4, 2014: £2,209 million). The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

#### ***Forbearance***

The only forbearance option which we offer customers in financial distress is an interest-only concession. Interest-only concessions are offered to customers on a temporary basis with formal periodic review subject to an affordability assessment. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase and will remain as at the beginning of the concession.

As at April 4, 2015, £123 million of balances (April 4, 2014: £171 million) representing 0.08 % (April 4, 2014: 0.12%) of total mortgage balances were on this concession. Our provisioning methodology reflects the latest performance on these accounts.

#### ***Repair***

The Group offers two forms of repair, capitalization and term extension (at term expiry), as set out below.

#### *Capitalization*

When a customer emerges from financial difficulty, the Group offers the ability to capitalise arrears, resulting in the account being repaired. Once capitalised, the loans are categorised as not impaired as long as contractual repayments are maintained. £430 million of loans have had an arrears capitalization at any point

since January 2008 and are still on the books as at April 4, 2015 (April 4, 2014: £420 million). At the start of the period the Group introduced a new proactive contact strategy for customers eligible for capitalization. During the year ended April 4, 2015 £50 million of loans (April 4, 2014: £7 million) were repaired through capitalization.

*Term extension (at term expiry)*

Customers on interest only mortgages who are unable to repay their capital at term expiry may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible whilst ensuring the monthly payment remains manageable to the customer. £484 million of loans have had an extension at term expiry at any point since January 2008 and are still on the books as at April 4, 2015 (April 4, 2014: £466 million); of these £153 million of loans had an extension at term expiry during the year ended April 4, 2015 (April 4, 2014: £180 million). No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. The table below shows the stock of loans still on the books as at April 4, 2015 that have been subject to forbearance at some point:

	<b>As at April 4, 2015</b>		<b>As at April 4, 2014<sup>(2)</sup></b>	
	<i>(unaudited)</i>			
	<b>£ million</b>	<b>% of total prime loans and advances</b>	<b>£ million</b>	<b>% of total prime loans and advances</b>
Change in terms <sup>(1)</sup> .....	12,213	8	13,161	9
Forbearance <sup>(1)</sup> .....	1,598	1	1,667	1
Repair <sup>(1)</sup> .....	910	1	883	1

Notes:

- (1) The three categories above are not mutually exclusive. The information above has been extracted from our management information systems.
- (2) 2014 comparatives have been restated following a review of the classifications used. Previously disclosed totals of £13,188 million (change in terms) and £1,555 million (repair) included items which had never been renegotiated.

The following table presents negative equity on residential mortgages:

	<b>As at April 4, 2015</b>		<b>As at April 4, 2014</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 .....	2	7	4	6
Impaired.....	2	9	3	16
Possessions .....	-	6	-	7
<b>Total.....</b>	<b>4</b>	<b>22</b>	<b>7</b>	<b>29</b>

**Commercial loan portfolio**

Our commercial lending portfolio of £13.2 billion as at April 4, 2015 (April 4, 2014: £17.3 billion) comprises £4.0 billion secured on CRE (April 4, 2014: £7.8 billion), £7.8 billion advanced to Registered Social Landlords (April 4, 2014: £8.1 billion) and £1.4 billion advanced under Project Finance, principally via the PFI (April 4, 2014: £1.5 billion). Our CRE portfolio is diverse both in terms of sectors and geographic spread.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors, which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with our forbearance policies or other circumstances indicating the likelihood of a material change in cash flow expectations. Impaired CRE loans amounted to £608 million as at April 4, 2015 (April 4, 2014: £3.1 billion) and provisions held against the portfolio amounted to £322 million (April 4, 2014: £1.0 billion) representing a coverage ratio of 53% (April 4, 2014: 33%).

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

	<b>As at April 4, 2015</b>	<b>As at April 4, 2014</b>
	<i>(£ million, except percentages)</i>	
<b>Gross balances</b>	4,043	7,764
Impaired balances .....	608	3,065
Impaired balances as a % of gross balances .....	15%	39%
<b>Commercial provisions:</b>		
Individual .....	313	921
Collective .....	9	80
Total provisions .....	322	1,001
<b>Provision coverage ratios:</b>		
Individual provisions as a % of impaired balances .....	51%	30%
Total provisions as a % of impaired balances .....	53%	33%
Total provisions as a % of total gross balances .....	8%	13%

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amounted to £367 million (60% of impaired balances) as at April 4, 2015 and £2.2 billion (72% of impaired balances) as at April 4, 2014. There are no cases classified as impaired or with payment arrears in our Registered Social Landlord or PFI portfolios.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for CRE lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cash flow performance or capital value is unlikely. Our strategy remains one of prudent loss mitigation over the medium term in a market which is both cyclical and currently experiencing extremely low investor demand. We make refinancing available for existing exposures where we are satisfied that we continue to have a constructive relationship with the borrower which recognizes our interests, and can achieve a level of expected return which reflects current funding costs or where there is a realistic likelihood that recovery over the medium term in the hands of the borrower represents a better prospect than short-term disposal. To the extent this strategy leads to forbearance on loans which are renewed at “off-market” interest rates or where the most likely outcome remains an ultimate financial loss, impairment provisions are then recognized in accordance with relevant accounting requirements.

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

The total other lending portfolio of £29 million as at April 4, 2015 (April 4, 2014: £176 million) represents 0.02% (April 4, 2014: 0.11%) of the Group’s loans and advances to customers. As part of the deleveraging of legacy treasury assets that are outside of current credit policy, the sale of a €100 million loan exposed to a portfolio of senior ranking European ABS assets has been completed. The remaining lending portfolio now primarily consists of secured loans relating to a European commercial loan facility which is held by one of the Group’s subsidiaries, Cromarty CLO Ltd (“**Cromarty**”). The table below provides further information on commercial and other lending operations by payments due status:

	As at April 4, 2015				As at April 4, 2014			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ billion, except percentages)</i>							
Neither past due nor impaired.....	3.3	83%	-	-	4.6	60%	-	-
Past due up to 3 months but not impaired.....	0.1	2%	-	-	0.1	1%	-	-
Impaired.....	0.6	15%	-	-	3.1	39%	-	-
<b>Total.....</b>	<b>4.0</b>	<b>100%</b>	-	-	<b>7.8</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.

Impaired balances in other operations total £10 million as at April 4, 2015 (April 4, 2014: £107 million). This reduction is due to the €100 million loan exposure that has now been sold.

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

	As at April 4, 2015				As at April 4, 2014			
	Commercial		Other operations		Commercial		Other operations	
	<i>(£ million, except percentages)</i>							
Impaired status:								
Past due 0 to 3 months .....	413	68%	5	50%	2,125	69%	82	77%
Past due 3 to 6 months .....	59	10%	-	-	152	5%	-	-
Past due 6 to 12 months .....	56	9%	-	-	334	11%	8	7%
Past due over 12 months .....	79	13%	5	50%	442	15%	17	16%
Possessions .....	1	-	-	-	12	-	-	-
Total.....	608	100%	10	100%	3,065	100%	107	100%

Impaired loans include those balances which are more than three months in arrears, or have a provision against them.

Possession balances represent loans against which we have taken ownership of properties pending their sale. Assets over which possession has been taken are realized in an orderly manner via open market or auction sales to derive the maximum benefit for all interested parties, and any surplus proceeds are distributed in accordance with the relevant insolvency regulations. We do not normally occupy repossessed properties for our business use or use assets obtained in our operations.

Although collateral can be an important mitigant of credit risk, it is our practice to lend on the basis of the customer’s ability to meet their obligations out of cash flow resources rather than rely on the value of the security offered. In the event of default, we may use the collateral as a source of repayment.

Primary collateral is a fixed charge over freeholder or long leasehold properties, but may be supported by other liens, floating charges over company assets and, occasionally, unsupported guarantees. The collateral will have a significant effect in mitigating our exposure to credit risk.

The table below quantifies the estimated value of indexed collateral held against non-performing or impaired assets:

	<u>As at April 4, 2015</u>		<u>As at April 4, 2014</u>	
	<i>(£ million, except percentages)</i>			
Past due but not impaired .....	77	100%	64	98%
Impaired.....	367	60%	2,216	72%
<b>Total .....</b>	<b>444</b>	<b>65%</b>	<b>2,280</b>	<b>73%</b>

The percentage, in the table above, is the cover over the asset. The indexed collateral value is based on the most recent valuation indexed using the Investment Property Databank (“IPD”) monthly index for the relevant property sector. The indexed value of the collateral is based on the most recent formal valuation. We reserve the right to request a revaluation of any property currently charged in support of facilities advanced or upon an act of default. Although a revaluation is not automatically obtained, the merits of obtaining a revaluation are considered at each facility review and whenever a report is submitted to the Group Risk Division.

During the year a revised valuation policy has been implemented which stipulates the maximum period between formal valuations, relative to the risk profile of the lending. Particular attention is paid to the status of



the facilities, for instance whether it is, or is likely to require an impairment review where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

Collateral held in relation to secured loans that are either past due or impaired is capped at the amount outstanding on an individual loan basis.

Particular attention is paid to the status of the facilities, for instance whether it is or is likely to require an impairment review, where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

	<b>As at April 4, 2015</b>		<b>As at April 4, 2014</b>	
	<i>(£ million, except percentages)</i>			
	<i>(unaudited)</i>			
<b>Performing loans</b>				
Fully collateralized				
LTV ratio:				
less than 25% .....	321		257	
25% to 50% .....	1,417		1,122	
51% to 75% .....	1,208		2,014	
76 to 90% .....	362		657	
91% to 100% .....	23		141	
<b>Total</b> .....	<b>3,331</b>	<b>82%</b>	<b>4,191</b>	<b>54%</b>
Partially collateralized				
More than 100% (A) .....	27	1%	443	6%
Collateral value of (A) .....	252		373	
<b>Total performing loans</b> .....	<b>3,358</b>	<b>83%</b>	<b>4,634</b>	<b>60%</b>
<b>Non-performing loans</b>				
Fully collateralized				
LTV ratio:				
less than 25% .....	1		42	
25% to 50% .....	52		25	
51% to 75% .....	45		210	
76 to 90% .....	50		144	
91% to 100% .....	31		169	
<b>Total</b> .....	<b>179</b>	<b>4%</b>	<b>590</b>	<b>8%</b>
Partially collateralized				
More than 100% (A) .....	506	<b>13%</b>	2,540	<b>32%</b>
Collateral value of (A) .....	265		1,690	
Negative equity of (A) .....	241		850	
<b>Total non-performing loans</b> .....	<b>685</b>	<b>17%</b>	<b>3,130</b>	<b>40%</b>
<b>Total CRE loans</b> .....	<b>4,043</b>	<b>100%</b>	<b>7,764</b>	<b>100%</b>

The overall proportion of partially collateralized non-performing loans has reduced to 13% in the year ended April 4, 2015 (April 4, 2014: 32%) and the shortfall on collateral for non-performing CRE loans has reduced by £609 million during the year ended April 4, 2015 to £241 million (April 4, 2014: £850 million).

The level of negative equity based upon the indexation of property values for the non-performing and impaired assets is detailed below:

	<b>As at April 4, 2015</b>	<b>As at April 4, 2014</b>
	<i>(£ million)</i>	
Past due but not impaired .....	-	1
Impaired .....	240	840
Possessions .....	1	9
<b>Total</b> .....	<b>241</b>	<b>850</b>

## Consumer banking

Consumer banking comprises retail balances relating to personal loans of £1.8 billion (April 4, 2014: £1.9 billion), credit cards of £1.8 billion (April 4, 2014: £1.7 billion) and current account overdrafts of £0.2 billion (April 4, 2014: £0.3 billion). Unsecured lending through personal loans has been lower in the last year following a tightening of our lending criteria and increased competition in the market. Credit card lending continues to grow, reflecting increased growth in consumer borrowing over the period. Delinquency within our unsecured portfolios remains stable.

	<b>As at April 4, 2015</b>	
	<b>Delinquent balances</b>	<b>Balances before provisions</b>
	<i>(£ million)</i>	
FlexAccount (overdraft balances) .....	27	248
Personal loans .....	99	1,799
Credit cards .....	45	1,744
<b>Total .....</b>	<b>171</b>	<b>3,791</b>

The following table presents the percentage of FlexAccounts, personal loans and credit card accounts more than 30 days in arrears:

	<b>As at April 4, 2015</b>	<b>As at April 4, 2014</b>
	<i>(percentages)</i>	
FlexAccount (overdraft balances) .....	10.89%	7.67%
Personal loans .....	5.50%	3.20%
Credit cards .....	2.58%	2.66%

Unsecured customers have limited forbearance options. Credit card customers experiencing financial distress may agree a payment plan, which is typically less than the minimum payment. Additionally, credit card and personal loan customers who have maintained the required payment performance over a sustained period may be re-aged. The volume of payment plans and re-aging is low and therefore no specific treatment is made within our provisioning methodology.

	<b>As at April 4, 2015</b>		<b>As at April 4, 2014</b>	
	<b>Consumer banking</b>	<b>%</b>	<b>Consumer banking</b>	<b>%</b>
	<i>(£ million, except percentages)</i>			
<b>Not impaired:</b>				
Neither past due nor impaired .....	3.5	91%	3.6	91%
Past due up to 3 months but not impaired...	0.1	3%	0.1	3%
Impaired .....	0.1	3%	0.1	3%
Charged off <sup>(1)</sup> .....	0.1	3%	0.1	3%
<b>Total .....</b>	<b>3.8</b>	<b>100%</b>	<b>3.9</b>	<b>100%</b>

Note:

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

Impaired loans are broken down further in the following table:

	<b>As at April 4, 2015</b>		<b>As at April 4, 2014</b>	
	<b>Consumer banking</b>	<b>%</b>	<b>Consumer banking</b>	<b>%</b>
	<i>(£ million, except percentages)</i>			
Past due 3 to 6 months .....	30	42%	33	46%
Past due 6 to 12 months .....	25	34%	24	33%
Past due over 12 months .....	17	24%	15	21%

	As at April 4, 2015		As at April 4, 2014	
	Consumer banking	%	Consumer banking	%
	<i>(£ million, except percentages)</i>			
Possessions .....	-	-	-	-
<b>Total.....</b>	<b>72</b>	<b>100%</b>	<b>72</b>	<b>100%</b>

### Country exposure

The following section summarizes our direct exposure to institutions, corporates, and other issued securities domiciled in the peripheral eurozone countries. The exposures are shown at their balance sheet carrying values.

	As at April 4, 2015				
	Ireland	Italy	Portugal	Spain	Total
	<i>(£ million)</i>				
Mortgage backed securities .....	-	45	32	206	283
Covered bonds .....	-	-	-	29	29
Other corporate .....	-	3	-	-	3
<b>Total.....</b>	<b>-</b>	<b>48</b>	<b>32</b>	<b>235</b>	<b>315</b>

	As at April 4, 2014				
	Ireland	Italy	Portugal	Spain	Total
	<i>(£ million)</i>				
Mortgage backed securities .....	14	75	49	299	437
Covered bonds .....	39	-	22	281	342
Other corporate .....	-	3	-	-	3
<b>Total.....</b>	<b>53</b>	<b>78</b>	<b>71</b>	<b>580</b>	<b>782</b>

Movements in our exposure to peripheral eurozone countries between the years ended April 4, 2014 and 2015 relate to disposals, maturities and fair value movements and there has been no new investment in the current financial year.

None of our exposures to the peripheral eurozone countries are in default, and we did not incur any impairment on these assets in the year ended April 4, 2015. We continue to monitor closely the exposures to these countries. In addition, our exposure in respect of other eurozone countries and the rest of the world is shown below at their balance sheet carrying value as at April 4, 2015:

	As at April 4, 2015							
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world
	<i>(£ million)</i>							
Government bonds .	231	-	253	411	-	895	305	-
Mortgage backed securities .....	-	4	-	551	-	555	49	27
Covered bonds .....	21	125	37	27	-	210	-	315
Senior debt .....	-	-	-	-	-	-	-	495
Loans to banks .....	-	146	229	-	-	375	527	823
Other assets .....	-	88	169	-	-	257	420	-
Other corporate .....	2	7	5	3	-	17	-	-
<b>Total .....</b>	<b>254</b>	<b>370</b>	<b>693</b>	<b>992</b>	<b>-</b>	<b>2,309</b>	<b>1,301</b>	<b>1,660</b>

	As at April 4, 2014							
	Finland	France	Germany	Netherlands	Other eurozone	Total eurozone	USA	Rest of the world
	<i>(£ million)</i>							
Government bonds ....	170	-	438	778	-	1,386	388	-
Mortgage backed securities .....	-	12	41	334	-	387	109	57
Covered bonds .....	-	-	-	-	-	-	27	-

**As at April 4, 2014**

	<b>Finland</b>	<b>France</b>	<b>Germany</b>	<b>Netherlands</b>	<b>Other eurozone</b>	<b>Total eurozone</b>	<b>USA</b>	<b>Rest of the world</b>	<b>Total</b>
	( <i>£ million</i> )								
Senior debt.....	-	-	-	-	-	-	-	39	39
Loans to banks.....	-	103	151	-	-	254	364	385	1,003
Other assets.....	-	99	42	-	-	141	793	666	1,600
Other corporate.....	10	24	567	36	-	637	-	3	640
<b>Total.....</b>	<b>180</b>	<b>238</b>	<b>1,239</b>	<b>1,148</b>	<b>-</b>	<b>2,805</b>	<b>1,681</b>	<b>1,150</b>	<b>5,636</b>

We remain active in the above Eurozone jurisdictions and in the USA. The above balances are affected by asset pay downs, plus fair value and exchange rate movements.

## **Funding and Liquidity**

### ***Funding strategy***

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

	<b>As at April 4,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	( <i>£ billion</i> )		
<b>Liabilities:</b>			
Retail funding.....	145	139	136
Wholesale funding.....	46	39	38
Capital and reserves .....	13	12	11
Other.....	5	6	5
<b>Total.....</b>	<b>209</b>	<b>196</b>	<b>190</b>
<b>Assets:</b>			
Retail mortgages.....	162	153	146
Treasury (including liquidity portfolio).....	23	19	18
Other lending.....	4	4	4
Commercial/other lending .....	13	14	17
Other assets .....	7	6	5
<b>Total.....</b>	<b>209</b>	<b>196</b>	<b>190</b>

Our management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable us to meet financial obligations as they fall due, even during episodes of stress. This is achieved through the management and stress testing of business cash flows and the setting of risk limits to maintain our target funding mix, maturity profile and level of high quality liquid assets.

To manage liquidity and funding risk we monitor the following:

- funding profile;
- wholesale funding sources, currency and maturity profile;
- total liquidity;
- maturity of liquidity assets and liabilities;
- asset encumbrance; and
- external credit ratings.

We continue to maintain a high quality primary liquidity portfolio through continued investment in highly liquid securities in line with the Liquid Asset Buffer (“**LAB**”) as defined by the PRA in BIPRU 12.7, comprising:

- reserves held at central banks; and

- highly rated debt securities issued by a restricted range of governments, central banks and multilateral development banks.

We also hold a secondary portfolio of other central bank eligible assets that are eligible for use in the funding operations of those central banks that it has access to. In terms of their relative liquidity characteristics, these assets may be viewed as the second tier of liquidity after the primary liquidity portfolio.

Other securities, such as RMBS, are held that are not eligible for central bank operations but can be monetised through repurchase agreements with third parties or through sale.

For contingent funding purposes, self-issued securities, issued under our RMBS and covered bond programs, represented eligible collateral for use in repurchase agreements with third parties or in central bank liquidity operations. These self-issued securities were replaced during the year with unencumbered mortgage assets that are pre-positioned at the BoE.

The section of Funding for Lending which provides funding linked to net residential mortgage lending has now been withdrawn and we do not expect to make any further drawings under Funding for Lending; our total drawings to date are £8.5 billion.

During the year ended April 4, 2015 we raised approximately £1.5 billion through issuance of CET1 CCDS and AT1 capital securities. The returns we pay to investors on these securities will be treated as an appropriation of profit after tax, reflecting their categorization as capital instruments, and hence are not reflected in our interest margin. Distributions for CCDS and AT1 capital securities in respect of the year ended April 4, 2015 totalled £100 million.

## ***Liquidity***

Liquidity represents a key area of risk management for financial institutions. In recent years there has been an increased focus on liquidity from the regulatory authorities. We continue to enhance and strengthen our liquidity management systems and approach. See *“Risk Factors—Risks Related to Our Business—Our business and prospects are largely driven by the UK mortgage and savings markets, which in turn are driven by the UK economy. Consequently, we are subject to inherent risks arising from general economic conditions in the UK”* for additional information on funding and liquidity risk.

In December 2010, the Basel Committee announced proposals to introduce two new liquidity metrics as part of the implementation of Basel III. These are a short-term liquidity stress metric, the Liquidity Coverage Ratio (“**LCR**”) and a longer-term funding metric, the Net Stable Funding Ratio (“**NSFR**”) which is due to be implemented in 2018. In January 2013, the Basel Committee announced revised guidelines in respect of the LCR and confirmed that work continues on the NSFR.

The Group monitors its position relative to internal risk appetite and the regulatory short-term liquidity stress metric, the LCR, which was implemented on October 1, 2015. The Group’s LCR at April 4, 2016 was 142.6% (April 4, 2015: 119.3%), which reflects the Group’s strategy of maintaining a LCR of at least 100% and represents a surplus to the UK regulatory minimum requirement of 80%, rising to 100% by January 2018.

The Group also monitors its position against the longer-term funding metric, the Net Stable Funding Ratio (“**NSFR**”), which is due to become a regulatory standard in January 2018. Based on current interpretations of regulatory requirements and guidance, the Group’s NSFR at April 4, 2016 was 127.9% (April 4, 2015: 121.9%) which exceeds the expected 100% minimum future requirement.

The Group monitors liquidity and funding risks on an ongoing basis. This includes the current geopolitical uncertainty, such as a sustained economic slowdown in China and the Eurozone and the forthcoming EU referendum, which could have an impact on funding markets.

The Bank of England has recently consulted on the UK framework for banks and building societies to hold a minimum level of liabilities which can be bailed-in to recapitalise it in the event of failure, known as the minimum requirement for own funds and eligible liabilities (“**MREL**”). The Group is confident that it will be able to meet the full requirements when implemented in 2020.

Overall, the Group's stable and diverse funding base and sufficient holdings of high-quality liquid assets combine to ensure that there is no significant risk that liabilities cannot be met as they fall due.

We ensure sufficient resources are available for day-to-day cash flow needs while enabling us to meet internal and regulatory liquidity requirements, which are calibrated to be resilient even in the event of unexpected outflows that could be seen across a range of stress scenarios and across multiple time horizons. Liquid assets are managed centrally by the Group's Treasury Division. All liquidity is held centrally to meet cash outflows seen in any entity across our Group with the exception of a portfolio of assets held in our Irish branch, Nationwide (UK) Ireland ("NUKI").

The Group maintains our high-quality primary liquidity portfolio through continued investment in highly liquid assets in line with the LAB as defined by the PRA in the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") 12, which comprises:

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

### Wholesale funding

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

	<b>As at April 4, 2016</b>			<b>As at April 4, 2015</b>	
	<i>(£ billion, except percentages)</i>				
Deposits, including PEB balances .....	9.7	21.2%	11.0	28.1%	
Certificates of deposit .....	5.1	11.2%	3.1	7.9%	
Commercial paper .....	1.3	2.8%	2.4	6.1%	
Covered bonds .....	13.8	30.1%	11.3	28.8%	
Medium-term notes .....	9.9	21.6%	5.2	13.3%	
Securizations .....	4.7	10.3%	4.8	12.2%	
Other .....	1.3	2.8%	1.4	3.6%	
<b>Total .....</b>	<b>45.8</b>	<b>100.0%</b>	<b>39.2</b>	<b>100.0%</b>	

The table below sets out an analysis of the currency composition of our wholesale funding as at April 4, 2016.

	<b>As at April 4, 2016</b>				
	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>Other</b>	<b>Total</b>
	<i>(£ billion)</i>				
Deposits (including PEB balances) .....	0.2	0.5	9.0	-	9.7
Certificate of deposit .....	0.4	-	4.7	-	5.1
Commercial paper .....	1.1	-	0.2	-	1.3
Covered bonds .....		11.1	2.5	0.2	13.8
Medium term notes .....	2.2	4.8	2.3	0.6	9.9
Securizations .....	1.6	1.2	1.9	-	4.7
Other .....	0.1	1.0	0.2	-	1.3
<b>Total .....</b>	<b>5.6</b>	<b>18.6</b>	<b>20.8</b>	<b>0.8</b>	<b>45.8</b>

The table below sets out an analysis of the currency composition of our wholesale funding as at April 4, 2015:

	<b>As at April 4, 2015</b>				
	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>Other</b>	<b>Total</b>
	<i>(£ billion)</i>				
Deposits (including PEB balances) .....	0.3	0.6	10.1	-	11.0
Certificate of deposit .....	0.1	0.1	2.9	-	3.1

	As at April 4, 2015				
	USD	EUR	GBP	Other	Total
	(£ billion)				
Commercial paper.....	1.7	0.6	0.1	-	2.4
Covered bonds.....	-	9.4	1.8	0.1	11.3
Medium term notes.....	1.4	2.4	1.2	0.2	5.2
Securitizations.....	1.8	1.3	1.7	-	4.8
Other.....	0.1	1.0	0.3	-	1.4
<b>Total.....</b>	<b>5.4</b>	<b>15.4</b>	<b>18.1</b>	<b>0.3</b>	<b>39.2</b>

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

The proportion of on-balance sheet funding with more than one year to maturity, which excludes the off-balance sheet Funding for Lending drawings, as at April 4, 2016 is 59.0% (April 4, 2015 is 53.3%). Funding for Lending drawings held off balance sheet, have a flexible and maximum maturity of four years. After including Funding for Lending drawings, the residual maturity profile of our wholesale funding was 50 months as at April 4, 2016 (April 4, 2015: 40 months) and the proportion of funding that is categorized as long term was 60.8% (April 4, 2015: 61.6%). As April 4, 2016, the primary liquidity pool including Funding for Lending represented 128% (April 4, 2015: 107%) of wholesale funding maturing in less than one year, assuming no rollovers.

The tables below set out the residual maturity of the wholesale funding book as at April 4, 2016 and 2015, respectively:

	<b>As at April 4, 2016</b>		<b>As at April 4, 2015</b>	
	<i>(£ billion, except percentages)</i>			
Less than one year .....	18.8	41.0	18.3	46.7%
One to two years .....	3.0	6.6%	3.6	9.2%
Two to five years .....	24.0	52.4%	17.3	44.1%
<b>Total.....</b>	<b>45.8</b>	<b>100%</b>	<b>39.2</b>	<b>100%</b>

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

	As at April 4, 2016						
	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Sub-total less than one year	Over one year but not more than two years	Over two years
	(£ billion, except percentages)						
Deposits, including PEB							
balances .....	4.1	1.2	1.6	1.9	8.8	0.9	-
Certificates of deposit .....	1.3	1.6	1.7	0.5	5.1	-	-
Commercial paper .....	0.3	0.9	0.1	-	1.3	-	-
Covered bonds.....	0.1	-	-	1.2	1.3	0.8	11.7
Medium-term notes .....	-	-	-	0.9	0.9	0.6	8.4
Securitizations .....	-	-	-	1.4	1.4	0.7	2.6
Other.....	-	-	-	-	-	-	1.3
<b>Total.....</b>	<b>5.8</b>	<b>3.7</b>	<b>3.4</b>	<b>5.9</b>	<b>18.8</b>	<b>3.0</b>	<b>24.0</b>
Of which secured .....	0.1	-	-	2.6	2.7	1.5	15.3
Of which unsecured .....	5.7	3.7	3.4	3.3	16.1	1.5	8.7
% of total .....	12.6%	8.1%	7.4%	12.9%	41.0%	6.6%	52.4%
							100.0%

## External Credit Ratings

Our short- and long-term credit ratings from the major rating agencies as at the date of this Base Prospectus are as follows:

	<b>Long-Term</b>	<b>Short-Term</b>	<b>Subordinated</b>	<b>Date of last rating action</b>
S&P <sup>(1)</sup> .....	A	A-1	BBB	January 2016
Moody's <sup>(2)</sup> .....	Aa3	P-1	Baa1	June 2016
Fitch <sup>(3)</sup> .....	A	F1	A-	May 2016

Notes:

- (1) The outlook for S&P is stable.  
(2) The outlook for Moody's is stable.  
(3) The outlook for Fitch is stable.

### *Treasury Assets*

The Group's liquidity and investment portfolio held on the balance sheet at April 4, 2016 of £23.1 billion (April 4, 2015: £18.8 billion) is held in three separate portfolios: primary liquidity, other central bank eligible assets and other securities. The size of the portfolio has increased, predominantly via higher cash balances held as a strategic response to potential market volatility in the run up to the EU referendum in June 2016.

Primary liquidity comprises cash held at central banks and highly rated debt securities issued by governments or multi-lateral development banks. The remaining two portfolios comprise available for sale investment securities, with movements reflecting legacy asset disposals, market prices and the Group's operational and strategic liquidity requirements.

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

<b>As at April 4, 2016</b>									
	<b>Credit Rating</b>					<b>Geography</b>			
	<b>£ billion</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Other</b>	<b>UK</b>	<b>USA</b>	<b>Europe</b>	<b>Other</b>
						<i>(percentages)</i>			
Primary liquidity portfolio:									
Cash .....	8.8	99	-	1	-	90	-	10	-
Gilts .....	4.7	100	-	-	-	100	-	-	-
Non-domestic government bonds .....	1.6	28	72	-	-	-	57	43	-
Supranational bonds .....	0.5	90	10	-	-	-	-	-	100
<b>Primary liquidity total .....</b>	<b>15.6</b>	<b>92</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>81</b>	<b>6</b>	<b>10</b>	<b>3</b>
Other Central Bank eligible portfolio:									
RMBS .....	1.2	96	1	3	-	64	-	36	-
Covered bonds .....	1.0	96	-	3	4	52	-	36	12
Other .....	0.4	87	13	-	-	54	-	46	-
<b>Other Central Bank eligible total .....</b>	<b>2.5</b>	<b>95</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>58</b>	<b>-</b>	<b>37</b>	<b>5</b>
Loans and advances to banks .....	3.6	25	19	31	25	68	9	11	12
RMBS .....	0.5	16	15	55	14	77	-	20	3
CMBS .....	-	-	16	67	17	16	84	-	-
CLOs .....	0.5	84	13	3	-	78	22	-	-
U.S. student loans .....	0.1	19	53	28	-	-	100	-	-
Other .....	0.2	-	9	63	28	36	64	-	-
<b>Other securities total .....</b>	<b>5.0</b>	<b>29</b>	<b>18</b>	<b>32</b>	<b>21</b>	<b>66</b>	<b>15</b>	<b>10</b>	<b>9</b>
<b>Total .....</b>	<b>23.1</b>	<b>79</b>	<b>10</b>	<b>7</b>	<b>4</b>	<b>75</b>	<b>7</b>	<b>13</b>	<b>5</b>

All assets shown above, other than cash and loans and advances to banks, are classified as available-for-sale investment securities.

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

Credit quality has improved with 79% of investments rated at AAA (April 4, 2015: 71%). Primary liquidity exposure makes up 68% of the total portfolio (April 4, 2015: 59%).

A monthly review is undertaken of the current and expected future performance of all treasury assets with regular independent review underpinned by robust risk reporting and performance metrics established to



measure, mitigate and manage credit risk. In accordance with accounting standards, assets are impaired where there is objective evidence that current events or performance will result in a loss. In assessing impairment the Group evaluates, among other factors, normal volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance and underlying cash flows.

Collateral held as security for treasury assets is determined by the nature of the instrument. Treasury liquidity and portfolios are generally unsecured with the exception of reverse repos, ABS and similar instruments, which are secured by pools of financial assets. Within loans and advances as at April 4, 2016 is a reverse repo of £0.1 billion (April 4, 2015: £0.1 billion), which is secured by gilts.

#### *Available-for-sale reserve*

Our treasury assets held on the balance sheet were £23.1 billion as at April 4, 2016 (April 4, 2015: £18.8 billion) and included £10.7 billion held as AFS (April 4, 2015: £11.1 billion). Under IFRS these items are marked to market through other comprehensive income and fair value movements are accumulated in reserves. Of the £10.7 billion of AFS assets, £125 million (April 4, 2015: £12 million) are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 13. This increase is primarily caused by an £81 million gain connected with the impending disposal of the Society's investment in Visa Europe, further details of which can be found in note 14 to the 2016 financial statements. Details of fair value movements can be found in the notes to our audited consolidated financial statements as at and for the year ended April 4, 2016 incorporated by reference herein.

As at April 4, 2016, the balance on the AFS reserve had moved to an £8 million loss, net of tax (April 4, 2015: £26 million gain). The movements in the AFS reserve reflect general market movements and the disposal of legacy assets. The fair value movement of AFS assets that are not impaired has no effect on the Group's profit.

The following table shows the breakdown of AFS reserves as at April 4, 2016 and April 4, 2015:

	As at April 4,			
	2016		2015	
	Fair value on-balance sheet	Cumulative AFS reserve	Fair value on-balance sheet	Cumulative AFS reserve
	(£ billion)			
Cash .....	8.8	-	4.3	-
Gilts.....	4.7	(0.4)	5.0	(0.5)
Non-domestic government bonds .....	1.6	-	1.2	(0.1)
Supranational bonds.....	0.5	-	0.5	-
<b>Primary liquidity portfolio total .....</b>	<b>15.6</b>	<b>(0.4)</b>	<b>11.1</b>	<b>(0.6)</b>
Residential mortgage backed securities (RMBS)	1.2	-	1.1	-
Covered Bonds.....	1.0	-	1.0	-
Other investments .....	0.3	-	0.3	-
<b>Other Central Bank eligible liquidity portfolio total.....</b>	<b>2.5</b>	<b>-</b>	<b>2.4</b>	<b>-</b>
Loans and advances to banks <sup>(1)</sup> .....	3.6	-	3.4	-
RMBS .....	0.5	-	0.9	-
CMBS .....	-	-	0.1	-
Covered bonds .....	-	-	0.1	-
CLOs.....	0.5	-	0.5	-
U.S. student loan .....	0.1	-	0.2	-
Other investments .....	0.2	(0.1)	0.2	-
<b>Other portfolio total.....</b>	<b>5.0</b>	<b>(0.5)</b>	<b>5.3</b>	<b>(0.6)</b>
<b>Total treasury liquidity portfolio.....</b>	<b>23.1</b>	<b>-</b>	<b>18.8</b>	<b>-</b>
(Positive)/negative AFS reserve before hedge accounting and taxation .....	-	(0.5)	-	(0.6)
Hedge accounting adjustment for interest rate risk .....	-	0.5	-	0.6

	As at April 4,			
	2016		2015	
	Fair value on-balance sheet	Cumulative AFS reserve	Fair value on-balance sheet	Cumulative AFS reserve
Taxation .....	-	-	-	-
<b>Total value of AFS assets/negative AFS reserve .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note:

- (1) Not applicable for 'Cash' and 'Loans and advances to banks'.

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

	As at April 4, 2016			
	Level 1	Level 2	Level 3	Total
	<i>(£ million)</i>			
Investment securities—AFS .....	7,854	2,758	-	10,612
Investments in equity shares <sup>(1)</sup> .....	-	-	125	125
Derivative financial instruments .....	-	3,462	436	3,898
Other financial assets <sup>(2)</sup> .....	-	2	-	2
<b>Financial assets .....</b>	<b>7,854</b>	<b>6,222</b>	<b>561</b>	<b>14,637</b>
Derivative financial instruments .....	-	(3,458)	(5)	(3,463)
Other deposits—PEBs <sup>(3)</sup> .....	-	-	(1,885)	(1,885)
<b>Financial liabilities .....</b>	<b>-</b>	<b>(3,458)</b>	<b>(1,890)</b>	<b>(5,348)</b>

	As at April 4, 2015			
	Level 1	Level 2	Level 3	Total
	<i>(£ million)</i>			
Investment securities—AFS <sup>(4)</sup> .....	7,759	3,266	12	11,037
Investments in equity shares <sup>(1)</sup> .....	-	-	25	25
Derivative financial instruments .....	-	2,426	911	3,337
Other financial assets <sup>(2)</sup> .....	-	12	-	12
<b>Financial assets .....</b>	<b>7,759</b>	<b>5,704</b>	<b>948</b>	<b>14,411</b>
Derivative financial instruments .....	-	(4,047)	(1)	(4,048)
Other deposits—PEBs <sup>(3)</sup> .....	-	-	(3,332)	(3,332)
<b>Financial liabilities .....</b>	<b>-</b>	<b>(4,047)</b>	<b>(3,333)</b>	<b>(7,380)</b>

Notes:

- (1) Investments in equity shares are held at fair value and exclude £1 million of investments in equity shares which are held at cost.
- (2) Other financial assets represent the fair value of certain mortgage commitments included within other assets in the balance sheet.
- (3) Other deposits comprise PEBs which are held at fair value through the income statement.
- (4) The prior year fair value for covered bond investment securities has been reclassified to Level 1, to better reflect the valuation approach, consistent with the current year presentation.

Our Level 1 portfolio comprises highly rated government securities for which traded prices are readily available. Asset valuations for Level 2 available for sale investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 available for sale assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

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

### *Investments in equity shares*

The Level 3 investments in equity shares of £125 million at April 4, 2016 consist primarily of the investment in Visa Europe Limited and an interest in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of this instrument. On 2 November 2015, Visa Inc. announced the proposed acquisition of Visa Europe Limited. The Group is a principal member and shareholder of Visa Europe Limited and in exchange for its share will receive a combination of cash and preferred stock. The Group's share of the consideration payable on completion is approximately 1% of the total proceeds. The preferred stock will be convertible into Visa Inc. common stock at a future date provided conditions to the transaction closing are met. The conversion of the preferred stock remains subject to potential reduction for certain litigation losses that may be incurred by Visa Europe Limited. On completion of the transaction, the Group expects to recognize a gain in the income statement.

### *Derivative financial instruments*

Level 3 assets and liabilities in this category are primarily equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in the PEBs product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party. Fair value changes are recognized within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

### *Other deposits—PEB*

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEBs liability of £1.9 billion (April 4, 2015: £3.3 billion) 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 derivatives as valued by an external third party. Fair value changes are recognized within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

The minimum amount on an undiscounted basis that the Group is contractually required to pay at maturity for the PEBs is £1.6 billion (April 4, 2015: £2.6 billion). The maximum additional amount which would also be payable at maturity in respect of additional investment returns is £636 million (April 4, 2015: £1.1 billion). The payment of additional investment returns is dependent upon performance of certain specified stock indices during the period of the PEBs. As noted above, the Group has entered into equity-linked derivatives with external counterparties which economically match the investment returns on the PEBs.

For further information and analysis of our capital resources, see “*Capitalization and Indebtedness*.”

### *Asset encumbrance*

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

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

## Financial Condition of the Group

### Capital Resources

Capital is held by us to protect our depositors, cover our inherent risks, provide a cushion for stress events and support our business strategy. In assessing the adequacy of our capital resources, we consider our risk appetite in the context of the material risks to which we are exposed and the appropriate strategies required to manage those risks. We manage our capital structure to ensure we continue to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, we target strong capital ratios relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the available for sale reserve and pension deficit) are all considered. Our strategic leverage ratio target is 4.5%.

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

The capital disclosures included below are reported on a CRD IV end point basis unless otherwise stated. This assumes that all CRD IV requirements are in force during the period, with no transitional provisions permitted. In addition, the disclosures are on a Group (consolidated) basis, including all subsidiary entities, unless otherwise stated.

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

	As at April 4, 2016	As at April 4, 2015
	<i>(£ million)</i>	
General reserve <sup>(1)</sup> .....	8,921	7,995
Core capital deferred shares (CCDS).....	531	531
Revaluation reserve .....	64	68
Available for sale reserve .....	(8)	26
Regulatory adjustments and deductions:		
Foreseeable distributions <sup>(2)</sup> .....	(42)	(44)
Prudent valuation adjustment <sup>(3)</sup> .....	(55)	(1)
Own credit and debit valuation adjustments <sup>(4)</sup> .....	(2)	(11)
Intangible assets <sup>(5)</sup> .....	(1,120)	(982)
Goodwill <sup>(5)</sup> .....	(12)	(12)
Excess of regulatory expected losses over impairment provisions <sup>(6)</sup> .....	(264)	(291)
Total regulatory adjustments and deductions .....	(1,495)	(1,341)
<b>Common Equity Tier 1 capital .....</b>	<b>8,013</b>	<b>7,279</b>
Additional Tier 1 capital securities (AT1) .....	992	992
<b>Total Tier 1 capital .....</b>	<b>9,005</b>	<b>8,271</b>
Dated subordinated debt <sup>(7)</sup> .....	1,628	1,653
Collectively assessed impairment allowances .....	21	26
<b>Tier 2 capital .....</b>	<b>1,649</b>	<b>1,679</b>
<b>Total regulatory capital.....</b>	<b>10,654</b>	<b>9,950</b>
Common Equity Tier 1 ratio.....	23.2%	19.8%

#### Notes:

- (1) The general reserve includes independently verified profits for the year to April 4, 2016.
- (2) Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
- (3) A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules. Following publication of the PVA Regulatory Technical Standard in January 2016, this revised methodology has been applied for April 2016 reporting which accounts for the increase.

- (4) Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in the Group's own credit standing and risk, in accordance with CRD IV rules.
- (5) Intangible assets and goodwill do not qualify as capital for regulatory purposes.
- (6) Under CRD IV the net regulatory capital expected loss in excess of accounting provisions is deducted from CET1 capital, gross of tax.
- (7) Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity. It does not include instruments that are subject to CRD IV grandfathering provisions, as this table is presented on an end point basis.

CET1 capital has increased from £7.3 billion to £8.0 billion over the year primarily due to increased retained earnings, driven by a strong trading performance for the year and a reduction in the pension deficit. This was partly offset by an increase in intangible assets and the prudent valuation adjustment as well as a reduction in the value of the available for sale reserve. The increases in total Tier 1 capital and total regulatory capital include the increase in CET1 resources, offset at a total regulatory capital level by a reduction in Tier 2 capital, due to amortisation of subordinated debt.

The Group's capital and leverage ratios have increased since April 4, 2015 mainly as a result of a strong trading performance with £985 million of profit after tax for the year and a reduction in risk weighted assets of £2.3 billion. The Group's key capital measures at April 4, 2016 are summarised in the table below:

	<u>As at April 4, 2016</u>	<u>As at April 4, 2015</u>
	<i>(million, except for percentages)</i>	
<b>Solvency ratios<sup>(1)</sup></b>		
CET1 ratio .....	23.2%	19.8%
Total Tier 1 ratio.....	26.1%	22.5%
Total regulatory ratio .....	30.9%	27.0%
<b>Leverage<sup>(2)</sup></b>		
Exposure .....	£213,181	£200,665
Total Tier 1 capital .....	£9,005	£8,271
Leverage ratio.....	4.2%	4.1%

Notes:

- (1) Our solvency ratios are on an end point basis. Transitional ratios can be found in our 2016 Pillar 3 disclosures at [www.nationwide.co.uk](http://www.nationwide.co.uk).
- (2) Our leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure and reported on an end point basis.

CET1 capital resources have increased over the period by approximately £0.7 billion mainly as a result of a strong operating performance with £985 million of profit after tax for the period.

Risk weighted assets ("RWAs") reduced over the period by approximately £2.3 billion due to reduced commercial RWAs, lower retail unsecured RWAs (resulting from model development) and lower residential lending RWAs as a result of house price inflation, which more than offset portfolio growth.

The movements described above have resulted in an increase in the CET1 ratio to 23.2% (April 4, 2015: 19.8%). Total exposure used to calculate the leverage ratio, which consists of balance sheet assets, off-balance sheet items and other regulatory adjustments, has increased by £12.5 billion to £213.2 billion. Balance sheet assets have grown by £13.4 billion to £208.9 billion since April 4, 2015, mainly driven by increases in mortgage balances, together with higher deposits with central banks held for liquidity purposes as a result of the Group's pre-funding of wholesale maturities ahead of the EU referendum. The leverage ratio has increased to 4.2% (April 4, 2015: 4.1%) as growth in Tier 1 capital has outstripped the balance sheet growth.

	<u>As at April 4, 2016</u>	<u>As at April 4, 2015</u>
	<i>(£ million)</i>	
<b>Credit risk</b>		
Retail mortgages.....	14,086	14,372

	As at April 4, 2016	As at April 4, 2015
	(£ million)	
<b>Credit risk</b>		
Retail unsecured lending .....	5,621	7,023
Commercial loans.....	6,194	7,646
Treasury.....	1,039	1,375
Counterparty credit risk <sup>(1)</sup> .....	1,296	826
Other <sup>(2)</sup> .....	1,635	1,334
<b>Total credit risk</b> .....	<b>29,871</b>	<b>32,576</b>
Operational risk .....	4,604	4,228
Market risk <sup>(3)</sup> .....	-	-
<b>Total risk weighted assets</b> .....	<b>34,475</b>	<b>36,804</b>

Notes:

- (1) Counterparty credit risk relates to derivative financial instruments.
- (2) Other relates to fixed and other assets held on the balance sheet.
- (3) We elected to set this to zero in 2016 and 2015, as permitted by the CRR, as exposure was below the threshold of 2% of own funds.

RWAs have decreased by £2.3 billion since 4 April 2015 to £34.5 billion. Commercial RWAs have continued to decrease driven by continued run-off of the commercial book and improvements in the credit quality of the remaining exposures. The implementation of a redeveloped Internal Ratings Based (“**IRB**”) model for personal loans, to better reflect the risk in the portfolio, has resulted in lower RWAs for the retail unsecured portfolios. Credit risk RWAs have also been further reduced by an improvement in credit quality, notably in specialist mortgage lending, due to the increase in house prices; this has more than offset the RWA increase from the portfolio growth. Treasury RWAs have decreased due to a reduction in exposures to other banks and securitisation assets; however, an increase in derivative values has resulted in higher RWAs for counterparty credit risk. Other RWAs are higher mainly due to an increase in the value of the Visa Europe Limited equity holding. Operational risk RWAs, calculated on the standardised approach, have increased due to higher income.

Our CRD IV Pillar 1 capital requirements (risk weights) are calculated using (i) the Retail IRB approach for prime, buy to let and self-certified mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline building societies) and unsecured lending; (ii) foundation IRB and the PRA’s “slotting” methodology for treasury and commercial portfolios (other than sovereign exposures); and (iii) the standardized approach for all other credit risk exposures including some treasury and commercial exposures that are exempt from using the IRB approach. The introduction of CRD IV increased RWAs principally through asset value correlation, credit value adjustments and increased weightings for deferred tax assets. In addition, we chose to risk weight securitization exposures rated below BB- rather than deduct them from capital such that they are included in treasury RWAs; this change was made from January 1, 2014.

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, deposits by other financial institutions and debt securities in issue and derivative financial instruments, please see notes 29 and 30 to our audited consolidated financial statements as at and for the year ended April 4, 2016 incorporated by reference herein.

### Off-Balance Sheet Arrangements

For a description of off-balance sheet commitment items under IFRS, please see note 29 to our audited consolidated financial statements as at and for the year ended April 4, 2016 incorporated by reference herein.

## Critical Accounting Policies

For details on our critical accounting policies under IFRS, please see note 2 to our audited consolidated financial statements as at and for the year ended April 4, 2016 incorporated by reference herein.

### *IFRS 9: Financial Instruments*

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

IFRS 9 will be implemented for the Group’s financial year ending April 4, 2019. The Group is currently assessing the impact of the adoption of IFRS 9 upon its financial position and may be subject to significant adjustments in the measurement of financial assets and liabilities which could have an impact on the Group’s balance sheet, its loan loss provisions and its consolidated statement of income. IFRS 9 is required to be applied retrospectively, but prior periods need not be restated.

Under IFRS 9, financial assets are classified and measured based on the business model under which they are held and the characteristic of their contractual cash flows. Financial assets will then be classified as held at amortised cost, at fair value through other comprehensive income (“**FVOCI**”), or at fair value through profit or loss (“**FVTPL**”). The only changes to the classification and measurement of financial liabilities are where liabilities are elected to be measured at fair value, in which case changes in valuation relating to changes in the entity’s own credit risk will be presented separately in other comprehensive income rather than in the income statement.

IFRS 9 is replacing the incurred loss approach to impairment of IAS 39 with one based on expected credit losses (“**ECL**”), which will result in earlier recognition of credit losses. This introduces a number of new concepts and changes to the approach to provisioning compared with the current methodology under IAS 39. ECLs are based on an assessment of the probability of default, loss given default and exposure at default, discounted to give a net present value. The estimation of ECL should be unbiased and probability-weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, IFRS 9 provisions will be made for expected credit default events within the next 12 months.

A key requirement of IFRS 9 compared with the existing provision approach under IAS 39 relates to assets where there has been a significant increase in credit risk since the date of origination. Provisions will be made for those assets expected to default at any point over their lifetime reflecting the asset’s full expected loss. This change to lifetime loss provisions for significantly credit deteriorated assets is expected to lead to increases in impairment provisions, and to increased volatility in provisions, although the size of the change will depend on a number of factors, including the composition of asset portfolios and the view of the economic outlook at the date of implementation and therefore requires considerable management judgement. For assets where there is evidence of credit impairment, provisions will be made under IFRS 9 on the basis of lifetime ECLs, taking account of forward looking economic assumptions and a range of possible outcomes.

IFRS 9 also replaces the rules based hedging requirements of IAS 39 with new requirements that align hedge accounting more closely with financial risk management activities. A separate financial reporting standard will be developed on accounting for dynamic risk management (macro hedge accounting) and IFRS 9 allows the option to continue to apply the existing hedge accounting requirements of IAS 39 until this is implemented. Therefore no changes are currently being implemented to hedge accounting policies and methodologies.

## DESCRIPTION OF BUSINESS

### OVERVIEW

We are a building society, incorporated in England and Wales under the UK Building Societies Act, as amended, and authorized by the PRA and regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. Our FCA 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, with £209 billion of assets as at April 4, 2016. We are the second largest residential mortgage lender in the United Kingdom and the second largest UK savings provider (as calculated by us based on BoE data). We have 15 million members and customers.

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 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.

A9.10.1

Profits on ordinary activities after tax for the year ended April 4, 2016 and April 4, 2015 were £985 million and £839 million, respectively. Our lending activities are predominantly concentrated on secured lending, with residential mortgages accounting for 91% of our total loans and advances to customers as at April 4, 2016.

### 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 1846. Over time, this entity merged with similar organizations to create Nationwide Building Society.

A9.6.1  
A9.6.2

A9.4.1.3

Over the past 30 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 dramatically over the same period. One consequence of this decrease is that the majority of our competitors are banks. We believe that our mutual status allows us to compete successfully with banks, and it is our strategy to remain a building society. 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.

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, we opened our first branch in the Republic of Ireland in March 2009. We believe these developments have added value to us improved our distribution footprint and helped to grow the membership and are a testament to our strength and our ability to provide support to other building societies.

## **STRATEGY**

Our vision is to be the first choice for financial services, and to achieve this, our strategy is based on four strategic priorities: Modern mutual; Great employer; Strong Society; and Exemplar organisation.

### **Modern mutual**

We are committed to mutuality on a broader scale than simply the provision of mortgages and savings. We are a modern mutual, which means that we provide a full service, multi-channel offering to a growing number of members.

We aim to protect and consolidate our top two position in mortgages and savings, while pursuing our goal to build scale in our business in our third core product, personal current accounts. With increased service making use of tablet and mobile technology, we intend to deliver next generation banking by creating an 'always available' environment, using digitally enabled services and simplified processes to allow members to choose when, where and how they wish to engage with us.

We hope to continue to differentiate ourselves in the market through our service and brand. We intend to refocus our branches to deliver guidance and advice, enhancing our reputation as a trusted organisation. In addition, we intend to increase our sales and service capacity through wider deployment of Nationwide Now, a video conferencing link with members that facilitates services resembling in-branch visits.

Our marketing model prioritises strategic brand building as a basis for sustainable growth. Our belief is that a strong, iconic brand effective both in digital and traditional media, is essential to attract new members across all life stages, supporting our current account market share aspirations. We aim to close the gap on our banking peers for spontaneous brand recognition, via our advertising campaigns to a broader range of consumers across traditional and digital channels.

### **Great employer**

Our staff embody our culture, are ambassadors for our mutual approach, and we believe their skills offer us a competitive advantage. Our principles are expressed across the Group through "PRIDE", our internal set of values and standards to promote delivering high quality customer service. PRIDE stands for putting members first, rewarding membership, inspiring trust, doing the right thing and excelling at service. We aim to attract and retain an efficient, high performing workforce ready to meet customer and business expectations in a digital age. To support this we strive to develop our leadership pipeline and build an increasingly diverse workforce where employees are engaged and have interests aligned with those of our members. We plan to continue investing in our talent management programs, including increasing the number of graduates and apprentices across our business, to meet current and future capability requirements.

## Strong Society

We aim to instill trust and confidence among members by maintaining a low risk appetite and ensuring our assets remain of the highest quality, underpinned by strong levels of liquidity and capital. We aim to preserve the financial security and safety of our business, invest in new products and services and offer long term good value for our members. This financial discipline will be supported by the Group's financial performance framework which targets optimal pre-tax underlying profits in a range of £1 billion to £1.5 billion.

## Exemplar organization

Our culture is focused on delivering good conduct and fair customer outcomes to members and stakeholders. We aim to maintain strong regulatory relationships and put our members' interests at the forefront of our business.

## 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 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 April 4, 2016, we were the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding) (as calculated by us based on BoE data). As at April 4, 2016, our total prime and specialist residential mortgage lending amounted to £162.2 billion (£152.9 billion as at April 4, 2015). Our residential mortgages are generally for terms of 20 to 30 years. While many customers remain with us for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although we generally retain approximately 85 to 90% of customers when they reach the end of a product.

We have a national franchise within the United Kingdom, with a regional distribution of UK residential mortgage lending to individuals generally matching the regional gross domestic product distribution in the United Kingdom. Below is a table showing the geographical distribution of our UK residential mortgage loans as at April 4, 2016:

	<b>UK residential mortgage lending to individuals as at April 4, 2016</b>
	<i>(percentages)</i>
<b>Region</b>	
Greater London.....	33%
Central England.....	18%
Northern England.....	16%
South East England.....	12%
South West England.....	9%
Scotland.....	7%
Wales and Northern Ireland.....	5%
<b>Total.....</b>	<b>100%</b>

We offer fixed rate and tracker rate mortgages. These products establish a set rate or set methodology for determining a variable rate for a set term, after which the rate reverts to one of our two general variable rates. Our fixed-rate products currently offer a term of two, three, four, five or ten years, but we have from time to

time offered longer fixed terms, including 25 years. Our tracker rate products bear interest during the set term (currently two or three years) at a variable rate that is a fixed percentage above the BoE base rate. After the end of the set fixed rate or tracker period, the interest rate reverts to either our BMR (if the mortgage was originated on or before April 29, 2009) or our standard mortgage rate (“SMR”) (if the mortgage was originated on or after April 30, 2009). Both our BMR and our SMR are variable rates set at our discretion, except that our BMR is guaranteed not to be more than 2% above the BoE base rate.

To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, we impose early repayment charges on some products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed or tracker rate for the particular product. Our asset quality has remained strong, which we believe is evidence of our continued prudent lending standards. We are committed to supporting the housing market, and first time buyers in particular. Our gross and net market shares as at April 4, 2016 were 13.7% and 21.4%, respectively, compared with gross and net market shares of 13.4% and 21.2%, respectively for the year ended April 4, 2015. The LTV profile of new lending, weighted by value, remained at 69% (April 4, 2015: 69%). The indexed LTV for the whole residential portfolio is marginally lower at 55% (April 4, 2015: 56%) on a value basis attributable to the increase in house prices over the year.

The proportion of our mortgage accounts three months or more in arrears has reduced to 0.45% as at April 4, 2016 (April 4, 2015: 0.49%), this compares favorably with the CML industry average of 1.04%.

The following table sets forth a breakdown of our loans in arrears as at April 4, 2016:

	<b>As at April 4, 2016</b>
	<i>(percentages)</i>
3-6 months .....	0.22%
6-12 months .....	0.14%
Over 12 months .....	0.09%

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. The proportion of new lending to first time buyers has increased to 28% during the year ended April 4, 2016 with 72% to experienced buyers (compared to 26% of residential mortgage advances to first-time buyers and 74% to experienced buyers for ended April 4, 2015).

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) and other non-conforming lending.

As at April 4, 2016, our outstanding specialist UK residential mortgage lending to individuals was £32.2 billion. The specialist residential mortgage balance is 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. New specialist lending is restricted to buy-to-let via TMW with us having withdrawn from the self-certified lending market in 2009. A breakdown of our specialist UK residential mortgage lending outstanding balances as at April 4, 2016 is shown in the table below:

<b>Specialist UK residential mortgage lending to individuals as at April 4, 2016</b>	
<i>(percentages)</i>	
Buy-to-let.....	89
Self-certified .....	7
Near prime .....	3
Sub prime.....	1
<b>Total.....</b>	<b>100</b>

TMW is an important provider of high-quality loans to the buy-to-let sector. Our total specialist mortgage book stood at £32.2 billion as at April 4, 2016 (April 4, 2015: £28.3 billion).

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 specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.90% of the total mortgage book as at April 4, 2016 (April 4, 2015: 1.12%), which compares favorably to the overall industry measure (source: CML), that is inclusive of prime lending, 1.04% as at April 4, 2016 (April 4, 2015: 1.30%).

### ***Commercial Secured Lending***

We engage in commercial secured lending, which as at April 4, 2016 accounted for 7% of our total loan assets. To maintain a prudent balance between our asset classes, we currently have a 10% 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.

The amount and types of loans in the commercial portfolio as at April 4, 2016 were as follows:

	<b>As at April 4, 2016</b>	
	<b>£ billion</b>	<b>% of total commercial loans</b>
Commercial real estate .....	3.0	25
Registered Social Landlords .....	7.6	65
Project Finance .....	1.2	10
<b>Total.....</b>	<b>11.8</b>	<b>100</b>

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

Loans advanced in relation to Project Finance are secured on cash flows from government backed contracts such as schools, hospitals and roads under the UK Private Finance Initiative legislation, and include assets acquired from Derbyshire, Cheshire and Dunfermline building societies. Again, the Group has never suffered any losses on lending in these markets and there are currently no arrears of three months or more.

The Group's commercial real estate portfolio is well diversified by industry type and by borrower, with no significant exposure to development finance.

### ***Consumer Lending***

We engage in personal lending, which accounted for 2% of our total loan assets as at April 4, 2016 and 2% of our total loan assets as at April 4, 2015.

### *Unsecured Consumer Lending*

Unsecured consumer lending consists of loans that we make to individuals that are not secured on real or personal property. We offer three different forms of unsecured consumer lending: personal unsecured loans, credit card lending and current accounts with overdraft facilities.

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because we have no security if the borrower defaults on the loan. Accordingly, unsecured consumer lending products bear higher interest rates than our residential mortgage products. To manage this risk, we use an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, we 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*."

### **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, 2016 we had UK retail member deposits of £138.7 billion, which is an increase of £6.3 billion from £132.4 billion as at April 4, 2015. UK retail member deposits represented 66.4% of our total liabilities and reserves as at April 4, 2016.

We provide a wide range of retail savings products that may be repayable on demand or on notice and which may pay a variable or fixed rate of interest. On most retail savings products, we determine variable interest rates at our discretion according to market conditions. Generally, the more restrictions on withdrawal of retail savings, the higher the rate of interest. Balances on all of our notice deposit accounts are, by their terms, withdrawable on demand but, in some cases, subject to loss of interest.

We believe that the primary determinant for attracting retail savings is the interest rate offered to savers. As a mutual organization, we typically set higher interest rates on our retail 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. Holders of FlexAccounts may be eligible for ATM cards, check books, overdraft facilities 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. In addition, current account members have been able to upgrade their account to FlexPlus, thereby gaining access to a comprehensive range of benefits including interest on credit balances, worldwide travel insurance, breakdown cover and extended appliance warranties. Our market share of main standard and packaged accounts increased to 7.1% and includes the latest addition to our product range, FlexOne, a current account designed specifically for the youth market.

#### ***Credit Cards***

We began issuing Nationwide-branded Visa credit cards to our customers in 1997. We market and process credit card applications ourselves (using our credit scoring system), and an outside contractor is responsible for billing and customer service functions. Our credit card holders receive differing credit limits, depending on their credit score. We do not charge customers an annual fee for using the credit card.

Credit card lending continues to grow reflecting increased growth in consumer borrowing with overall balances at April 4, 2016 of £1.7 billion (April 4, 2015: £1.7 billion).

### ***Offshore Savings***

We offer offshore savings through our Isle of Man branch (previously a subsidiary, Nationwide International Limited), to give us access to another funding source. The branch offers demand and notice accounts in sterling, U.S. dollars and euros mainly to offshore investors. As at April 4, 2016, the Isle of Man branch had deposits of £5.4 billion.

### ***Business Savings***

We offer a range of business savings accounts to UK-domiciled small and medium sized enterprises, including companies, housing associations, charities and educational organizations. We provide a wide range of savings products that may be repayable on demand or on notice and which may pay a variable or fixed rate of interest. On all business savings products, we determine variable interest rates at our discretion according to market conditions. Generally, the more restrictions on withdrawal of business savings, the higher the rate of interest. As of April 4, 2016 balances were £2.3 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.

### ***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.

The Group’s liquidity and investment portfolio on the balance sheet at April 4, 2016 of £23.1 billion (compared to April 4, 2015: £18.8 billion) is held in three separate portfolios: primary liquidity, other central bank eligible assets and other assets.

Primary liquidity comprises cash and highly rated debt securities issued by governments or multilateral development banks. The remaining two portfolios comprise available for sale assets held for investment purposes and loans and advances to banks.

The increase in the primary liquidity portfolio to £15.6 billion (compared to April 4, 2015: £11.0 billion) is a consequence of liquidity management planning, which saw an increase in other central bank eligible liquidity.

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 £45.8 billion as at April 4, 2016 from £39.2 billion as at April 4, 2015, representing a wholesale funding ratio of 24.8% (compared to 23.3% as at April 4, 2015).

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;
- French commercial paper program;
- Euro medium-term note program;
- U.S. medium-term note program;

- Covered Bond program; and
- Residential mortgage backed note program (Silverstone master trust).

We do not operate a trading portfolio.

### **Protection and Investments**

Income from protection and investments has remained stable at £73 million for the year ended April 4, 2016, from £75 million for the year ended April 4, 2015.

### **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 the insurance products of Legal & General. We also have 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;
- landlord 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 a significant source of non-interest income, and in the year ended April 4, 2016 and the year ended April 4, 2015 we earned £78 million and £88 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;
- call centers;
- mail;
- Internet (e-commerce); and

- intermediaries.

We also maintain a network of ATMs.

### ***Branches***

Our branch network continues to be a major source of our mortgage lending and retail funding. As at April 4, 2016 we had approximately 700 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 have continued to make significant investment in transforming our products and delivery channels through the implementation of new systems and organizational structures and meet consumer expectations of digital banking.

### ***Call Centers***

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

### ***Mail***

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

### ***E-commerce***

We first launched an internet banking service in 1997 and have continued to update our service in line with technological advances and in line with increasing customer expectations. Our website allows customers to transact on their accounts and apply for a broad range of our products online.

### ***Intermediaries***

A substantial amount of our mortgage sales are introduced to us by third-party intermediaries. Intermediaries range from large UK insurance companies to small independent mortgage advisers. We remunerate intermediaries for introducing mortgage business.

### ***ATMs***

We had approximately 1,400 ATMs at April 4, 2016, including some placed in retail stores, railroad stations, gas stations and other remote locations. In addition, our customers also have access to ATMs in the United Kingdom through the LINK network and world-wide through the VISA network.

### ***Employees***

For the financial year ended April 4, 2016, we employed, on average, 18,109 full and part-time employees. Set out below are our average number of employees during the financial years ended April 4, 2016, 2015 and 2014, respectively:

	<b>For the year ended April 4,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Full-time .....	14,190	13,667	13,172
Part-time .....	3,919	3,955	4,118
<b>Total.....</b>	<b>18,109</b>	<b>17,622</b>	<b>17,290</b>

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, 2016 are set out below:

<b>100% held subsidiary undertakings</b>	<b>Nature of business</b>
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc <sup>(1)</sup>	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 therefore 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.

We have 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.

Our interests in these principal entities as at April 4, 2016 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
Silverstone Funding No.1 Limited	Funding vehicle	England and Wales	UK
Cromarty CLO Limited	Investment in a portfolio of European loans	England and Wales	Republic of Ireland

## Properties

Our property interests consist of our branches and non-specialized buildings which may be owned or leased, as well as our head office/administration centers (which we own) and a small number of residential properties held for rental. For further information see note 27 to our audited consolidated financial statements incorporated by reference herein.

## Financial Services Compensation Scheme (FSCS)

Like other UK financial institutions, the Society pays levies based on its 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 (now FCA). The FSCS has met the claims by way of loans received from HM Treasury. These loans totaled approximately £20 billion. The terms of these loans were initially 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.

While it was anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, the industry has been levied in respect of the anticipated shortfall in repaying these loans over the past 3 financial years in an amount of £753 million. The FSCS have recently communicated that no further shortfalls are expected to be recovered from the industry.

The FSCS have also made levies in respect of the Dunfermline Building Society failure amounting to £365 million on the industry. The FSCS have now confirmed that all costs in respect of the Dunfermline Building Society have now been recovered with no further levies to be made on the industry.

As at April 4, 2016, we held a provision of £84 million in respect of the interest relating to scheme years 2015/16 and 2016/17. As at April 4, 2015 we held a provision of £126 million in respect of the interest

relating to scheme years 2014/15 and 2015/16 in addition to the final shortfall levy relating to scheme year 2015/16.

### 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 chargeable equity and liabilities, meaning that smaller institutions will effectively be exempted from the levy charge. Certain liabilities are excluded from the chargeable equity and liabilities, 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. However, section 16 of, and Schedule 2 to, the Finance (No. 2) Act 2015 (which came into force on November 18, 2015) implement a gradual reduction in bank levy rates from January 1, 2016. The gradual reduction in bank levy rates has been combined with the introduction of a corporation tax surcharge (at 8%) on banking companies and building societies within the charge to corporation tax which took effect in relation to accounting periods beginning on or after January 1, 2016. In addition, it is proposed that from January 1, 2021 the bank levy will be restricted to the chargeable equity and liabilities on the UK balance sheets of UK headquartered banking groups and building society groups.

The bank levy rates will be reduced as follows:

Period	Rates	
	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%
January 1, 2012 to December 31, 2012	0.088%	0.044%
January 1, 2013 to December 31, 2013	0.130%	0.065%
January 1, 2014 to March 31, 2015	0.156%	0.078%
April 1, 2015 to December 31, 2015	0.210%	0.105%
January 1, 2016 to December 31, 2016	0.18%	0.09%
January 1, 2017 to December 31, 2017	0.17%	0.085%
January 1, 2018 to December 31, 2018	0.16%	0.08%
January 1, 2019 to December 31, 2019	0.15%	0.075%
January 1, 2020 to December 31, 2020	0.14%	0.07%
Any time on or after January 1, 2021	0.10%	0.05%

## 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, 2016, 2015 and 2014, respectively:

<b>For the year ended April 4, 2016</b>			
	<b>Average balance<sup>(1)</sup></b>	<b>Interest<sup>(2)</sup></b>	<b>Average yield/ rate</b>
	<i>(£ million, except percentages)</i>		
<b>Interest-earning assets:</b>			
Loans to credit institutions .....	11,352	33	0.29%
Debt securities & derivative financial instruments <sup>(2)</sup> .....	14,193	71	0.50%
Loans to customers .....	174,702	5,190	2.97%
<b>Total average interest-earning assets .....</b>	<b>200,247</b>	<b>5,294</b>	<b>2.64%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	840		
Fair value adjustment for hedged risk .....	531		
Other financial assets at fair value .....	7		
Other assets .....	705		
Goodwill and intangible fixed assets .....	1,108		
Investment properties .....	8		
Deferred tax assets .....	39		
<b>Total average assets .....</b>	<b>203,485</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	135,258	1,577	1.17%
Other deposits .....	17,043	77	0.45%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	37,024	473	1.28%
Subordinated liabilities .....	1,866	57	3.05%
Tier 1 capital instruments .....	409	17	4.16%
Unwind of discount of pension liabilities .....	-	7	-
<b>Total average interest-bearing liabilities .....</b>	<b>191,600</b>	<b>2,208</b>	<b>1.15%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,445		
Fair value adjustment for hedged risk .....	5		
Other financial liabilities at fair value .....	3		
Reserves .....	10,256		
Current taxes .....	176		
<b>Total average liabilities .....</b>	<b>203,485</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.

<b>For the year ended April 4, 2015<sup>(3)</sup></b>			
	<b>Average balance<sup>(1)</sup></b>	<b>Interest<sup>(2)</sup></b>	<b>Average yield/ rate</b>
	<i>(£ million, except percentages)</i>		
<b>Interest-earning assets:</b>			

For the year ended April 4, 2015 <sup>(3)</sup>			
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
<i>(£ million, except percentages)</i>			
Loans to credit institutions .....	9,271	28	0.30%
Debt securities and derivative financial instruments <sup>(2)</sup> ..	14,553	23	0.16%
Loans to customers .....	168,736	5,296	3.14%
<b>Total average interest-earning assets.....</b>	<b>192,560</b>	<b>5,347</b>	<b>2.78%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	855		
Fair value adjustment for hedged risk.....	350		
Other financial assets at fair value .....	15		
Other assets.....	3598		
Goodwill and intangible fixed assets .....	977		
Investment properties .....	9		
Deferred tax assets .....	26		
<b>Total average assets.....</b>	<b>195,390</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	133,095	1,897	1.43%
Other deposits .....	16,676	116	0.70%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	31,864	367	1.15%
Subordinated liabilities .....	2,202	66	3.00%
Tier 1 capital instruments .....	590	23	3.90%
Unwind of discount of pension liabilities .....	-	6	-
<b>Total average interest-bearing liabilities .....</b>	<b>184,427</b>	<b>2,475</b>	<b>1.34%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,399		
Fair value adjustment for hedged risk.....	14		
Other financial liabilities at fair value .....	2		
Reserves.....	9,406		
Current taxes.....	142		
<b>Total average liabilities .....</b>	<b>195,390</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.
- (3) Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains/losses from derivatives and hedge accounting as described in note 1 to the 2016 financial statements.

For the year ended April 4, 2014			
	Average balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average yield/ rate
<i>(£ million, except percentages)</i>			
<b>Interest-earning assets:</b>			
Loans to credit institutions .....	9,959	38	0.38%
Debt securities and derivative financial instruments <sup>(2)</sup> ..	15,065	12	0.08%
Loans to customers .....	163,707	5,245	3.20%
<b>Total average interest-earning assets.....</b>	<b>188,731</b>	<b>5,295</b>	<b>2.81%</b>
<b>Non-interest-earning assets:</b>			
Tangible fixed assets .....	873		
Fair value adjustment for hedged risk.....	406		
Other financial assets at fair value .....	2		
Other assets.....	496		
Goodwill and intangible fixed assets .....	924		
Investment properties .....	8		
Deferred tax assets .....	176		

<b>For the year ended April 4, 2014</b>			
	<b>Average balance<sup>(1)</sup></b>	<b>Interest<sup>(2)</sup></b>	<b>Average yield/ rate</b>
	<i>(£ million, except percentages)</i>		
<b>Total average assets .....</b>	<b>191,616</b>		
<b>Interest-bearing liabilities:</b>			
UK retail member deposits .....	130,196	2,250	1.73%
Other deposits .....	15,871	51	0.32%
Debt securities in issue and derivative financial instruments <sup>(2)</sup> .....	33,439	439	1.31%
Subordinated liabilities .....	2,433	79	3.25%
Tier 1 capital instruments .....	879	30	3.41%
Unwind of discount of pension liabilities .....	-	15	-
<b>Total average interest-bearing liabilities .....</b>	<b>182,819</b>	<b>2,864</b>	<b>1.57%</b>
<b>Non-interest-bearing liabilities:</b>			
Other liabilities .....	1,548		
Fair value adjustment for hedged risk .....	77		
Other financial liabilities at fair value .....	5		
Reserves .....	7,090		
Current taxes .....	77		
<b>Total average liabilities .....</b>	<b>191,616</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, 2016, 2015 and 2014, respectively:

<b>As at April 4, 2016</b>	
	<i>(£ million, except percentages)</i>
Net average interest-earning assets .....	200,247
Net average interest-bearing liabilities .....	191,600
Net interest income <sup>(1)</sup> .....	3,086
Average yield on average interest-earning assets .....	2.64%
Average rate on average interest-bearing liabilities .....	1.15%
Net interest spread <sup>(2)</sup> .....	1.49%
Net interest margin <sup>(3)</sup> .....	1.52%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by weighted average interest-earning assets.

<b>As at April 4, 2015</b>	
	<i>(£ million, except percentages)</i>
Net average interest-earning assets .....	192,560
Net average interest-bearing liabilities .....	184,427
Net interest income <sup>(1)(4)</sup> .....	2,872
Average yield on average interest-earning assets .....	2.78%
Average rate on average interest-bearing liabilities .....	1.34%
Net interest spread <sup>(2)</sup> .....	1.43%
Net interest margin <sup>(3)(4)</sup> .....	1.47%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by weighted average interest-earning assets.
- (4) Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains/losses from derivatives and hedge accounting as described in note 1 to the 2016 financial statements.

	<b>As at April 4, 2014</b>
	<i>(£ million, except percentages)</i>
Net average interest-earning assets.....	188,731
Net average interest-bearing liabilities .....	182,819
Net interest income <sup>(1)</sup> .....	2,431
Average yield on average interest-earning assets .....	2.81%
Average rate on average interest-bearing liabilities.....	1.57%
Net interest spread <sup>(2)</sup> .....	1.24%
Net interest margin <sup>(3)</sup> .....	1.27%

Notes:

- (1) Defined as total interest income less total interest expense.
- (2) Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (3) Defined as net interest income divided by weighted average interest-earning assets.

### Changes in Interest Income and Expenses – Volume and Rate Analysis

The following table allocates the changes in our interest income and expense between changes in average volume and changes in the average rates for the financial year ended April 4, 2016 compared to the financial year ended April 4, 2015. 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:

	<b>Year ended April 4, 2016 compared to year ended April 4, 2015<sup>(2)</sup></b>		
	<b>Increase/(decrease) in net interest due to changes in:</b>		
	<b>Volume</b>	<b>Yield/rate</b>	<b>Total net change</b>
		<i>(£ million)</i>	
<b>Interest income:</b> <sup>(1)</sup>			
Loans to credit institutions .....	6	(1)	5
Debt securities and derivative financial instruments ..	-	48	48
Loans to customers .....	183	(289)	(106)
<b>Total interest income</b> .....	<b>189</b>	<b>(242)</b>	<b>(53)</b>
<b>Interest expense:</b> <sup>(1)</sup>			
UK retail member deposits .....	30	(350)	(320)
Amounts owed to credit institutions .....	(1)	-	(1)
Amounts owed to other customers .....	5	(43)	(38)
Debt securities in issue .....	63	43	106
Subordinated liabilities .....	(10)	1	(9)
Subscribed capital.....	(8)	2	(6)
<b>Total interest expense</b> .....	<b>79</b>	<b>(347)</b>	<b>(267)</b>
<b>Net interest income</b> .....	<b>109</b>	<b>105</b>	<b>214</b>

Note:

- (1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.
- (2) Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains/losses from derivatives and hedge accounting as described in note 1 to the 2016 financial statements.

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, 2015 compared to the financial year ended April 4, 2014. 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:

<b>Year ended April 4, 2015 compared to year ended April 4, 2014</b>			
<b>Increase/(decrease) in net interest due to changes in:</b>			
	<b>Volume</b>	<b>Yield/rate</b>	<b>Total net change</b>
		<i>(£ million)</i>	
<b>Interest income:</b> <sup>(1)</sup>			
Loans to credit institutions .....	(3)	(7)	(10)
Debt securities .....	-	11	11
Loans to customers .....	159	(107)	51
<b>Total interest income .....</b>	<b>156</b>	<b>(103)</b>	<b>52</b>
<b>Interest expense:</b> <sup>(1)</sup>			
UK retail member deposits .....	49	(402)	(353)
Amounts owed to credit institutions .....	(2)	1	(1)
Amounts owed to other customers .....	5	61	66
Debt securities in issue .....	(28)	(44)	(72)
Subordinated liabilities .....	(7)	(6)	(13)
Subscribed capital .....	(11)	4	(7)
<b>Total interest expense .....</b>	<b>6</b>	<b>(386)</b>	<b>(380)</b>
<b>Net interest income .....</b>	<b>151</b>	<b>310</b>	<b>432</b>

Note:

- (1) Interest income and expense amounts are stated after allocation of interest on financial instruments entered into for hedging purposes.

### Investment Securities Portfolios

As at April 4, 2016, our investment securities portfolios were carried at a book value of £10,612 million, representing 5.1% of our total assets. We only purchase investment-grade debt securities and do not operate a trading portfolio. The following table provides information on the breakdown of our investment securities as at April 4, 2016, 2015 and 2014, respectively:

<b>As at April 4,</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
		<i>(£ million)</i>	
UK government <sup>(1)</sup> .....	4,712	5,009	4,508
Other public sector securities <sup>(2)</sup> .....	2,131	1,717	2,486
Other issuers <sup>(3)</sup> .....	3,769	4,311	3,569
<b>Total .....</b>	<b>10,612</b>	<b>11,037</b>	<b>10,563</b>

Notes:

- (1) As at April 4, 2016, UK government securities that we held were equal to 52% of our general and revaluation reserves compared to 62% as at April 4, 2015 and 61% as at April 4, 2014.
- (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, 2016, 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, 2016:

As at April 4, 2016					
	Maturing within 1 year	Maturing after 1 but within 5 years	Maturing after 5 years but within 10 years (£ million)	Maturing after 10 years	Total
UK government .....	-	2,055	1,650	1,007	4,712
Other public sector securities...	42	1,237	852	-	2,131
Other issuers .....	172	739	929	1,928	3,769
<b>Total .....</b>	<b>214</b>	<b>4,031</b>	<b>3,430</b>	<b>2,935</b>	<b>10,612</b>

The following table presents a further analysis of other issuers as at April 4, 2016, 2015 and 2014, respectively:

As at April 4,			
	2016	2015	2014
	(£ million)		
UK financial institutions.....	-	-	-
European financial institutions .....	107	29	269
Non-European financial institutions .....	-	34	95
ABS .....	2,625	3,224	2,926
Other issuers .....	1,037	1,024	278
<b>Total .....</b>	<b>3,769</b>	<b>4,311</b>	<b>3,569</b>

#### Loan Portfolio

As at April 4, 2016 total loans to customers excluding fair value adjustments for portfolio hedged risk, including accrued interest, were £177,441 million, representing 84.9% of our total assets. Our loan portfolio has increased by 5% during the last financial year from £174,039 million as at April 4, 2015 to £182,398 million as at April 4, 2016.

The following table summarizes our loan portfolio, net of allowances, as at April 4, 2016, 2015 and 2014, respectively:

As at April 4,			
	2016	2015	2014
	(£ million)		
Residential mortgage loans.....	162,062	152,775	145,558
Consumer banking .....	3,588	3,575	3,656
Commercial Lending .....	11,772	12,890	16,283
Other lending .....	19	25	164
<b>Total loans to customers.....</b>	<b>177,441</b>	<b>169,265</b>	<b>165,661</b>
Fair value adjustment for micro hedged risk <sup>(1)</sup> .....	1,366	1,382	880
Loans and advances to banks.....	3,591	3,392	2,110
<b>Total .....</b>	<b>182,398</b>	<b>174,039</b>	<b>168,651</b>

Note:

- (1) Under IFRS the carrying value of the hedged item is adjusted for the change in value of the hedged risk.



The following table presents the contractual maturity distribution for repayment for the loans held by us as at April 4, 2016:

	As at April 4, 2016						
	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>
				(£ million)			
Loans to customers .....	1,997	2,094	5,573	27,363	140,857	923	178,807
Loans and advances to banks.....	3,179	87	-	-	325	-	3,591
<b>Total Loans.....</b>	<b>5,176</b>	<b>2,181</b>	<b>5,573</b>	<b>27,363</b>	<b>141,182</b>	<b>923</b>	<b>182,398</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.

The following table presents the split of fixed and variable loans to customers and credit institutions as at April 4, 2016:

As at April 4, 2016				
	Fixed rate	Variable rate	Outstanding Checks <sup>(1)</sup>	Total
		<i>(£ million)</i>		
Loans to customers .....	100,039	78,768	-	178,807
Loans to credit institutions .....	915	2,930	(254)	3,591
<b>Total loans .....</b>	<b>100,954</b>	<b>81,698</b>	<b>(254)</b>	<b>182,398</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, 2016.

## 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, 2016:

As at April 4, 2016					
	Prime lending	Specialist lending	Consumer banking	Total	%
	<i>(£ billion, except percentages)</i>				
Not impaired:					
Neither past due nor impaired.....	128.0	31.1	3.5	162.6	97%
Past due up to 3 months but not impaired .....	1.6	0.8	0.1	2.5	2%
Impaired.....	0.4	0.4	0.1	0.9	1%
<b>Total.....</b>	<b>129.9</b>	<b>32.2</b>	<b>3.9</b>	<b>166.1</b>	<b>100%</b>

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2015:

As at April 4, 2015					
	Prime lending	Specialist lending	Consumer banking	Total	%
	<i>(£ billion, except percentages)</i>				
Not impaired:					
Neither past due nor impaired.....	122.5	26.9	3.5	152.8	97%
Past due up to 3 months but not impaired .....	1.7	0.9	0.1	2.7	2%
Impaired.....	0.4	0.5	0.2	1.1	1%
<b>Total.....</b>	<b>124.6</b>	<b>28.3</b>	<b>3.8</b>	<b>156.6</b>	<b>100%</b>

The following table provides information on prime and specialist lending and consumer banking balances by payment due status as at April 4, 2014:

As at April 4, 2014					
	Prime lending	Specialist lending	Consumer banking	Total	%
	<i>(£ billion, except percentages)</i>				
Not impaired:					
Neither past due nor impaired.....	117.0	24.7	3.6	145.3	97%
Past due up to 3 months but not impaired .....	1.8	1.0	0.1	2.9	2%
Impaired.....	0.5	0.6	0.2	1.3	1%
<b>Total.....</b>	<b>119.3</b>	<b>26.3</b>	<b>3.9</b>	<b>149.5</b>	<b>100%</b>

### Loan Loss Experience

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

We first assess whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by us to reduce any differences between loss estimates and actual loss experience. The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2016:

	For the year ended April 4, 2016					
	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	(£ million)					
As at April 5, 2015 .....	22	88	216	322	4	652
Charge for the year .....	8	10	96	(34)	1	81
Amounts written off during the year .....	(6)	(23)	(44)	(242)	(4)	(319)
Amounts recovered during the year .....	1	3	18	20	-	42
Unwind of discount of provision .....	-	(1)	(5)	(7)	-	(13)

	For the year ended April 4, 2016					
	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	<i>(£ million)</i>					
As at April 4, 2016 .....	25	77	281	59	41	443

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2015:

	For the year ended April 4, 2015					
	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	(£ million)					
As at April 5, 2014 .....	18	84	173	1,001	12	1,288
Charge for the year .....	13	45	89	52	34	233
Amounts written off during the year .....	(10)	(41)	(56)	(276)	(6)	(389)
Amounts recovered during the year .....	1	1	15	15	-	32
Disposal .....	-	-	-	(428)	(36)	(464)
Unwind of discount of provision .....	-	(1)	(5)	(42)	-	(48)
As at April 4, 2015 .....	22	88	216	322	4	652

The following table sets forth the movement in our allowances for loan losses for the financial year ended April 4, 2014:

	For the year ended April 4, 2014					
	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	<i>(£ million)</i>					
As at April 5, 2013 .....	32	133	87	958	14	1,224
Charge for the year .....	-	-	60	309	11	380
Amounts written off during the year .....	(15)	(52)	(3)	(215)	(9)	(294)
Amounts recovered during the year .....	1	4	33	10	-	48
Transfer from credit loss fair value adjustment .....	-	-	-	-	(4)	(4)
Unwind of discount of provision .....	-	(1)	(4)	(61)	-	(66)
As at April 4, 2014 .....	18	84	173	1,001	12	1,288

The following table shows the allowances for loan losses as a percentage of total loans, analyzed by category:

	As at April 4,		
	2016	2015	2014
	<i>(percentages)</i>		
<b>Total Allowances as a % of total loans in category<sup>(1)</sup></b>			
Residential .....	0.06	0.07	0.07
Commercial .....	0.45	2.50	6.15
Consumer .....	7.83	6.04	4.73
Other .....	5.26	16.00	7.32
Total loans .....	0.25	0.39	0.78
<b>% of loans in each category to total loans</b>			
Residential mortgage loans .....	90.6	89.3	87.9
Commercial .....	7.4	8.5	9.8
Consumer .....	2.0	2.2	2.2

	As at April 4,		
	2016	2015 (percentages)	2014
Other .....	-	-	0.1

Note:

- (1) The loan balances for the financial years ended April 4, 2016, 2015 and 2014 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, 2016:

	For year ended April 4, 2016	
	Average balance	Average rate paid
	(£ million, except percentages)	
UK retail member deposits .....	135,258	1.17%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	17,043	0.45%

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, 2015:

	For year ended April 4, 2015	
	Average balance	Average rate paid
	(£ million, except percentages)	
UK retail member deposits .....	133,095	1.43%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	16,676	0.70%

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, 2014:

	For year ended April 4, 2014	
	Average balance	Average rate paid
	(£ million, except percentages)	
UK retail member deposits .....	130,196	1.73%
Other customer deposits and amounts due to banks <sup>(1)</sup> .....	15,871	0.32%

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—Strategy—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, 2016, is as follows:

	As at April 4, 2016 (£ million)
Instant access accounts <sup>(1)</sup> .....	72,594
Notice accounts <sup>(2)</sup> .....	65,524
Accrued interest .....	597
UK retail member deposits .....	<b>138,715</b>

Notes:

- (1) Includes current, transactional, on demand and instant access accounts.  
(2) Includes tax advantaged savings accounts, fixed-notice accounts and fixed-term accounts.

### Maturity of Deposits

The following table shows the maturity analysis of time deposits over \$100,000 and certificates of deposit as at April 4, 2016:

	As at April 4, 2016			
	Time deposits	Certificates of deposit	Total	%
	<i>(£ million, except percentages)</i>			
Less than 3 months .....	1,700	2,876	4,576	55%
3 months to 6 months.....	1,039	1,710	2,749	33%
6 months to 1 year .....	467	542	1,009	12%
Over 1 year .....	10	-	10	-
<b>Total.....</b>	<b>3,216</b>	<b>5,128</b>	<b>8,344</b>	<b>100%</b>

### Return on Assets

The following table represents net income as a percentage of total average assets:

	For the year ended April 4,		
	2016	2015	2014
	<i>(£ million, except percentages)</i>		
Net income <sup>(1)</sup> .....	985	839	549
Total average assets <sup>(2)</sup> .....	203,485	195,390	191,616
Return on total average assets.....	0.48%	0.43%	0.29%

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, most of our net earnings are put into reserves and constitute Tier 1 capital for our capital adequacy requirements.

We have not presented any information regarding returns on equity because, as a mutual organization, we do not have equity.

## FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

Financial instruments incorporate the vast majority of our assets and liabilities, both on a Group level and for the Society. Given the dominant position of the Society within the Group structure, the term ‘Group’ is used in the remainder of this note to cover the activities of both Group and Society.

We accept deposits from customers at fixed and variable interest rates for various periods and seek to earn an interest margin by investing these funds in high quality assets, predominantly mortgages. The principal risks which arise from this core activity, and which need to be managed by the Group, are interest rate risks (including basis risk), credit risks, foreign exchange, liquidity and funding risks.

All risks are monitored and managed within the Enterprise Risk Management Framework (“**ERMF**”), which we have continued to upgrade and strengthen. The ERMF comprises a Board-approved risk appetite, detailed risk management frameworks (including policies and supporting documentation), and independent governance and oversight functions.

We also use derivative instruments to manage various aspects of risk. However, in doing so it complies with the UK Building Societies Act in relation to the use of derivatives for the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

### Derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency swaps, interest rate futures, foreign exchange contracts, equity index swaps and inflation linked derivatives. Derivatives are used to hedge balance sheet and income exposures arising, inter alia, from fixed rate mortgage lending, fixed rate savings products, funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. Group risk exposures are recorded on our information systems and monitored accordingly.

The Group is exposed to liquidity risk, interest rate risk, foreign exchange risk, equity risk, inflation risk and credit risk in its derivatives positions. All of the Group’s derivative financial instruments are held for risk mitigation purposes, although not all of these derivatives are designated as hedging instruments as defined by IAS 39.

The following table describes the significant activities we have undertaken, the risks associated with such activities and the types of derivatives which are used in managing such risks. Such risks may alternatively be managed using cash instruments as part of an integrated approach to risk management:

Activity	Risk	Type of derivative instrument used
Savings products and funding activities involving instruments which are fixed rate with embedded options	Sensitivity to changes in interest rates and inflation risk	Interest rate swaps, interest rate futures, swaptions, forward rate agreements and inflation risk
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, interest rate swaps and inflation swaps
Structured Deposit 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, the Group applies hedge accounting to derivatives in order to reduce accounting volatility. The Group currently uses two of the three types of hedge accounting permitted by IAS39: fair value hedge accounting and cash flow hedge accounting, but not hedging of a net investment in a foreign operation.

The Board and the Assets and Liabilities Committee (“**ALCO**”) are responsible for setting certain parameters respectively over the Group’s exposure to interest rates, foreign exchange rates and other indices. The Lending Committee for Retail, Commercial and Treasury sets Group credit policy and regularly monitors and reviews credit exposures arising in all aspects of Group operations, including derivatives. ALCO and the Lending Committee are also responsible for mandating, directing and overseeing the Weekly Trading Committee. 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 collateralised (e.g. with cash deposits), to mitigate credit exposures. Where applicable, certain derivative contracts are centrally cleared to comply with regulations. All Group derivatives activity is contracted with Organization for Economic Co-operation and Development financial institutions.

Each of the principal financial risks to which the Group is exposed (interest rate, credit, foreign exchange, liquidity and funding risk) is considered below.

### **Interest rate risk**

The main market risk faced by the Group is interest rate risk which primarily arises from the retail and commercial assets and liabilities, reserves, liquidity holdings, and wholesale funding activities. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities.

The Board risk appetite is not to take any market risks except those that are essential to supporting core business activities. In consequence, the Group does not maintain a trading book and it uses risk management strategies designed to provide stability of earnings. The income contribution from the reserves and non-interest bearing current accounts are subject to the volatility of short-term interest rate movements. They are hedged to reduce the impact on earnings by converting short-term interest margin volatility into a more stable medium-term rate.

VaR 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. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This takes into account inter-relationships between different markets and rates. There are separate models for interest rates and currencies.

The VaR model used by the Group incorporates risk factors based on interest rate and foreign exchange volatilities and correlations. Potential movements in market prices are calculated by reference to historical daily market data, equally weighted. The Group uses a 10-day horizon and a 99% confidence level in its day to day VaR monitoring. VaR is used to monitor interest rate, swap spread and currency risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by the Balance Sheet Risk Committee to test the validity of the assumptions and factors used in the VaR calculation. To be consistent with the management view values reported below are on the same basis as those used internally.

Although it is a valuable guide to risk, VaR needs to be viewed in the context of the following limitations which may mean that exposure could be higher than modelled:

VaR models often under-predict the likelihood of extreme events and over-predict the benefits of diversification in those extreme events.

The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence.

- The VaR model uses historical data to predict future events. Exceptional market moves outside of the confidence level at which the model operates will deliver exceptions. For example, in periods of heightened volatility the model is likely to under-predict market risks and in periods of low volatility it is likely to over-predict market risks.
- Historical data may not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increases the difficulty of evaluating risks.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

To seek to mitigate these limitations, the Group undertakes backtesting of the VaR model on a regular basis to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss is greater than the daily VaR on any given day. In 2015/16, the backtesting did not highlight any model deficiencies and highlighted four loss exceptions, which were due to significant movements in market rates on each of those days. The result remains within acceptable tolerance (four backtesting exceptions or less over one year period at a 99% confidence level). More exceptions occurred than in 2014/15 due to increased volatility in swap rates compared to the previously benign period. Stressed VaR is used to assess potential losses in a more extreme scenario.

Sensitivity analysis is used to assess the change in value of, for example, the Group's net exposure against a one basis point (0.01%) parallel shift in interest rates (PV01). As is the case with VaR (see below), this analysis is done on a daily basis separately for each currency (but with the main risk arising from sterling exposures) and in aggregate. Sensitivity analysis is also used for swap spread risk and product option risks.

To evaluate the potential impact of more extreme, though plausible, events or movements in a set of financial variables the standard VaR metric is augmented with sensitivity or stress analysis.

For example, for interest rate risk exposures standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily.

In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two year period and on a 99% 10-day basis but uses volatilities and correlations from a period of significant financial stress. During the last year stressed VaR on interest rates was, on average, 10.2 times the standard VaR. This is higher than in 2014/15 but the average underlying risk position is lower in magnitude than in previous years. The stressed VaR is greater on a relative basis because in 2015/16 the Group's residual risk was typically short-dated, so has a lower underlying VaR in normal conditions, which coincided with the highest rate movements during the stressed period. The Group only reviews stressed VaR on its GBP portfolio.

The table below highlights the limited amount to which the Group is exposed to interest rate risk:

	For the year ended April 4, 2016			For the year ended April 4, 2015		
	Average	High	Low	Average	High	Low
	(£ million)					
VaR (99%/10-day) (audited) .....	0.3	0.8	0.1	0.4	1.0	0.1
Sensitivity analysis (PV01) (audited) .....	-	0.1	(0.1)	-	0.1	(0.1)
Stress testing (PV200: all currencies) .....	6.9	19.3	(10.8)	4.9	20.9	(10.8)

Earnings at risk is used to measure basis risk exposures and net interest income metrics are used to monitor exposure to interest rate risks. Both measures apply rate shocks to the rates paid on liabilities and to the rates earned on assets and the impact on net interest earnings is calculated.



The absolute levels of interest rates can influence the Group's flexibility to manage net interest margin. If interest rates fall further or become negative, margins may be constrained because the Group is unlikely to be able to fully offset the benefit to borrowers through rate changes to banking or savings products.

### 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 credit exposures where the Group does not expect to receive contractual cash flows when due. Significant changes in the economy, or from individual exposures, could result in losses that are different from those provided for at the balance sheet date. There could also be idiosyncratic factors that may cause a particular investment to suddenly perform worse than expected.

The Group's Lending Committee is responsible for approving and monitoring the Group's credit exposures, which it does through a formal annual review 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, sector and portfolio levels. Summary minutes of the Lending Committee 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 commercial customers. Retail lending is subject to credit scoring and lending policies. Commercial lending is based on counterparty assessment that includes the use of multiple rating methodologies.

Credit risk within the Treasury Division arises primarily from the instruments held by Treasury for operational, liquidity and investment purposes. This aspect of credit risk is managed by the Treasury Credit Risk function which approves all new credit limits and monitors existing exposures. It also sets policy and limits that are approved by the Group's Lending Committee and are responsible for continuous monitoring of exposure through risk reporting and metrics established to measure, mitigate and manage credit risk.

The Treasury Credit Risk function is subject to regular independent review and challenge by Group Risk Oversight in accordance with the Group's risk governance framework.

The Treasury Credit Risk function monitors exposure concentrations against a variety of criteria including industry sector, asset class, individual counterparty and country of risk. The Group has no exposure to emerging markets, hedge funds or credit default swaps and the majority of exposure has an investment grade rating.

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:

	2016			2015		
	Carrying value	Commitments	Maximum credit risk exposure	Carrying value	Commitments <sup>(1)(2)</sup> (3)	Maximum credit risk exposure
	(£ million)					
Cash .....	8,797	-	8,797	4,325	-	4,325
Loans and advances to banks .....	3,591	115	3,706	3,392	408	3,800
Investment securities – AFS .....	10,612	-	10,612	11,037	-	11,037
Derivative financial instruments .....	3,898	-	3,898	3,337	-	3,337
Fair value adjustment for portfolio hedged risk .....	756	-	756	592	-	592
Loans and advances to customers .....	178,807	13,515	192,322	170,647	13,282	183,929
Investment in equity shares .....	126	-	126	26	-	26
<b>Total .....</b>	<b>206,587</b>	<b>13,630</b>	<b>220,217</b>	<b>193,356</b>	<b>13,690</b>	<b>207,046</b>

Notes:

- (1) In addition to the amounts shown above, the Group has, as part of its retail operations, revocable commitments of £8,513 million (April 4, 2015: £8,081 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend

in the future, subject to certain considerations. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

- (2) The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (included within the carrying value of the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to lending risk through the relationship with the underlying loans covered by the Group's hedging programmes.
- (3) Off-balance sheet commitments at April 4, 2015 have been restated from £7,570 million to £13,690 million. The original disclosure omitted commitments of £6,120 million which related to customer overpayments on residential mortgages where the borrower is entitled to drawdown amounts overpaid.

### Foreign exchange risk

As a UK based business the Group has low levels of foreign exchange risk. Foreign currency exposure is managed through natural offset on the balance sheet or by the use of derivatives to reduce currency exposures to acceptable levels. ALCO sets and monitors limits on the net currency exposure. The table below sets out the limited extent of the residual exposure to foreign exchange risk:

	2016			2015		
	Average	High	Low	Average	High	Low
	( <i>£ million</i> )					
VaR (99%/10-day) .....	0.1	0.3	-	0.1	0.3	-

### Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to raise cash to settle its financial obligations as they fall due and maintain public and stakeholder confidence. Funding risk is the risk that the Group is unable to replace maturing funding or otherwise raise funds on reasonable terms and/or within reasonable timescales.

The Group's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain full public confidence and to enable it to meet financial obligations as they fall due, even during periods of stress. This is achieved through management and stress testing of business cash flows and the setting of appropriate risk limits, to maintain a prudent funding mix, maturity profile and level of high quality liquid assets.

The Board is responsible for setting risk appetite with respect to levels of liquidity and funding risks. The Board's risk appetite statements are translated into limits which define the minimum level of liquid resources and the funding structure of the balance sheet.

ALCO is responsible for monitoring liquidity and funding risks and the composition of the Group's balance sheet through setting more detailed limits within Board limits. These include limits in respect of the composition of the liquidity portfolio, the funding mix, levels of maturity concentration and levels of encumbrance.

Further, the Liquidity and Funding risk framework is reviewed by the Board as part of the annual Internal Adequacy Assessment Process ("ILAAP").

A consolidated cash flow forecast is also maintained on an ongoing basis and reviewed by Weekly Trading Committee which is also responsible for monitoring liquidity metrics.

To mitigate liquidity and funding risks generated by its business activities, the Group holds a portfolio of liquid assets. Internal stress tests are run daily against a number of scenarios to assess the Group's minimum liquidity requirement alongside the calculation of the prescribed regulatory Liquidity Coverage Ratio (LCR). Together they represent the Group's view of the required levels of liquidity.

The Group maintains a high quality liquidity portfolio through continued investment in highly liquid assets, predominantly comprising unencumbered high-quality sovereign-issued securities and reserves held at central banks. Assets may be acquired through direct purchase, repurchase agreements or collateral swaps.

Fixed rate sovereign debt securities are held for liquidity purposes. When swapped to a floating rate using an interest rate swap, the net market value of the security and swap is subject to changes in the relative spreads on sovereign debt and interest rate swaps. This risk is only realized if the debt is sold ahead of maturity (rather than being converted through repurchase agreements), and is subject to a limit set by ALCO.

A Liquidity Contingency Plan (“LCP”) is maintained and describes metrics which would indicate an emerging market-wide or Nationwide-specific stress. It also details invocation and escalation procedures and a range of available actions that the Group could take in the event of a liquidity or funding stress, thereby allowing adequate liquidity resources to be maintained. The LCP is reviewed every six months and tested at least annually. The Group also has a Recovery Plan which describes potential actions that could be utilised in a more extreme stress.

We undertake securities financing transactions in the form of repos to demonstrate liquidity of the securities held in the Group’s LAB. Cash is borrowed in return for pledging securities as collateral and because settlement is on a ‘delivery versus payment’ basis, the main credit risk arises from intraday changes in the value of the collateral. This is largely mitigated by our collateral management processes.

From a liquidity perspective the main risk is that during a stress, we have insufficient repo market capacity to rapidly monetize the LAB. To mitigate this risk, repo market capacity is assessed via a quarterly review process. This is supplemented by the frequent execution of bilateral repos to maintain credit lines and anonymous transactions via a central counterparty clearing house, such as the London Clearing House, using an electronic trading platform.

LAB securities funding transactions currently have no impact on either funding or encumbered asset reporting due to the short term nature of the transactions, meaning they do not impact the income statement. Repo transactions convert Government bonds (highly liquid securities) into cash, so there is marginal movement in our liquidity position.

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for the years ended April 4, 2015 and 2016. In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid faster. This gives rise to mismatches in the repricing of assets and liabilities on the balance sheet. The balance sheet structure is managed by ALCO and Weekly Trading Committee and referenced in designing new product propositions. For forecasting purposes, we use judgement and past behavioural performance of each asset and liability class to anticipate the likely cash flow requirements of the Group.

The carrying values of derivative financial instruments are included in the columns according to their contractual maturity:

As at April 4, 2016						
	Not more than one month <sup>(1)</sup>	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<i>(£ million)</i>						
<b>Assets</b>						
Cash .....	8,797	-	-	-	-	8,797
Loans and advances to banks.....	3,179	87	-	-	325	3,591
Investment securities – available for sale .....	6	15	193	4,032	6,366	10,612
Loans and advances to customers .....	2,825	1,256	5,562	27,361	141,803	178,807
Derivative financial instruments.....	25	151	260	1,221	2,241	3,898
Other financial assets .....	5	15	189	376	299	884
<b>Total financial assets....</b>	<b>14,837</b>	<b>1,524</b>	<b>6,204</b>	<b>32,990</b>	<b>151,034</b>	<b>206,589</b>
<b>Liabilities</b>						
Shares.....	103,296	1,632	15,605	16,982	1,200	138,715
Deposits from banks .....	1,658	184	228	25	-	2,095
Other deposits .....	2,549	1,392	2,950	744	-	7,635
Due to customers .....	3,563	543	1,907	188	-	6,201
Secured funding – ABS	65	19	2,604	8,526	8,263	19,477

As at April 4, 2016

	Not more than one month <sup>(1)</sup>	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	<i>(£ million)</i>					
and covered bonds .....						
Senior unsecured.....	1,637	2,478	3,165	4,510	4,818	16,608
Derivative financial instruments.....	31	9	140	985	2,298	3,463
Other financial liabilities .....	2	2	1	8	-	13
Subordinated liabilities <sup>(4)</sup> .....	-	-	-	783	1,034	1,817
Subscribed capital <sup>(2)</sup> .....	-	-	-	-	413	413
<b>Total financial liabilities.....</b>	<b>112,801</b>	<b>6,259</b>	<b>26,600</b>	<b>32,751</b>	<b>18,026</b>	<b>196,437</b>
Off balance sheet commitments <sup>(3)</sup> .....	13,630	-	-	-	-	13,630
<b>Net liquidity difference .....</b>	<b>(111,594)</b>	<b>(4,735)</b>	<b>(20,396)</b>	<b>239</b>	<b>133,008</b>	<b>(3,478)</b>
<b>Cumulative liquidity difference .....</b>	<b>(111,594)</b>	<b>(116,329)</b>	<b>(393,614)</b>	<b>(279,568)</b>	<b>(3,478)</b>	

As at April 4, 2015

	Not more than one month <sup>(1)</sup>	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	<i>(£ million)</i>					
<b>Assets</b>						
Cash .....	4,325	-	-	-	-	4,325
Loans and advances to banks.....	2,923	2	61	87	319	3,392
Investment securities – available for sale .....	5	14	142	2,049	8,827	11,037
Loans and advances to customers .....	2,450	1,198	5,345	26,633	135,021	170,647
Derivative financial instruments.....	42	115	585	1,025	1,570	3,337
Other financial assets .....	-	12	12	350	256	630
<b>Total financial assets.....</b>	<b>9,745</b>	<b>1,341</b>	<b>6,145</b>	<b>30,144</b>	<b>145,993</b>	<b>193,368</b>
<b>Liabilities</b>						
Shares.....	97,712	1,464	17,570	14,679	948	132,373
Deposits from banks .....	1,479	391	80	24	-	1,974
Other deposits .....	2,582	1,458	3,072	1,964	-	9,076
Due to customers .....	3,727	441	1,796	155	-	6,119
Secured funding – ABS and covered bonds .....	4	15	3,776	5,667	8,071	17,533
Senior unsecured.....	1,640	2,467	1,579	3,422	1,464	10,572
Derivative financial instruments.....	64	31	65	1,136	2,752	4,048
Other financial liabilities .....	1	2	2	9	-	14
Subordinated liabilities <sup>(4)</sup> .....	-	-	266	122	1,733	2,121
Subscribed capital <sup>(2)</sup> .....	-	-	-	-	415	415
<b>Total financial liabilities.....</b>	<b>107,209</b>	<b>6,269</b>	<b>28,206</b>	<b>27,178</b>	<b>15,383</b>	<b>184,245</b>
Off balance sheet commitments <sup>(3)</sup> .....	13,690	-	-	-	-	13,690

**As at April 4, 2015**

	<b>Not more than one month<sup>(1)</sup></b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ million)</i>					
<b>Net liquidity difference .....</b>	<b>(111,154)</b>	<b>(4,928)</b>	<b>(22,061)</b>	<b>2,966</b>	<b>130,610</b>	<b>(4,567)</b>
<b>Cumulative liquidity difference .....</b>	<b>(111,154)</b>	<b>(116,082)</b>	<b>(395,972)</b>	<b>(278,370)</b>	<b>(4,567)</b>	

Notes:

- (1) Not more than one month includes amounts repayable on demand.
- (2) The principal amount for undated subscribed capital is included within the due after more than five years column.
- (3) Off-balance sheet commitments include amounts payable on demand for unrecognized loan commitments and customer overpayments on residential mortgages, where the borrower is able to drawdown the amount overpaid.
- (4) Comparatives have been restated for the reclassification of certain amounts based on contractual maturity date rather than call date for financial instruments callable at the Group's option.

The analysis above excludes certain non-financial assets including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and non-financial liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

The following is an analysis of gross undiscounted contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity, on the amounts outstanding at the balance sheet date.

**For the year ended April 4, 2016**

<b>Gross contractual cash flows</b>	<b>Not more than one month<sup>(1)</sup></b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ million)</i>					
Shares.....	103,296	1,723	15,808	17,253	1,369	139,449
Deposits from banks .....	1,657	184	229	25	-	2,095
Other deposits .....	2,550	1,398	2,954	744	-	7,646
Due to customers .....	3,563	549	1,914	190	-	6,216
Secured funding – ABS and covered bonds .....	70	23	2,853	9,515	8,444	20,905
Senior unsecured.....	1,638	2,583	3,253	5,146	5,336	17,956
Derivative financial instruments.....	57	130	605	1,683	1,375	3,850
Subordinated liabilities <sup>(4)</sup> .....	-	-	87	445	1,704	2,236
Subscribed capital <sup>(2)</sup> .....	1	5	15	89	362	472
<b>Total financial liabilities.....</b>	<b>112,832</b>	<b>6,595</b>	<b>27,718</b>	<b>35,090</b>	<b>18,590</b>	<b>200,825</b>
Off-balance sheet commitments <sup>(3)</sup> .....	13,630	-	-	-	-	13,630
<b>Total financial liabilities including off-balance sheet commitments .....</b>	<b>126,462</b>	<b>6,595</b>	<b>27,718</b>	<b>35,090</b>	<b>18,590</b>	<b>214,455</b>

**For the year ended April 4, 2015**

<b>Gross contractual cash flows</b>	<b>Not more than one month<sup>(1)</sup></b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>(£ million)</i>					

**For the year ended April 4, 2015**

<b>Gross contractual cash flows</b>	<b>Not more than one month<sup>(1)</sup></b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
			<i>(£ million)</i>			
Shares.....	97,712	1,568	17,797	14,972	977	133,026
Deposits from banks .....	1,479	392	80	25	-	1,976
Other deposits .....	2,582	1,477	3,103	1,996	-	9,158
Due to customers .....	3,727	448	1,803	159	-	6,137
Secured funding – ABS and covered bonds .....	36	20	4,004	6,568	8,068	18,696
Senior unsecured.....	1,640	2,471	1,729	3,950	1,640	11,430
Derivative financial instruments.....	101	166	611	2,023	2,056	4,957
Subordinated liabilities <sup>(4)</sup> .....	-	4	369	486	1,811	2
Subscribed capital <sup>(2)</sup> .....	1	5	15	90	363	474
<b>Total financial liabilities.....</b>	<b>107,278</b>	<b>6,551</b>	<b>29,511</b>	<b>30,269</b>	<b>14,915</b>	<b>188,524</b>
Off-balance sheet commitments <sup>(3)</sup> .....	13,690	-	-	-	-	13,690
<b>Total financial liabilities including off-balance sheet commitments .....</b>	<b>120,968</b>	<b>6,551</b>	<b>29,511</b>	<b>30,269</b>	<b>14,915</b>	<b>202,214</b>

Notes:

- (1) Due less than one month includes amounts repayable on demand.
- (2) The principal amount for undated subscribed capital is included within the due after more than five years column.
- (3) Off-balance sheet commitments include amounts payable on demand for unrecognized loan commitments and customer overpayments on residential mortgages, where the borrower is able to drawdown the amount overpaid.
- (4) Comparatives have been restated for the reclassification of certain amounts based on contractual maturity date rather than call date for financial instruments callable at the Group's option.

**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>For the year ended April 4, 2016</b>	
	<b>Carrying value</b>	<b>Fair value</b>
	<i>(£ million)</i>	
<b>Financial assets</b>		
Loans and advances to banks.....	3,591	3,591
Loans and advances to customers:		
Residential mortgages.....	162,062	161,766
Consumer banking .....	3,588	3,458
Commercial lending.....	13,138	13,077
Other lending .....	19	19
<b>Total .....</b>	<b>182,398</b>	<b>181,911</b>
<b>Financial liabilities</b>		
Shares .....	138,715	138,896
Deposits from banks .....	2,095	2,096
Other deposits .....	5,750	5,752
Due to customers .....	6,201	6,204
Debt securities in issue .....	36,085	36,777
Subordinated liabilities .....	1,817	1,949
Subscribed capital.....	413	381
<b>Total .....</b>	<b>191,076</b>	<b>192,055</b>

<b>For the year ended April 4, 2015</b>		
	<b>Carrying value</b>	<b>Fair value</b>
	<i>(£ million)</i>	
<b>Financial assets</b>		
Loans and advances to banks.....	3,392	3,392
Loans and advances to customers:		
Residential mortgages.....	152,775	149,778
Consumer banking .....	3,575	3,456
Commercial lending.....	14,272	13,145
Other lending .....	25	25
<b>Total .....</b>	<b>174,039</b>	<b>169,796</b>
<b>Financial liabilities</b>		
Shares .....	132,373	132,505
Deposits from banks .....	1,974	1,976
Other deposits .....	5,744	5,745
Due to customers .....	6,119	6,122
Debt securities in issue .....	28,105	28,733
Subordinated liabilities .....	2,121	2,295
Subscribed capital.....	415	387
<b>Total .....</b>	<b>176,851</b>	<b>177,763</b>

#### ***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 based on expectations of future interest rates and future loan repayment profiles. For fixed rate loans, discount rates are based on the market offer rates currently available for equivalent fixed rate products. For retail variable rate loans, estimated future cash flows are discounted at the currently available market standard variable interest rate. Similar types of retail loan products are grouped together and the expected capital cash flows are discounted at the differential between the current product rate and the standard variable rate to determine fair value. The fair value estimations do not incorporate adjustments for future credit risk. However, incurred loss provisions are deducted from the fair value amounts.

#### ***Shares, deposits and borrowings***

The estimated fair value of deposits with no stated maturity (including non-interest bearing deposits) is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market price represents the discounted amount of estimated future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalization. For variable interest rate deposits, estimated future cash flows are discounted using current market interest rates for new debts with similar remaining maturity. For fixed rate shares and deposits, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

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

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

#### ***Fair value measurement***

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

**For the year ended April 4, 2016**

	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
	<i>(£ million)</i>			
<b>Financial Assets</b>				
Investment securities—AFS .....	7,854	2,758	-	10,612
Investments in equity shares .....	-	-	125	125
Derivative financial instruments .....	-	3,462	436	3,898
Other financial assets .....	-	2	-	2
<b>Total .....</b>	<b>7,854</b>	<b>6,222</b>	<b>561</b>	<b>14,637</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	(3,458)	(5)	(3,463)
Other deposits—PEB .....	-	-	(1,885)	(1,885)
<b>Total .....</b>	<b>-</b>	<b>(3,458)</b>	<b>(1,890)</b>	<b>(5,348)</b>

**For the year ended April 4, 2015**

	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
	<i>(£ million)</i>			
<b>Financial Assets</b>				
Investment securities—AFS .....	7,759	3,266	12	11,037
Investments in equity shares .....	-	-	25	25
Derivative financial instruments .....	-	2,426	911	3,337
Other financial assets .....	-	12	-	12
<b>Total .....</b>	<b>7,759</b>	<b>5,704</b>	<b>948</b>	<b>14,411</b>
<b>Financial Liabilities</b>				
Derivative financial instruments .....	-	4,047	(3,331)	716
Other deposits—PEB .....	-	(4,047)	(1)	(4,048)
<b>Total .....</b>	<b>-</b>	<b>-</b>	<b>(3,332)</b>	<b>(3,332)</b>

Notes:

- (1) Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.
- (2) Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, ABS, certain CDOs, CLOs and OTC derivatives.
- (3) Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain ABS and bonds.

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. The Group fair values a portion of the mortgage commitments on the balance sheet.

Our Level 1 portfolio comprises highly rated government and multi-lateral development securities for which traded prices are readily available and during the year ended April 4, 2016, we have reduced this portfolio in response to the changing regulatory environment created by Funding for Lending. There were no significant transfers between the Level 1 and Level 2 portfolios during the year ended April 4, 2016.

With respect to our Level 2 investment securities, AFS assets are sourced from consensus pricing or other observable market prices. None of these Level 2 AFS assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

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

***Investment securities – AFS***

The Group did not hold any Level 3 available for sale investment securities at April 4, 2016. During the period all investments were transferred from Level 3 to Level 2 due to changes in the availability of



observable market prices. For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognized at the beginning of the reporting period in which they occur.

### ***Investments in equity shares***

The Level 3 investments in equity shares of £125 million at April 4, 2016 consist primarily of the investment in Visa Europe Limited, and an interest in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of this instrument.

### ***Derivative financial instruments***

Level 3 assets and liabilities in this category are primarily equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in the PEBs product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party. Fair value changes are recognized within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

### ***Other deposits—PEB***

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEBs liability of £1,885 million (April 4, 2015: £3.3 billion) 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 derivatives as valued by an external third party. Fair value changes are recognized within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

The minimum amount on an undiscounted basis that the Group is contractually required to pay at maturity for the PEBs is £1.6 billion (April 4, 2015: £2.6 billion). The maximum additional amount which would also be payable at maturity in respect of additional investment returns is £636 million (April 4, 2015: £1.1 billion). The payment of additional investment returns is dependent upon performance of certain specified stock indices during the period of the PEBs. As noted above, the Group has entered into equity-linked derivatives with external counterparties which economically match the investment returns on the PEBs.

### **Level 3 portfolio – movements analysis**

The table below analyzes movements in the Level 3 portfolio:

<b>For the year ended April 4, 2016</b>				
	<b>Investment securities – AFS</b>	<b>Investments in equity shares</b>	<b>Net derivative financial instruments – liabilities</b>	<b>Other deposits – PEBs</b>
		(£ million)		
<b>As at April 4, 2015 .....</b>	<b>12</b>	<b>25</b>	<b>910</b>	<b>(3,332)</b>
(Loss)/gain recognized in the income statement:				
Net interest (expense)/income .....	-	-	398	(439)
Gains/(losses) from derivatives and hedge accounting .....	-	-	(476)	465
(Loss)/gain recognized in other comprehensive income:				
Fair value movement taken to members' interests and equity .....	-	100	-	-
Settlements.....	-	-	(401)	1,421
Transfers out of Level 3.....	(12)	-	-	-
<b>As at April 4, 2016 .....</b>	<b>-</b>	<b>125</b>	<b>431</b>	<b>(1,885)</b>
<b>For the year ended April 4, 2015</b>				

	Investment securities – AFS	Investments in equity shares	Net derivative financial instruments – liabilities	Other deposits – PEBs
		(£ million)		
<b>As at April 4, 2014 .....</b>	<b>71</b>	<b>28</b>	<b>669</b>	<b>(3,222)</b>
(Loss)/gain recognized in the income statement:				
Net interest (expense)/income ....	-	-	1	(50)
Gains/(losses) from derivatives and hedge accounting .....	-	-	241	(245)
Impairment losses on investment securities.....	(5)	-	-	-
(Loss)/gain recognized in other comprehensive income:				
Fair value movement taken to members' interests and equity...	1	(3)	-	-
Settlements.....	(55)	-	(1)	185
<b>As at April 4, 2015 .....</b>	<b>12</b>	<b>25</b>	<b>910</b>	<b>(3,332)</b>

The significant movements in Level 3 positions during the year ended April 4, 2016 are explained below:

- An increase in the value of the equity investment in Visa Europe Limited
- A decrease in net derivative financial instruments due to a decrease in market value. This decrease is driven by settlements as the product being economically hedged (PEBs) matures.
- A decrease in other deposits—PEBs due to settlements which occur as products mature and customer deposits are redeemed.

#### Level 3 portfolio – sensitivity analysis

The table below provides sensitivity analysis of reasonably possible alternative valuation assumptions for the assets in the Level 3 portfolio:

For the year ended April 4, 2016			
	Carrying value	Increase in fair value	Decrease in fair value
		(£ million)	
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	-	-	-
Investments in equity shares.....	125	41	(32)
Net derivative financial instruments .....	431	-	-
Other deposits – PEBs .....	(1,885)	-	-
<b>Total.....</b>	<b>(1,329)</b>	<b>41</b>	<b>(32)</b>
For the year ended April 4, 2015			
	Carrying value	Increase in fair value	Decrease in fair value
		(£ million)	
<b>Investment securities – AFS:</b>			
Collateralized debt obligations .....	12	1	(1)
Investments in equity shares.....	25	2	(1)
Net derivative financial instruments .....	910	-	-
Other deposits – PEBs .....	(3,332)	-	-
<b>Total.....</b>	<b>(2,385)</b>	<b>3</b>	<b>(2)</b>

Reasonable alternative assumptions applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The scenarios applied are

considered for each product and varied according to the quality of the data and variability of the underlying market.

Any 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. Any resultant impact is deemed by the Group to be immaterial; therefore these items have been excluded from the table above.

## 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 Executive Director Group Retail and the Chief Operating Officer. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

Under our rules, the Board of Directors must consist of not less than eight directors of whom not less than five must be present at a Board meeting to form a quorum.

No potential conflicts of interest exist between any duties to us, as Issuer, of the persons on the board of directors and their private interests or other duties.

### Management and Director Changes

Both Geoffrey Howe, the previous Chairman of the Board of Directors, and Michael Jary, a non-executive member of the Board of Directors, did not stand for re-election, and resigned from the Board of Directors following the 2015 annual general meeting on 23 July. David Roberts was elected as Chairman on this date. Mai Fyfield and Tim Tookey were appointed to the Board on June 2, 2015 and Kevin Parry on May 23, 2016. Roger Perkin will retire from the Board following the AGM on July 21, 2016.

### Directors

The following table presents information with respect to current directors:

Name	Age	Position	Other Directorships
David Roberts	53	Chairman	Campion Willcocks Ltd  Dr. Challoner's Grammar School (Governor)  NHS England
Roger Perkin	68	Senior Independent Director	Electra Private Equity plc  Electra Private Equity Investments plc  Change, Grow, Live  Bower Bequest Trustee Company Limited  Tullett Prebon plc  Sova
Joe Garner	46	Chief Executive	-
Mark Rennison	55	Group Finance Director	Arkose Funding Limited  Confederation Mortgage Services Limited  Exeter Trust Limited  First Nationwide  LBS Mortgages Limited  Nationwide Anglia Property Services

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Other Directorships</b>
			Limited Nationwide Investments (No.1) Limited  Nationwide Housing Trust Limited  Nationwide Lease Finance Limited  Nationwide Mortgage Corporation Limited  Nationwide Syndications Limited  Staffordshire Leasing Limited  NBS Fleet Services Limited
Chris Rhodes	53	Group Retail Director	Derbyshire Home Loans Limited  E-Mex Home Funding Limited  The Mortgage Works (UK) plc  UCB Home Loans Corporation Limited  at.home nationwide Limited  Jubilee Mortgages Limited  The Nationwide Foundation  National Numeracy (Trustee)
Tony Prestedge	46	Chief Operating Officer	Nationwide Anglia Property Services Limited  Opportunity Now  Dunfermline BS Nominees Limited  Monument (Sutton) Limited  The Derbyshire (Premises) Limited
Rita Clifton	58	Non-executive Director	Populus Limited  Populus Group Limited  WWF – UK (Fellow)  Henley Festival Ltd  BrandCap Ltd  The Conservation Volunteers  TCV Trading 1 Limited  TCV Trading 2 Limited

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Other Directorships</b>
			ASOS Plc
			Rita Clifton Limited
			Ascential plc
Michael Lenson	61	Non-executive Director	Eclipse Film Partners No.39 LLP (Designated Member)
			The Invicta Film Partnership No.37 LLP (Designated Member)
			Elysian Fuels 1 LLP (Designated Member)
			Elysian Fuels 2 LLP (Designated Member)
			The Currency Cloud Group Limited
			MVA Consultant Services Limited
Lynne Peacock	62	Non-Executive Director	Hawkins Residents Limited
			Scottish Water
			Scottish Water Business Stream Holdings Limited
			Scottish Water Horizon Holdings Limited
			Standard Life plc
			Standard Life Assurance Limited
			The Westminster Society for People with Learning Disabilities
			Standard Life Charitable Trust
Mai Fyfield	47	Non-Executive Director	Jupiter Entertainment
Tim Tookey	53	Non-Executive Director	Westmoreland Court Management (Beckenham) Limited
			Zoological Society of London – Member of Strategy & Development Board

## **Biographies**

### **David Roberts**

#### *Chairman*

David joined Nationwide on September 1, 2014 and took over as Chairman in July 2015. From 2010 to 2014 he was on the Board of Lloyds Banking Group, where he was Group Deputy Chairman and Chairman of the Board Risk Committee. David has many years of experience at board and executive level in retail and commercial banking in the UK and internationally. He joined Barclays in 1983 and held various senior management positions culminating in Executive Director, member of the Group Executive Committee and Chief Executive, International Retail and Commercial Banking, a position he held until December 2006. He is a

former Non-Executive Director of BAA plc and Absa Group SA, and was Chairman and Chief Executive of Bawag PSK AG, Austria's second largest retail bank. David is a Non-Executive Director of NHS England, a fellow of the Chartered Institute of Financial Services and holds an MBA and Honorary Doctorate in Business Administration from Henley Business School.

**Joe Garner**

Chief Executive Officer

Joe joined Nationwide from BT Group where he was Chief Executive of Openreach, a position he held from early 2014. Prior to that he was Deputy Chief Executive of HSBC Bank PLC and Head of HSBC in the UK, roles which included responsibility for all of HSBC's retail and commercial banking business, including Marks and Spencer Bank, First Direct and The John Lewis Partnership Card. He has also held senior positions at Dixons Stores Group and spent the early part of his career at Procter and Gamble. Joe was the Chair of the FSA Practitioner Panel from 2011-2013 and a Non-Executive Director of the Financial Ombudsman Service from 2007-2010. He is currently Chairman of the British Triathlon Foundation Trust.

**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 and Corporate Development. 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 Retail

Chris Rhodes is a chartered accountant who joined the Society in April 2009 from Abbey Santander, where he was Director of Retail Distribution for Alliance & Leicester Public Limited Company. Currently, Chris is the Group Retail Director. His responsibilities include Nationwide's retail product range, distribution and marketing. Chris has spent 20 years working in the financial services sector and his previous positions include Deputy Managing Director of Girobank Plc and Retail Operations Director at Alliance & Leicester Public Limited Company. In 2003, he was appointed Managing Director of Retail Banking for the entire Alliance & Leicester Group and in 2007, became Group Finance Director, a role he held until the merger with Santander in 2008. Chris is a non-executive director of Visa Europe Limited and a board member of National Numeracy.

**Rita Clifton**

Non-Executive Director

Rita Clifton joined the Board in July 2012. Rita holds a number of non-executive directorships, including at BUPA Limited, ASOS Plc and Populus Limited and is a former non-executive director of Dixons Retail plc. She is also a fellow of WWF-UK, and sits on the Assurance and Advisory Board for BP's carbon off-setting program. Rita has over 20 years' senior management experience in a range of roles with an expertise in demonstrating how brand is an integral part of long-term business strategy and in analyzing and understanding consumer perceptions and behavior. Her executive career has been in advertising, strategic marketing and market research, and she was previously Chairman and Chief Executive at Interbrand UK Ltd, and prior to that Vice Chairman at Saatchi & Saatchi Limited. During her career Rita has advised, at the most senior level, some of the UK's best known organizations, including British Airways, Barclays, BT, Citigroup, Visa and the British Army.

**Tony Prestedge****Chief Operating Officer, Group Operations**

Tony Prestedge was appointed to the Board in August 2007 and was previously Executive Director Group Development. 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 Strategy, Performance and Transformation and his divisional reports include Customer Services and Product Operations, Digital Development, Technology, Transformation Delivery, Telephone Channels, Payments, group Secretary and Property Services. Tony is a board member of Opportunity Now.

**Roger Perkin****Non-Executive Director**

Roger is a former partner at Ernst & Young LLP and spent 40 years in the accounting profession. During his time at Ernst & Young he worked with many blue chip clients and 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 Tullett Prebon plc, chairing the Audit Committee of both companies, and Friends Life Group Limited. Additionally, he is a trustee of two charities, Chiddingstone Castle and Change, Grow, Live.

**Mitchel Lenson****Non-Executive Director**

Mitchel has spent over 30 years in the financial services industry and is a former Group Chief Information Officer at Deutsche Bank AG with responsibility for IT and Operations for all operating divisions of the bank, including its retail banking operations. Mitchel was a member of the executive committees previously for both the Corporate and Investment Bank and the Private Client and Asset Management Division. He has also served as MD, Global Head of Operations & Operations IT at UBS Warburg Limited and as Director, Group Operations at Credit Suisse First Boston. More recently, Mitchel was a partner of Olivant & Co. Limited, an investment company providing strategic and operational expertise alongside investment capital to financial services businesses in Europe, the Middle East and Asia-Pacific and was a non-executive director of NYFIX, a NASDAQ listed company and BCC, an AIM listed company. Mitchel is currently a non-executive director of Currency Cloud.

**Lynne Peacock****Non-Executive Director**

Lynne Peacock joined the Society in July 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 and acquisitions, change management and business transformation, including almost 20 years at board level. During her time at NAB, Lynne was responsible for its businesses in the UK consisting of Clydesdale and Yorkshire Banks. 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. Lynne is a non executive director of Scottish Water and Standard Life plc.

**Mai Fyfield****Non-Executive Director**

Mai is currently Sky's Chief Strategy Officer, having been appointed to the position in 2015 following the acquisition of Sky Italia and Sky Deutschland. She was previously Director of Strategy and Business Development for Sky's UK operations. In her current role, Mai is responsible for overseeing the strategy function across the Sky group. In respect of the UK and Ireland she is also responsible for business development, negotiating agreements with third-party channels including as part of Sky's retail offering and for the distribution of Sky's channels to other platforms. She joined Sky in 1999, prior to which Mai spent eight



years working as an economic advisor to major corporations in a number of different industries, both in the UK and the United States.

**Tim Tookey**

***Non-Executive Director***

Tim is a Chartered Accountant with strong experience of major retail financial services organisations. He has significant Board experience and has become Chairman of the Society's Board Risk Committee in July 2015. Tim is a former Chief Financial Officer at Friends Life Group Ltd, a position he held from 2012 until April 2015, following the sale of the business to Aviva. Prior to joining Friends Life, he was Group Finance Director of Lloyds Banking Group between 2008 and 2012 and was appointed as Deputy Group Finance Director upon joining the bank in 2006. From 2002 to 2006, he was Finance Director of Prudential PLC's UK business and from 1996 to 2002 he held the role of Group Finance Director at Heath Lambert Group.

**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 and Governance 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 and Governance 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 contributions and the medium-term incentive scheme. The Remuneration Committee consists of all non-executive directors.

The Board Risk Committee, which meets six 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 three other executive directors and the four Group Directors.

The Executive Risk Committee, which meets monthly, is responsible for ensuring a coordinated approach across all risks and oversight of the risk committees. The Committee's membership comprises the Executive and Group Directors. The risk committees comprise the ALCo, Lending Committee, Group Oversight Committee, Operational Risk Committee and the Conduct & Compliance Committee.

The Operational Risk Committee, which meets monthly, is responsible for determining and amending the Group's attitude to operational risk and set thresholds for endorsement by the Executive Risk Committee and the Board Risk Committee; exercising primary responsibility for controlling operational risk across the Group, ensuring that controls over operational risk are adequately designed and operating effectively and managing and reviewing the operational risk exposures of the Group in accordance with the Enterprise Risk Framework, Board Risk Appetite, Group Strategy and the Corporate Plan. The Committee's membership comprises the Chief Operating Officer, Chief Compliance Officer, and the Divisional Directors Financial Reporting & Tax, IT Services & Group Security, Business Transformation, HR, Mortgages & Savings and Customer Experience and Financial Crime Director.

ALCo determines and amends the Group's approach to financial risk and sets thresholds for endorsement by the Executive Risk Committee and the Board. It manages the financial risk profile of the Group in accordance with the Enterprise Risk Management Framework, Board Risk Appetite, Group Strategy and the Corporate Plan. ALCo comprises the Chief Executive, Group Finance Director, Executive Director Group Retail, Chief Risk Officer, the Divisional Director Treasury and Divisional Director Financial Performance & Reporting. For more information about ALCo, see the section entitled "*Financial Risk Management*."

The Lending Committee is responsible for determining the Group's attitude to lending risk, monitoring and overseeing the performance of the profile of lending risk across all the various lending portfolios. The Committee's core membership comprises the Executive Director Group Retail, Chief Risk Officer, Group Finance Director who form the quorum for the committee. Specialist members attend the sections of the committee meeting relevant to their lending portfolio, and comprise the Divisional Director Mortgages and Savings, Divisional Director Commercial, Divisional Director Treasury, and the Heads of Secured, Unsecured, Commercial and Treasury Credit Risk. For more information about the Lending Committee, see the section entitled "*Financial Risk Management—Credit Risk*."

The Group Oversight Committee is responsible for providing second-line oversight of risk management and compliance on a Group-wide basis. The Committee is comprised of the Group Risk Director, and Heads of Enterprise Risk Management, Group Lending Risk Oversight, Group Financial & Strategic Risk Oversight, Operational Risk Oversight, Group Modelling, Measurement & Methodology Oversight, Compliance Oversight Director and Head of Compliance Oversight.

The Conduct & Compliance Committee was established in September 2015 and replaces the Customer Committee and the Compliance Committee. It manages and monitors adherence to all relevant legislation and regulation, on a Group-wide basis on behalf of the Executive Risk Committee. It maintains the conduct and compliance risk appetite statements and measures and monitors adherence to the Corporate Plan and Objectives to ensure that the Society operates within its agreed conduct and compliance risk appetite. The quorum for business is four members, which must include the Chief Compliance Officer or Group Director, Distribution.

### **Compensation**

For the financial year ended April 4, 2016 the aggregate amount of compensation that we paid to all directors and executive officers as a group totalled £9.5 million. From April 2014 we have operated a performance pay plan for Directors which features deferral periods of up to 5 years on some elements and only pays out if performance targets are met under a broad range of individual, strategic and financial corporate metrics. For performance periods commencing from April 2016 onwards, the time horizon for payments of awards will be extended in response to changing regulatory requirements, such that awards will now be deferred for between three and seven years. The Remuneration Committee sets the performance targets each year. The maximum award under this scheme each year for the Chief Executive is 160% of base salary and for other executive directors is 120% of salary. In addition, compensation may be paid under the terms of awards made to Directors under performance based arrangements in place prior to April 2014 and which are still outstanding.

In addition, executive directors receive other benefits including a car allowance, access to shared drivers when required, healthcare, and insurance benefits.

### **Directors' Loans**

As at April 4, 2016, we had loans to directors or persons connected to directors totalling £1.5 million. All of these loans were granted in the normal course of business and were largely made up of residential mortgage loans and balances on credit cards. Whilst the Group previously offered directors and other employees discounts on residential mortgage loans, these offers have been ceased. Some such loans originated before the offer cessation date may still be extant.

We maintain a register containing the details of all loans, transactions and other arrangements made between our directors (and persons connected with our directors) and Nationwide or its subsidiaries. This register is available for inspection at our annual general meetings and during normal business hours at our principal office during the 15 days prior to our annual general meeting.

**Management Employee Pension Schemes**

G.J. Beale has opted out of the Fund, and he receives a monthly allowance in lieu of pension scheme accrual.

T.P. Prestedge has opted out of the Group Personal Pension Arrangement and receives a monthly allowance in lieu of an employer contribution into the Group Personal Pension Arrangement.

M.M. Rennison has opted out of the Fund, and he receives a cash allowance in lieu of pension scheme accrual.

**Related-Party Transactions**

For information on transactions with related parties, see note 40 to our audited consolidated financial statements incorporated by reference herein.

## **COMPETITION**

### **Industry Background**

Our main competitors are the five largest UK banking groups. In addition we also compete with other building societies, with smaller banks and with insurance companies. In recent years, 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.

#### ***UK Banks***

The UK financial services market is dominated by the five largest banking groups, namely Lloyds Banking Group, Royal Bank of Scotland, Barclays, HSBC and Santander UK. 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.

#### ***Building Societies***

Over the past 30 years, many building societies have merged with other building societies or, in a number of cases, transferred their businesses to the subsidiary of another mutual organization or demutualized and transferred their businesses to existing or specially formed banks. As a result, the number of building societies in the United Kingdom has fallen from 137 in 1985 to 44 as at April 4, 2016. Building societies today continue to hold an important share of the UK mortgage and savings market and have been recognized by recent UK Governments and the Independent Commission on Banking 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.

#### ***Other Competitors***

A number of large retailers sell financial services to their customers, often through co-operation arrangements with existing banks and insurance companies. Retailing groups, namely Tesco and J. Sainsbury, have entered the market as manufacturers of financial service products in their own right. In addition, foreign banks, investment banks, insurance and life assurance companies have at various times been active in UK personal financial services, particularly the mortgage and retail savings markets, and a number of companies have expressed a desire to enter the market. The growth of internet price comparison sites has enabled consumers to have access to information that has increased price competition particularly in certain insurance markets. Companies are using low cost telephone, mail and internet based distribution channels to offer competitively priced retail savings accounts, mortgages and other financial products. The Internet and mobile communications technology provide opportunities for further competition from organizations from outside the traditional banking sector. This includes new banks specifically providing mobile-phone based banking and large technology companies using their core businesses as a platform for financial services, particularly in the payments arena. The use of the intermediary sector also allows new entrants to gain access to the 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, though scope to do this is reducing as the incumbents tackle their shortcomings. Competition regulation has and may eventually further assist potential entrants if it enforces the breakup of some of the larger participants or the sale of those in public ownership.

## The UK Residential Mortgage Market

The table below sets out information for the last three years concerning year-end balances of UK lending secured on residential property and the proportions held by building societies, banks and us:

Year ended December 31,	Total Balances <sup>(1)</sup>	Building Societies <sup>(1)</sup>	Others	Our share of total UK residential mortgages <sup>(1)</sup>
		(£ billion, except percentages)		
2015 .....	1,278.1	87.0% <sup>(2)</sup>	13.0%	12.5%
2014 .....	1,255.9	85.7% <sup>(2)</sup>	14.3%	12.0%
2013 .....	1,236.7	84.9% <sup>(2)</sup>	15.1%	11.6%

Notes:

- (1) Source: BoE (excluding lending to housing associations), except for information regarding our balances which are taken from our own data. Building society figures include our own balances. Separate data for Banks & Building Societies is not available from December 2013 onwards.
- (2) As of 2013, the BoE no longer quotes banks and building societies market shares on an individual basis.

Although the overall size of the new mortgage market has shrunk considerably since 2007, the nature of competition is essentially unchanged, in that it involves defending the existing stock of balances and competing for the flow of new lending.

Competition for new lending remains fierce and is driven by first-time buyers or next-time buyers remortgaging, changing homes or extending their mortgages. The majority of this is for residential purposes, although the popularity of buy-to-let has continued to increase, accounting for 19% of lending in 2015/16. In recent years, based on English Housing Survey data, there has been a decline in the proportion of the UK population owning their own homes, from a peak of around 71% in 2003 to around 64% in 2015. The aftermath of the global financial crisis is still evident in the mortgage market, with more limited credit availability at higher LTV ratios, although this has improved, partly as a result of government schemes such as the Help To Buy mortgage guarantee. For further information, see “*Risk Factors—Risks Related to Our Business—Changes to interest rates or monetary policy, whether by the UK, US or other central banking authorities, could affect the financial condition of our customers, clients and counterparties, which could in turn adversely affect us.*” Competition is driven by a combination of price, risk profile and access to funding by lenders.

Our market share of gross advances of 13.7% during the financial year ended April 4, 2016 was above our par share of 12.0% as at January 1, 2015. Over the year ended April 4, 2016, the average LTV ratio of new mortgage lending was 66% (excluding further advances), unchanged from the same period a year earlier.

## The UK Retail Deposit Market

The UK retail deposit market is dominated by banks, building societies and National Savings and Investments, 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>	Others <sup>(1)</sup>	Our share of total UK retail deposits <sup>(1)</sup>
		(£ billion, except percentages)		
2015 .....	1,346.1	90.0% <sup>(2)</sup>	10.0%	10.2%
2014 .....	1,279.3	91.3% <sup>(2)</sup>	8.7%	10.5%
2013 .....	1,225.2	91.4% <sup>(2)</sup>	8.6%	10.7%

Notes:

- (1) Source: BoE, except for information regarding our balances which are taken from our own data. Separate data for Banks & Building Societies is not available from December 2013 onwards.

- (2) As of 2013, the BoE no longer publishes data for Building Societies and Banks separately, but rather as a combined Monetary & Financial Institutions (MFI) percentage.

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 intensified as banks have sought to rebalance their liabilities away from short-term wholesale and back towards retail funding but the introduction of Funding for Lending has eased competition for retail deposits.

We believe that increased consumer awareness driven by the press and increased competition has created potentially greater volatility of retail deposit balances both between different organizations and between different accounts within organizations. This, in turn, has resulted in a reduction in the differential between rates paid to existing and new balances as customers transfer to high rate accounts and organizations aim to retain existing balances. In addition, the recent Government budget announcements, namely the “New ISA” and the pensioner bonds, have created some volatility but have also provided some support to the savings market.

In this context our deposit balances grew by £6.3 billion in the financial year ended April 4, 2016.

### **Competitive Outlook**

Whilst some weaknesses remain, the major banks have now largely completed a process of financial repair upon which they embarked following the financial crisis. In recent years, greater public optimism about the UK economy and a parallel recovery of net new volumes in the mortgage and savings markets have been accompanied by a reduction in the cost of retail funding as a result of the Funding for Lending Scheme. These trends have resulted in increased income for financial institutions which have grown volumes and improved net interest margins. However, many banks now expect limited scope for this margin improvement to continue. Consequently, there is a possibility that competition for volumes will intensify as banks seek to maintain growth rates. Competition also looks set to remain intense for current accounts and deposits, as regulatory measures to allow customers to switch provider more easily are accompanied by increased appetite by providers to grow, or at least maintain, a current account base as a driver of active customer relationships. Investment in new digital capabilities continues at high levels, as major participants look to compete digitally against their existing peers and potential new entrants innovating with digital technology.

## SUPERVISION AND REGULATION

### EU Legislation

The framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by EU legislation. The Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee in 2011) has been implemented in the European Economic Area (the “EEA”) through the Capital Requirements Regulation (the “CRR”) and the associated directive, the Capital Requirements Directive (“CRD”) (together, “CRD IV”), which was published in the Official Journal of the European Union on June 27, 2013. The CRR establishes a single set of harmonized prudential rules for financial institutions and certain minimum liquidity standards which apply directly to all credit institutions in the EEA, with the CRD containing less prescriptive provisions which (unlike the CRR, which applies across the EU without the need for any implementing legislation at member-state level) are required to be transposed into national law. Together the CRR and CRD reinforce capital standards and establish a leverage ratio “backstop.” Full implementation began from January 1, 2014, with particular elements being phased in over a period of time (the requirements will largely be effective by 2019 and some minor transitional provisions provide for phase-in until 2024). As CRD IV allows certain national discretion, the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation. The Basel Committee has also published certain proposed revision to the securitisation framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 15%.

The principal intention underlying CRD IV is the harmonisation of banking regulation and supervision throughout the EU and the EEA. CRD IV prescribes minimum standards in key areas and requires EEA member states to give “mutual recognition” to each other’s standards of regulation. CRD IV also addresses the “passport” concept, which amounts to freedom for a credit institution authorised in its “home” state to establish branches in, and to provide cross-border services into, other EEA member states.

Although credit institutions are primarily regulated in their home state by a local regulator, CRD IV prescribes minimum criteria for regulation of the authorisation of credit institutions and the prudential supervision applicable to them. Our local regulators are the PRA and the FCA. For further information about regulation in the UK see the subsection entitled “—UK Regulation.”

CRD IV substantially reflects the Basel III capital and liquidity standards. CRD IV also makes 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. Certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority.

The CRR gives express recognition for Common Equity 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.

On March 31, 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers (the “**Mortgage Directive**”). The council of the EU adopted the Mortgage Directive on January 28, 2014. Member states were required to implement the Mortgage Directive into national law by March 21, 2016.

The Mortgage Directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in an EU member state on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements the purpose of which is to finance the purchase or retention of rights in land or in an existing or proposed residential building; and extends the Consumer Credit Directive (2008/48/EC) to (c) unsecured credit agreements the purpose of which is to renovate residential immovable property involving a total amount of credit above €75,000. The Mortgage Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The Mortgage Directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The Mortgage Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

Both HM Treasury and the FCA consulted on the transposition and implementation of the Mortgage Directive between September 2014 and March 2015. The Mortgage Directive was implemented in the UK on March 21, 2016 through the Mortgage Credit Directive Order 2015 (SI 2015/910) which was made on March 25, 2015. The final FCA rules and guidance implementing the Mortgage Directive are set out in the Mortgage Credit Directive Instrument 2015 (FCA 2015/18) which was made by order of the Board of the FCA, also on March 25, 2015. In the course of implementing the Mortgage Directive the UK Government has sought to put in place what it has described as the minimum requirements to meet its local obligations under the Mortgage Directive. Notable aspects of the UK Governments' implementation include the extension of the existing regulatory regime for mortgages to buy-to-let and second charge mortgages. This area of law is rapidly developing and new regulatory guidance and case law as a result of this new legislation may be expected. As a result, it is too early to tell what effect the implementation of the Mortgage Directive into UK law would have on our mortgage business and operations.

## **UK Regulation**

The UK Financial Services Act 2012 amended certain existing legislation including the Financial Services and Markets Act 2000, the Building Societies Act 1986 and the Banking Act to make provision about the exercise of certain statutory functions relating to building societies.

Another area of change which impacts on the UK regulatory landscape relates to banking reform. The Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") introduced amendments to FSMA which provide for, inter alia, the ring-fencing of vital banking services from international and investment banking services, measures on loss absorbency and depositor preference and proposals for enhancing competition in the banking sector. Certain aspects of such measures entered into force on January 1, 2015 although the full ring-fencing regime will not apply until 2019. Further, the Government has carved building societies out of the proposed ring-fencing legislation and, instead, reserves the power to amend the UK Building Societies Act to bring building societies legislation into line with the proposed ring-fencing requirements. The subsection below entitled "*The UK Building Societies Act*" refers to the discussion document published by HM Treasury in 2012 which sets out the Government's vision for the building societies sector. The PRA published a consultation paper on Operational Continuity ("**CP 38/15**") in October 2015, and it published an addendum on 11 December 2015. The rules will apply from January 1, 2019. The proposals support the resolvability and resilience of building societies and banks in seeking to ensure critical shared services are organized to facilitate continuity in the event of failure.

On January 1, 2015, the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 came into force, changing the different creditor ranking that previously would have applied in the event of a liquidation between a bank and a building society. The effect of these changes is that both banks and building societies are now subject to the preference in ranking accorded to retail deposits and a super-preference for deposits covered by the FSCS. When combined with other specific changes affecting building societies, the relative differences in ranking as between banks and building societies no longer apply and the effective creditor hierarchy for banks and building societies is now the same.

### ***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, authorisation and management of building societies. We are regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. With the introduction of the 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 and general



governance, among others, still remains 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*.”

On July 6, 2012, HM Treasury published a consultation document entitled “The future of building societies” which set out the Government's aim to maintain the distinctiveness of the building society sector while creating a level playing field and removing unnecessary barriers to growth. The Government stated that it intended to amend the UK Building Societies Act to widen the opportunities for building societies and to align them with ring-fenced banks without compromising their mutuality.

As a result, modernizing changes to the UK Building Societies Act were made under the Banking Reform Act to bring it more in line with company law, assist building societies in raising funding and make minor technical changes in order to allow the building society sector to compete on a more level playing field with banks. The changes, in particular:

- Facilitate electronic communications with members;
- Remove the restrictions on building societies relating to floating charges;
- Make it easier for building societies to accept small business deposits by making adjustments to the funding limit calculation;
- Make certain changes concerning the distribution of shares on the transfer of a building society's business on a demutualisation; and
- Permit holders of deferred shares of less than two years' standing to be eligible to receive shares or cash when a society demutualises.

All of these changes to the UK Building Societies Act are in force.

### ***Building Society key characteristics***

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 organisations 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 FCA, the PRA and the Competition and Markets Authority (the “**CMA**”). The general restriction which used to apply to building societies from creating floating charges was removed by the Banking Reform Act with effect from March 26, 2015.

Building societies have a statutory duty to keep accounting records as well as establishing and maintaining systems of control. The FCA and PRA are 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.” “Deferred shares” includes our CCDS, Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities and Permanent Interest Bearing Shares.

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. A subsidiary of a building society may, however, offer deposit accounts which do not confer member status provided it has the required regulatory authorization. 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 (or in certain cases, if the rules of the society allow, from another person who holds the benefit of the loan for the building society) which is fully or, if the rules of the society allow, substantially secured on land. Building societies may also make loans that do not confer member status, which generally consist of unsecured loans.

#### *Limitations on Funding and Lending*

The UK Building Societies Act imposes limits on the ability of building societies to raise funds and to make loans. Investing shares in a building society, representing UK retail member deposits made with the society, must account for not less than 50% of its total funding. In calculating this amount: (1) 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; and (2) a specified amount in respect of deposits made by small businesses is disregarded. The specified amount in each case 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).

#### *Building Societies (Financial Assistance) Order 2010*

On April 7, 2010, the Building Societies (Financial Assistance) Order 2010 (the “**Financial Assistance Order**”) came into force in exercise of certain powers under the Banking Act for the purpose of modifying the application of the UK Building Societies Act in specified circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain ‘qualifying institutions’. Qualifying institutions for this purpose include HM Treasury, the BoE, another central bank of a Member State of the EEA, the European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance received from such an institution. Most significantly, the Financial Assistance Order permits any qualifying institution to provide such assistance without it counting for the purpose of the 50 % limit on the building society’s non-member funding and the Financial Assistance Order also modifies the application of the purpose test and the lending limit.

#### *Nature of Capital*

UK retail member deposits are classified as shares in a building society's 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 (which have been built up over the years mainly from its retained earnings) and any deferred shares that it has issued. 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. Profit participating deferred shares (a type of deferred

share) were recognized by the FSA (and have also now been recognized by the PRA) 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, by way of a private placement, or as a part 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 CRR which were implemented in the UK at the end of 2010 toughened the requirements for eligibility as Tier 1 capital. Permanent interest bearing shares, which were already in existence, retain their capital status, but the extent to which such shares count towards regulatory capital will be phased out over a long transitional period. CCDS, a new form of deferred share, meet the new regulatory criteria for Common Equity Tier 1 capital under CRR, while being consistent with the values of mutuality and supporting members' interests. CCDS are also designed to be a suitable instrument for raising new capital from external investors.

We have also issued Reset Perpetual Contingent Convertible Additional Tier 1 Capital Securities which qualify as Additional Tier 1 Capital under the CRR.

### *Hedging*

The UK Building Societies Act prohibits building societies and their subsidiaries from entering into any transaction involving derivative investments 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 demutualise by transferring the whole of its business to an existing company (referred to as a “**takeover**”) or to a specially formed company (referred to as a “**conversion**”) so long as the process meets statutory requirements. Any such demutualisation must be approved by members and confirmed by the PRA. The successor company will be a bank, which must be duly authorised to carry on its deposit-taking business by the PRA or equivalent EEA regulatory authority.

The member approval threshold required varies depending on the type of demutualisation. 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, 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 Societies (Transfers) Order 2009) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007). The successor subsidiary must be duly authorised to carry on its deposit-taking business by the PRA or 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 PRA. The member approval thresholds require a shareholding members' resolution to be passed by a minimum of 75% of shareholding members qualified to vote and voting on the resolution and a borrowing members' resolution to be passed by more than 50% of borrowing members qualified to vote and voting on the resolution.

### *Directed transfers*

The UK Building Societies Act confers power on the PRA, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The UK Financial Services Act 2012 also amended the UK Building Societies Act to extend this power of direction to a transfer of a building society's business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007). Where any such direction is made, the PRA may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

### *The UK regulators*

The PRA is currently the prudential regulator for building societies, banks, insurance companies and other deposit takers. The general objective of the PRA is promoting the safety and soundness of PRA-authorized persons.

The PRA supervises and regulates financial institutions, including building societies, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the Financial Services and Markets Act 2000, the PRA has a variety of enforcement powers including:

- issuing a private warning; or
- taking disciplinary measures, such as issuing a public statement of misconduct or imposing a financial penalty.

The FCA is currently the conduct regulator for firms that are prudentially regulated by the PRA (dual-regulated firms). The FCA regulates both prudential and conduct matters for all other firms. The FCA's strategic objective is ensuring the relevant markets function well. The FCA's operational objectives are:

- the consumer protection objective;
- the integrity objective; and
- the competition objective.

The FCA also has a variety of enforcement powers under the Financial Services and Markets Act 2000, and from April 1, 2014, is responsible for supervision of consumer credit regulation and superintendence and enforcement of the Consumer Credit Act 1974, as amended.

As set out below, the CMA also enjoys certain enforcement powers under the UK financial services regime.

### *Authorization under the Financial Services and Markets Act 2000*

The Financial Services and Markets Act 2000 (the "FSMA") prohibits any person from carrying on a "regulated activity" by way of business in the UK unless that person is authorised or exempt under this Act. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), consumer credit activities (such as broking, lending, administration and collection), effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). We are authorised for, among other things, deposit-taking and mortgage activities, and are authorized for certain investment activities. We are also deemed to be authorised for various consumer credit activities. The FSMA also prohibits Financial Promotions in the UK unless the promotion is issued or approved by an authorised person or exempt from such requirements.

### *Lending*

The FSMA, together with the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "RAO") made under it, regulates certain "credit agreements". It regulates mortgage credit within the

definition of “regulated mortgage contract” and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after October 31, 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person. From 21 March 2016, the definition of regulated mortgage contract has changed in line with the United Kingdom’s implementation of the Mortgage Directive. Importantly, a mortgage no longer needs to be a first charge mortgage to fall within the definition of a regulated mortgage contract. This and other changes to mortgage regulation as a result of the implementation of the Mortgage Directive are described in the risk factor “Mortgage Directive” below.

The CCA has traditionally regulated most unsecured and second charge credit within the definition of “regulated agreement.” From April 1, 2014, the concept of regulated agreement has been derived from the definition of regulated credit agreement set out in the RAO. A credit agreement is essentially a regulated credit agreement if: (a) the borrower is or includes a natural person or “relevant recipient of credit” as defined in the RAO; and (b) the credit agreement is not an exempt agreement under the RAO. Regulated mortgage contracts are specifically exempt under the RAO and are not regulated credit agreements. 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 CCA. That said, some buy-to-let mortgages are regulated following the Mortgage Directive’s implementation in the UK.

Any credit agreement intended to be a regulated mortgage contract or otherwise unregulated might instead be wholly or partly regulated as a regulated credit agreement under the FSMA (and, as a result, also by the CCA) or treated as such, and any credit agreement intended to be regulated as a regulated credit agreement or treated as such or unregulated might instead be a regulated mortgage contract. This is because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract or within the definition of a regulated agreement (described below) and technical rules on changes to credit agreements.

If prohibitions under the FSMA as to authorization or Financial Promotions are contravened (by credit brokers as well as lenders like us), then the affected regulated mortgage contract or regulated credit agreement could be unenforceable against the borrower without a court order (or, in respect of regulated credit agreements only, a validation order from the FCA). The Mortgages and Home Finance: Conduct of Business Sourcebook (the “**MCOB**”), which is part of the FCA Handbook, sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorized firm (such as us) 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. MCOB was recently subject to significant substantial amendments as part of the UK’s Mortgage Market Review.

In addition, if requirements under the CCA as to entering into, documenting and servicing a regulated credit agreement are not met, then the affected regulated credit agreement could be unenforceable against the borrower without a court order or (for agreements entered into before April 6, 2007) could be totally unenforceable, depending on the circumstances. Under Sections 75 and 75A of the CCA, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by 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. The Consumer Credit Sourcebook (“**CONC**”) which, like MCOB, is also part of the FCA Handbook also sets out conduct of business rules which, in addition to the rules under the CCA, apply to consumer credit activities carried out in respect of regulated credit agreements.

## ***Mortgage Directive***

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The Council of the European Union adopted the Mortgage Directive (Directive 2014/17/EU) on 28 January 2014 and it was published in the Official Journal of the European Union on 28 February 2014. It entered into force twenty days after such publication and was implemented by the United Kingdom with effect from 21 March 2016.

The Mortgage Directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a member state of the EU (a Member State) on residential immovable property, or secured by a right relating to residential immovable property and (b) credit agreements the purpose of which is to provide finance to purchase or retain rights in land or in an existing or proposed residential building, and also extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements the purpose of which is to renovate residential immovable property involving a maximum total amount of credit of EUR 75,000. The Mortgage Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees but does apply to buy to let mortgages.

The Mortgage Directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower and a right of the borrower to make early repayment of the credit agreement. The Mortgage Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

For the most part the UK Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Directive in respect of buy-to-let mortgages. The legislation provides that firms do not need to apply the UK Government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. HM Treasury has stated that they would expect consumer buy-to-let activity to represent a small proportion of total buy-to-let transactions. Generally speaking, the Mortgage Directive does not apply to credit agreements existing before 21 March 2016. However, the UK's implementation of the Mortgage Directive will also operate to retrospectively regulate certain credit agreements secured on land that were in existence at 21 March 2016, including existing second charge mortgages (consumer credit back book mortgage contracts). Certain provisions of MCOB will become applicable to these consumer credit back book mortgage contracts. These include the rules relating to post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and reposessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in CONC and the CCA that are not contained within MCOB.

Any further changes in the legislative or regulatory framework for mortgage regulation, including as a result of implementation of the Mortgage Directive into UK law, or any future review carried out by the FCA, or any changes to the FCA Handbook Rules, may adversely affect our businesses and operations and accordingly the ability of the issuing entity to repay the notes.

## ***Insurance***

We are also authorised for carrying out insurance mediation. The Insurance: Conduct of Business sourcebook, which is part of the FCA Handbook, sets out rules in respect of non-investment insurance.

## ***Financial Services Compensation Scheme (the "FSCS")***

The Financial Services and Markets Act 2000 established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. 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 retail deposits, 100% of the first £75,000; (ii) for mortgage advice and arranging, 100% of the first £50,000; and (iii) for insurance, 100% where claims arise (a) in respect of a liability subject to compulsory insurance; (b) in respect of a liability subject to

professional indemnity insurance; and (c) from the death or in capacity of the policy holder due to injury, sickness or infirmity; 90% of the claim where claims arise under other types of policy with no upper limit (for claims against firms declared in default on or after July 3, 2015). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. These limits reflect Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes (the “**DGSD**”), which requires member states to set the minimum level of compensation for deposits, for firms declared in default on or after January 1, 2011, at €100,000. A review of the DGSD has been completed and the recast DGSD 2014/49/EC, strengthening the protection of citizens’ deposits in case of bank failures, has been published in the Official Journal on June 12, 2014. Implementation by EU member states was required by July 2015. See “*Risk Factors—Risks Related To Our Business—We are required to pay levies under the FSCS and are exposed to future increases of such levies, which might impact our profits.*”

### ***Financial Ombudsman Service (the “FOS”)***

The Financial Services and Markets Act 2000 established the FOS, which determines complaints by eligible complainants in relation to authorised 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 £150,000 plus interest and costs. The FOS may also make directions awards, which direct the business to take such steps as the FOS considers just and appropriate.

### ***Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and Consumer Rights Act 2015***

In the UK, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the “**1999 Regulations**”), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the “**UTCCR**”), apply to agreements made on or after July 1, 1995 and before 1 October 2015. The UTCCR provides that a consumer may challenge a standard term in an agreement on the basis that it is “unfair” within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term), and the lead enforcement body, and any “qualifying body” within the UTCCR (such as the FCA), may seek to enjoin a business from relying on unfair terms.

The UTCCR will not generally affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, or price terms, provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention. The UTCCR may affect terms that are not considered to be terms which define the main subject matter of the contract or price terms, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. For example, if a term permitting the lender to vary the interest rate (as the originator is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement that the borrower has taken with the lender (or exercise analogous rights in Scotland).

The lead enforcement body for the UTCCR was the Office of Fair Trading before April 1, 2014, and is the CMA from April 1, 2014. The qualifying body in relation to regulated mortgage contracts and mortgage loans originated by lenders authorised under the Financial Services and Markets Act was the Financial Services Authority before April 1, 2013. The lead enforcement body was and is responsible for enforcing the UTCCR in relation to other mortgage loans.

While the CMA and FCA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any loans covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans.

The Consumer Rights Act, which came into force from an unfair contract terms perspective on October 1, 2015 (the “**CRA Commencement Date**”), provides that, among other things, a term which specifies the main subject matter of the contract, or a price term, is exempt from being reviewed as to its fairness if the term is transparent and prominent and that, in proceedings brought by individual consumers, the court is required to consider the fairness of a term, even if the consumer has not raised the issue of unfairness, where the court has available to it the legal and factual elements necessary for that task.

The CRA reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime for unfair contract terms out of the Unfair Contract Terms Act 1977 (the “**UCTA**”) (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR. On the CRA Commencement Date, certain sections of the CRA revoked the UTCCR, and introduced a new regime for dealing with unfair contractual terms with respect to contracts entered into on or after the CRA Commencement Date. The UTCCR will continue to apply to contracts entered into prior to the CRA Commencement Date as described above.

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (a term which has been revised to mean an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). In an additional change from the old regime, from the CRA Commencement Date, an unfair consumer notice will also not be binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends. The CRA also applies substantially the same test of fairness to consumer notices and generally refers to term and notices interchangeably.

Schedule 2 contains an indicative and non-exhaustive “grey list” of terms of consumer contracts that may be regarded as unfair. Three of these “grey list” terms are new, having not been covered by the UTCCR. Notably, paragraph 11 lists “a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract”. Although paragraph 22 provides that this does not include a term by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A consumer contract may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; and/or (ii) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it; unless it appears on the “grey list” referenced above. A trader must ensure that a written term of a consumer contract, or a consumer notice in writing, is transparent i.e. that it is expressed in plain and intelligible language and is legible. Under the CRA, a trader must also ensure that the term is sufficiently prominent. The CMA considers this to be fully consistent with an interpretation of ‘the core exemption’ as intended to ensure that only those ‘principal obligations’ or price terms which are subject to the correcting forces of competition and genuine decision-making are fully assessable for fairness.

Where a term of a consumer contract is “unfair”, it will not bind the consumer. However, the remainder of the contract will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible of multiple different meanings, the meaning most favourable to the consumer will prevail. In a shift from the old regime, under the CRA it is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings has explicitly raised the issue of fairness.

The provisions in the CRA governing unfair contractual terms apply in respect of contracts entered into on or after the CRA Commencement Date. As stated above, UCTA and UTCCR will continue to apply to contracts entered into prior to the CRA Commencement Date. This new regime does not seem to be significantly different from the regime under the UTCCR and UCTA. However, this area of law is rapidly



developing and new regulatory guidance and case law as a result of this new legislation can be expected. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Loans and accordingly on the Issuer's ability to make payments in full when due on the notes.

### ***Distance Marketing***

In the UK, the Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after October 31, 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive the prescribed information at the prescribed time, or in any event for certain unsecured lending. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels the credit agreement under these regulations, then:

- (a) the borrower is liable to repay the principal, and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;
- (b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- (c) any security is treated as never having had effect for the cancelled agreement.

If a significant portion of our loans are characterised as being cancellable under these regulations, then there could be an adverse effect on its receipts in respect of those loans.

### ***Consumer protection from Unfair Trading Regulations 2008***

On May 11, 2005, the European Parliament and the Council of the EU adopted a Directive (2005/29/EC) regarding unfair business-to-consumer commercial practices (the Unfair Practices Directive). Generally, this directive applies full harmonisation, which means that EU member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, the Unfair Practices Directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans. The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is “unfair” within the Unfair Practices Directive.

The Unfair Practices Directive is implemented into UK law by the Consumer Protection from Unfair Trading Regulations 2008 (the “CPUTR”), which came into force on May 26, 2008. The CPUTR prohibit certain practices which are deemed “unfair” within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but is a criminal offence punishable by a fine and/or imprisonment. The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreements may result in irrecoverable losses on amounts to which such agreements apply. The CPUTR did not initially provide consumers with a private act of redress. Instead, consumers had to rely on existing private law remedies based on the law of misrepresentation and duress. However, amendments to the CPUTR which entered into force on October 1, 2014 have given consumers a right to redress for certain prohibited practices, including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing rules under the Financial Services and Markets Act 2000. For example, MCOB rules for regulated mortgage contracts from June 25, 2010 prevent the lender from (a) repossessing the mortgaged property unless all other reasonable attempts to

resolve the position have failed, which include considering whether it is appropriate to offer an extension of term, or conversion to interest-only for a period, or an alternative product, and (b) automatically capitalising a payment shortfall.

The Unfair Practices Directive provided for a transitional period until June 12, 2013 for the application of full harmonisation in the fields to which it applies. In March 2013, the European Commission published a report on the application of the Unfair Practices Directive, which indicated (among other things) that there is no case for further harmonisation in the fields of financial services and immovable property.

### ***Other Relevant Legislation and Regulation***

The EU anti-money laundering regime was amended by the implementation of the EU Third Money Laundering Directive (Directive 2005/60/EC) (the “**EU Third Money Laundering Directive**”), which has imposed requirements in relation to such matters. As a result of the implementation of the EU Third Money Laundering Directive in the UK, the UK Money Laundering Regulations 2007 place a requirement on us to identify and 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 EU Third Money Laundering Directive, which underpins the Money Laundering Regulations 2007, is currently being reviewed and the European Commission published a report on the application of the EU Third Money Laundering Directive on April 11, 2012, which found that there were no fundamental shortcomings in the regime but that some modifications are necessary to adapt to the evolving threats posed. On July 31, 2012 the European Commission published a paper summarising the responses to the report published on April 11, 2012. The overall result of the consultation in relation to the report represented a general confirmation of the issues highlighted in the report. Broad support was expressed for the proposed alignment to the revised Financial Action Task Force standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border situations.

The European Commission published on February 5, 2013 two legislative proposals in relation to the EU anti-money laundering regime: (i) a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (i.e. the Fourth Money Laundering Directive); and (ii) a regulation on information accompanying transfers of funds to secure “due traceability” of these transfers. The Fourth Money Laundering Directive entered into force on June 25, 2015 and is to be implemented by June 26, 2017.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers. We participate in the unclaimed assets scheme established under the Dormant Bank and Building Society Accounts Act 2008. The purpose of this scheme is to enable money in dormant bank and building society accounts (i.e. balances in accounts that have been inactive or dormant for 15 years or more) to be distributed for the benefit of the community, while protecting the rights of customers to reclaim their money.

On November 1, 2009, the former Financial Services Authority introduced its Banking Conduct Regime for retail banking. The main constituents of this regime are: (i) extending the 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 Banking: Conduct of Business sourcebook, which applies to deposit-taking in respects not covered by the PSR. The revised directive on payment services (“**PSD2**”) came into force on 12 January 2016. Member states, including the UK, are required to transpose it into national law by 13 January 2018.

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. The Lending Code has been revised a number of times since its introduction, most recently in September 2015.

On April 1, 2010, the Building Societies specialist sourcebook (the “**BSOCS**”) came into effect, subject to certain transitional provisions. BSOCS contains PRA 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 PRA will supervise building societies’ treasury activities. The contents of BSOCS have been placed in two PRA supervisory statements. The PRA issued a consultation paper in April 2016 on supervising building societies’ treasury and lending activities which is likely to lead to further changes in the approach to the PRA’s supervision in these areas. This followed on from a PRA consultation paper published on March 29, 2016 specifically addressing buy-to-let lending.

***Potential effects of any additional regulatory changes***

No assurance can be given that additional regulatory changes by the CMA, the FCA, the PRA, the FOS or any other regulatory authority will not arise with regard to the mortgage market in the UK generally, our particular sector in that market or specifically in relation to us. Any such action or developments or compliance costs may have a material adverse effect on us and our respective businesses and operations.

## **EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING HOLDERS OF NOTES**

Subject to the withholding tax requirements set out under the subsection entitled “*Taxation–UK Taxation*,” there are currently no UK laws, decrees or regulations that would reduce the payment by the issuer of interest or other payments to holders of notes who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the subsection entitled “*Taxation–UK Taxation*.” There are also no restrictions under our memorandum and rules or under current UK laws that limit the right of non-resident or foreign owners to hold the notes or to vote, when entitled to do so.

## TERMS AND CONDITIONS OF THE NOTES

This section describes the material terms and provisions of the notes to which any Final Terms may relate. We will describe in each Final Terms the particular terms of the notes that we offer by that Final Terms and the extent, if any, to which the general provisions described below may apply to those notes. Capitalized terms used but not defined in this section have the meanings given to them in the senior notes, subordinated notes, or indenture, as the case may be.

### 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 (the “**Issuer**”) 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 twelve months or more from the date of issue and may be subject to redemption or early repayment at our option or the holder’s option as further described in the subsection entitled “—*Redemption and Repurchase*.” 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 plus or minus the Margin (if any), in each case as specified in the applicable Final Terms; or
- a Zero Coupon Note, in which case references to interest in these terms and conditions are not applicable; or
- any appropriate combination thereof, depending upon the Interest Basis shown in the applicable Final Terms.

### Status of Senior Notes

The Senior Notes are direct, unconditional and (subject to the provisions of “—*Negative Pledge*”) unsecured obligations of the Issuer and rank (subject to the provisions of “—*Negative Pledge*”) equally among themselves, junior to obligations required to be preferred by law (which from January 1, 2015 includes certain member share accounts which are given preferential status by law) and equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer.

## Status and Subordination of Subordinated Notes

The subordinated notes are our direct and unsecured obligations, subordinated and conditional as described below, and rank *pari passu* and without any preference among themselves. The claims in respect of principal, interests and any other amount (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of the subordinated notes will, in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution);

- a. be subordinated in right of payment in the manner provided in the indenture to all Senior Claims;
- b. rank at least *pari passu* with claims in respect of our obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital; and
- c. rank in priority to claims in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Additional Tier 1 Capital (including, without limitation, the Issuer's permanent interest bearing shares) or Common Equity Tier 1 Capital (including the Issuer's core capital deferred shares) and in priority to any other claims ranking, or expressed to rank, junior to the subordinated notes.

Accordingly, if we are at any time in winding up, then no principal, interest or other amounts in respect of the subordinated notes (whether or not already due or accrued prior to the commencement of such winding up) shall be payable by, nor shall any claim in respect thereof be provable against, the Issuer in such winding up unless and until and except to the extent that the Issuer could make such payment in whole or in part and still be solvent immediately thereafter. For the purpose of this subsection, the Issuer shall be deemed to be solvent if it is able to pay its Senior Claims in full, or the liquidator of the Issuer determines that it will be able to do so within a period not exceeding twelve months, and in determining whether the Issuer is deemed to be solvent for the purposes of this subsection there shall be disregarded obligations which are not provable in the winding up.

Subject to applicable law, no holder of subordinated notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the subordinated notes and each holder shall, by virtue of being the holder of any such Subordinated Note be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any holder of subordinated notes against the Issuer is discharged by set-off, such holder of subordinated notes will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up of the Issuer the liquidator of the Issuer and accordingly such discharge will be deemed not to have taken place.

The subordinated notes do not have the benefit of the negative pledge covenant described below under the subsection entitled “—*Negative Pledge*” and are subordinated to most of our liabilities. 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.*”

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.

## Certain Definitions

“**Business Day**” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City and each Additional Business Center specified in the applicable Final Terms; provided, however, that, with respect to notes denominated in a Specified Currency other than U.S. dollars, it is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center, as defined below, of the country issuing the Specified Currency (or, if the Specified Currency is euro or EURIBOR is an applicable Interest Rate Basis, such day is also a day on which the euro payments settlement system known as TARGET2 (or any successor thereto) is open for settlement of payments in euro, a “**TARGET Settlement Date**”); provided, further, that, with respect to notes as to which LIBOR is an

applicable Interest Rate Basis, it is also a London Business Day. “**London Business Day**” means a day on which commercial banks are open for business (including dealings in the Designated LIBOR Currency, as defined below) in London.

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time in accordance with the applicable Final Terms for any Fixed Rate Note, Reset Note, or Floating Rate Note, as applicable:

- (A) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as so specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
- (B) if **30/360** is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of twelve 30 day months) divided by 360.

If no Day Count Fraction for Fixed Rate Notes is specified in the applicable Final Terms then the Day Count Fraction for such Notes shall be **Actual/Actual (ICMA)** for Notes other than those denominated or payable in U.S. Dollars and **30/360** for Notes denominated or payable in U.S. Dollars.

“**deferred share investments**” has the meaning ascribed thereto in the rules of the Issuer (and includes the Issuer’s permanent interest bearing shares and core capital deferred shares);

“**Determination Period**” means the period from (and including) a Determination Date in any year to (but excluding) the next Determination Date;

- (C) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (D) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (E) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

- (F) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360; and
- (G) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (H) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30.

- (I) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:



“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

“**Excluded Dissolution**” means a dissolution of the Issuer by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Building Societies Act 1986, as amended (the “**Act**”), or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended (or any successor provisions thereto).

“**investing members**” has the meaning ascribed thereto in the rules of the Issuer.

“**New York City Banking Day**” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the city of New York.

“**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.

“**Regulatory Capital Requirements**” means, at any time, any requirement contained in the law, regulations, requirements, guidelines and policies then in effect relating to capital adequacy and prudential supervision and applicable to the Issuer, including (without limitation to the generality of the foregoing), those laws, regulations, requirements, guidelines and policies relating to capital adequacy and prudential supervision then in effect of the United Kingdom or the Supervisory Authority and/or any regulation, directive or other binding rules, standards or decisions adopted by the institutions of the EU.

A “**Regulatory Event**” is deemed to have occurred if there is a change (which has occurred or which the Supervisory Authority considers to be sufficiently certain) in the regulatory classification of the subordinated notes which becomes effective after the date of issue of the Notes and that results, or would be likely to result, in:

(i) if “Regulatory Event (subordinated notes only): Full Exclusion” is specified in the applicable Final Terms, the entire principal amount of the subordinated notes being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis); or

(ii) if “Regulatory Event (subordinated notes only): Full or Partial Exclusion” is specified in the applicable Final Terms, the entire principal amount of the subordinated notes or any part thereof being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis).

“**Senior Claims**” means the aggregate amount of all claims admitted in the winding up of the Issuer which are (i) claims of depositors of the Issuer, (ii) claims of investing members of the Issuer as regards the principal and interest due on share investments other than deferred share investments, (iii) claims of creditors in respect of unsubordinated obligations of the Issuer, and (iv) claims of creditors in respect of subordinated obligations of the Issuer other than claims (x) in respect of obligations which constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Tier 2 Capital or (y) which

otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims in respect of the subordinated notes.

**“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.

**“Supervisory Authority”** means, from time to time, the Prudential Regulation Authority or such other authority having primary supervisory authority with respect to prudential matters concerning the Issuer.

**“TARGET2”** means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilizes a single shared platform and which was launched on November 19, 2007 or any successor thereto.

**“Tier 1 Capital”, “Common Equity Tier 1 Capital”, “Additional Tier 1 Capital” and “Tier 2 Capital”** have the respective meanings given thereto (or to a successor or equivalent term) in the Regulatory Capital Requirements. **“U.S. Government Securities Business Day”** means any day except for a Saturday, Sunday or a day on which The Security Industry & Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

### **Form, Transfer, Exchange and Denomination**

Notes of a series will initially be represented by a global note or global notes in fully registered form (**“Global Notes”**). Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes (**“U.S. Global Notes”**). Notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by one or more international global notes (**“International Global Notes”**).

Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with these transfer restrictions and subject to certification requirements. In no event will notes in bearer form be issued.

The Global Note or Global Notes representing a series of notes will be issued to and deposited with, or on behalf of, DTC in New York City and registered in the name of Cede & Co. (**“Cede”**), as DTC’s nominee. Interests in a Global Note or Global Notes representing notes of a series will be shown in, and transfers thereof will be effected only through, records maintained by DTC and its participants until such time, if any, as physical registered certificates (**“Certificated Notes”**) in respect of such notes are issued, as set forth in the section entitled *“Description of the Global Notes—Book-Entry System.”*

The Global Note or Global Notes representing a series of notes may be transferred only to a successor of DTC or another nominee of DTC. For additional information, see the section entitled *“Description of the Global Notes—Book-Entry System.”*

Under the following circumstances, Global Notes of a series may be exchanged for certificated registered notes of such series:

- if at any time DTC notifies us that it is unwilling or unable to continue as the 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 (the “**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.

We will issue senior notes in minimum denominations of \$200,000 and subordinated notes in minimum denominations of \$250,000, and in each case in integral multiples of \$1,000 in excess thereof, in the case of Notes denominated in U.S. dollars. We will issue notes denominated in a Specified Currency other than U.S. dollars in minimum denominations that are the equivalent of these amounts in any other Specified Currency, and in any other denominations in excess of the minimum denominations as specified in the applicable Final Terms. The notes will be issued in integral multiples of 1,000 units of any such Specified Currency in excess of their minimum denominations. If the principal, premium, if any, and interest, if any, on any of the notes not denominated in U.S. dollars, euro or sterling are to be payable at our or the holder’s option in U.S. dollars, such payment will be made on the basis of the Market Exchange Rate, computed by the Currency Determination Agent, on the second Business Day prior to such payment or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

#### **Payment of Principal, Premium, if any, and Interest, if any**

Payments of principal, premium, if any, and interest, if any, to owners of beneficial interests in the Global Notes are expected to be made in accordance with those procedures of DTC and its participants in effect from time to time as described in the subsection entitled “*Description of the Global Notes—Book-Entry System*” and, in the case of any note denominated in a Specified Currency other than U.S. dollars, as provided below.

Payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of “—*Payments of Additional Amounts*” below) any law implementing an intergovernmental approach thereto.

Except as described below, with respect to any Certificated Note, payments of interest, if any, will be made by mailing a check to the holder at the address of such holder appearing on the register for the notes on the regular record date (the “**Regular Record Date**”). Notwithstanding the foregoing, at our option, all payments of interest on the notes may be made by wire transfer of immediately available funds to an account at a bank located within the United States as designated by each holder not less than 15 calendar days prior to the relevant Interest Payment Date. A holder of \$10,000,000 (or, if the Specified Currency is other than U.S. dollars, the equivalent thereof in that Specified Currency) or more in aggregate principal amount of notes of like tenor and terms with the same Interest Payment Date may demand payment by wire transfer but only if appropriate payment instructions have been received in writing by any paying agent with respect to such note appointed by us, not less than 15 calendar days prior to the Interest Payment Date. In the event that payment is so made in accordance with instructions of the holder, such wire transfer shall be deemed to constitute full and complete payment of such principal, premium and/or interest on the notes. Payment of the principal, premium, if any, and interest, if any, due with respect to any Certificated Note at Maturity will be made in immediately available funds upon surrender of such note at the principal office of any paying agent appointed by us with respect to that note and accompanied by wire transfer instructions, provided that the Certificated Note is presented to such paying agent in time for such paying agent to make such payments in such funds in accordance with its normal procedures.

Payments of principal, premium, if any, and interest, if any, with respect to any note to be made in a Specified Currency other than U.S. dollars will be made by check mailed to the address of the person entitled thereto as its address appears in the register for the notes or by wire transfer to such account with a bank located in a jurisdiction acceptable to us and the trustee as shall have been designated at least 15 calendar days prior to the Interest Payment Date or Maturity, as the case may be, by the holder of such note on the relevant Regular Record Date or at Maturity, provided that, in the case of payment of principal of, and premium, if any, and interest, if any, due at Maturity, the note is presented to any paying agent appointed by us with respect to such note in time for such paying agent to make such payments in such funds in accordance with its normal procedures. Such designation shall be made by filing the appropriate information with the trustee at its Corporate Trust Office, and, unless revoked, any such designation made with respect to any note by a holder will remain in effect with respect to any further payments with respect to such note payable to such holder. If a payment with respect to any such note cannot be made by wire transfer because the required designation has not been received by the trustee on or before the requisite date or for any other reason, a notice will be mailed to the holder at its registered address requesting a designation pursuant to which such wire transfer can be made and, upon such trustee’s receipt of such a designation, such payment will be made within 15 calendar days of such receipt. We will pay any administrative costs imposed by banks in connection with making payments by wire transfer, but any tax, assessment or governmental charge imposed upon payments will be borne by the holders of such notes in respect of which such payments are made.

Except as provided below, payments of principal, premium, if any, and interest, if any, with respect to any note represented by Global Notes that is denominated in a Specified Currency other than U.S. dollars will be made in U.S. dollars, as set forth below. If the holder of such note on the relevant Regular Record Date or at Maturity, as the case may be, requests payments in a currency other than U.S. dollars, the holder shall transmit a written request for such payment to any paying agent appointed by us with respect to such note at its principal office on or prior to such Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be. Such request may be delivered by mail, by hand, by cable or by telex or any other form of facsimile transmission. Any such request made with respect to any note by a holder will remain in effect with respect to any further payments of principal, and premium, if any, and interest, if any, with respect to such note payable to such holder, unless such request is revoked by written notice received by such paying agent on or prior to the relevant Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be (but no such revocation may be made with respect to payments made on any such note if an Event of Default has occurred

with respect thereto or upon the giving of a notice of redemption). Holders of notes denominated in a currency other than U.S. dollars whose notes are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in a currency other than U.S. dollars may be made.

The U.S. dollar amount to be received by a holder of a note denominated in other than U.S. dollars who elects to receive payments in U.S. dollars will be based on the highest indicated bid quotation for the purchase of U.S. dollars in exchange for the Specified Currency obtained by the Currency Determination Agent, 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. Any payment made in U.S. dollars under such circumstances where the required payment was to be in a Specified Currency other than U.S. dollars will not constitute an Event of Default under the indenture with respect to the notes.

All determinations referred to above made by the Currency Determination Agent shall be at its sole discretion in accordance with its normal operating procedures and shall, in the absence of manifest error, be conclusive for all purposes and binding on all holders and beneficial owners of notes.

## **Interest**

### ***Interest on Fixed Rate Notes***

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year specified in the applicable Final Terms and on the Maturity Date specified in the applicable Final Terms if that does not fall on an Interest Payment Date. The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date.

Interest shall be calculated in respect of any period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Fixed Rate Notes and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest subunit of the relevant Specified Currency, half of any such subunit being rounded upwards or otherwise in accordance with applicable market convention.

If 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.

### ***Interest on Reset Notes***

#### ***Rates of Interest and Interest Payment Dates***

Each Reset Note bears interest:

- (a) from (and including) the Interest Commencement Date specified in the applicable Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Interest Rate;
- (b) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (c) if applicable, from (and including) the Second Reset Date to (but excluding) the first Subsequent Reset Date (if any), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each a “**Subsequent Reset Period**”) at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) payable, in each case, in arrear on the Interest Payment Date(s) in each year and on the Maturity Date so specified if that does not fall on an Interest Payment Date.

The Rate of Interest and the amount of interest (the “**Interest Amount**”) payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in “*Interest—Interest on Fixed Rate Notes*”) and, for such purposes, references in the fourth paragraph of “*Interest—Interest on Fixed Rate Notes*” to “Fixed Rate Notes” shall be deemed to be to “Reset Notes” and “*Interest—Interest on Fixed Rate Notes*” shall be construed accordingly.

In this section “—*Interest on Reset Notes*”:

“**Calculation Agent**” means the calculation agent specified in the applicable Final Terms;

“**First Margin**” means the margin specified as such in the applicable Final Terms;

“**First Reset Date**” means the date specified in the applicable Final Terms;

“**First Reset Period**” means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

“**First Reset Rate of Interest**” means, in respect of the First Reset Period and subject to “*Interest—Interest on Reset Notes—Fallbacks*”, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the First Margin;

“**Fixed Leg Swap Duration**” has the meaning specified in the applicable Final Terms;

“**Initial Rate of Interest**” has the meaning specified in the applicable Final Terms;

“**Mid-Market Swap Rate**” means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal

to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent);

**“Mid-Market Swap Rate Quotation”** means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

**“Mid-Swap Floating Leg Benchmark Rate”** means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

**“Mid-Swap Maturity”** has the meaning specified in the applicable Final Terms;

**“Mid-Swap Rate”** means, in relation to a Reset Determination Date and subject to *“Interest—Interest on Reset Notes—Fallbacks”*, either:

- (i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page or such replacement page on that service which displays the information; or

- (ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page or such replacement page on that service which displays the information,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent provided, however, that if there is no such rate appearing on the Relevant Screen Page for a term equal to the relevant Reset Period, then the Mid-Swap Rate shall be determined through the use of straight-line interpolation by reference to two rates, one of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next shorter than the length of the actual Reset Period and the other of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next longer than the length of the actual Reset Period;

**“Rate of Interest”** means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

**“Reference Bond”** means for any Reset Period the UK government bond selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in Sterling and of a comparable maturity to the relevant Reset Period.

**“Reference Bond Price”** means, with respect to any Reset Determination Date, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Calculation Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

**“Reference Bond Reset Rate Time”** means the time specified in the applicable Final Terms;

**“Reference Bond Yield”** means the yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond;

**“Reference Government Bond Dealer”** means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

**“Reference Government Bond Dealer Quotations”** means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Reference Bond Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Calculation Agent by such Reference Government Bond Dealer;

**“Reset Business Day”** means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Business Centre specified in the applicable Final Terms;

**“Reset Date”** means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

**“Reset Determination Date”** means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

**“Reset Period”** means the First Reset Period or a Subsequent Reset Period, as the case may be;

**“Reset Reference Rate”** means either (i) if Mid-Swaps is specified in the applicable Final Terms the Mid-Swap Rate, or (ii) if Reference Bond is specified in the applicable Final Terms, the Reference Bond Yield, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

**“Second Reset Date”** means the date specified in the applicable Final Terms;

**“Subsequent Margin”** means the margin specified as such in the applicable Final Terms;

**“Subsequent Reset Date”** means the date or dates specified in the applicable Final Terms; and

**“Subsequent Reset Rate of Interest”** means, in respect of any Subsequent Reset Period and subject to *“Interest—Interest on Reset Notes—Fallbacks”*, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the relevant Subsequent Margin.

#### *Fallbacks*

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum (converted as set out in the definition of such term above) of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards))



of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum (converted as set out in the definition of such term above) of (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotation and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of “*Interest—Interest on Reset Notes—Fallbacks*”, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the rate of interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of section “*Interest—Interest on Reset Notes—Fallbacks*”, “**Reference Banks**” means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

#### *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount*

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the Principal Paying Agent, the Trustee and any competent authority or stock exchange by or on which the relevant Reset Notes are for the time being listed and notice thereof to be published in accordance with “—*Notices*”) as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in “*Interest—Interest on Floating Rate Notes—Determination of Rate of Interest and Calculation of Interest Amounts*”) thereafter.

#### *Determination or Calculation by an agent appointed by the Trustee*

If for any reason the Calculation Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with “*Interest—Interest on Reset Notes—Rates of Interest and Interest Payment Dates*”), the Trustee may (at the expense of the Issuer) appoint an agent to do so and such determination shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this section “*Interest—Interest on Reset Notes*”) with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

#### *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this section “*Interest—Interest on Reset Notes*”) by the Calculation Agent or any agent appointed by the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Calculation Agent, the other Paying Agents and all noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the noteholders or the Couponholders shall attach to the Calculation Agent or the Trustee or any agent appointed by the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### *Interest on Floating Rate Notes*

##### *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrear on either:

- (i) the Interest Payment Date(s) in each year specified in the applicable Final Terms (the period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date, each an **Interest Period**); or
- (ii) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date, each such date being an Interest Payment Date.

If any Interest Payment Date which is specified in the applicable Final Terms to be subject to adjustment in accordance with a business day convention would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (A) in any case where Interest Periods are specified in accordance with (ii) above, the Floating Rate Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

#### *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

Interest on Floating Rate Notes will be determined by reference to the applicable Interest Rate Basis or Bases, which may, as described below, include:

- the CD Rate;
- the one-year Constant Maturity Treasury Rate (“**CMT Rate**”);
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;
- EURIBOR;
- the Federal Funds Rate;
- LIBOR;
- the Prime Rate; or
- the Treasury Rate.

The applicable Final Terms will specify whether any Margin, expressed as a percentage amount, is to be added or subtracted from the related Interest Rate Basis or Bases applicable to such Floating Rate Note.

The applicable Final Terms will specify whether the rate of interest on the related Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually or annually or at such other specified intervals as specified in the applicable Final Terms (each, an “**Interest Reset Period**”) and the dates on which such rate of interest will be reset (each, an “**Interest Reset Date**”). If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Reset Date will be postponed to the next succeeding Business Day except that in the case of a Floating Rate Note as to which EURIBOR 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 Period will be the rate determined by the Calculation Agent (as specified in the applicable Final Terms) as of the applicable Interest Determination Date (“**Interest Determination Date**”).

The interest rate applicable to each Interest Reset Period commencing on the related Interest Reset Date will be the rate determined by the Calculation Agent (as specified in the applicable Final Terms) as of the applicable Interest Determination Date and calculated on or prior to the Calculation Date (as defined below), except with respect to the Eleventh District Cost of Funds Rate, EURIBOR 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.

The “**Calculation Date**,” if applicable, pertaining to any Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

The Calculation Agent shall determine each Interest Rate Basis in accordance with the following provisions:

#### *CD Rate*

“**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 specified in the applicable Final Terms.

“**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*

“**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 specified in the applicable Final Terms.

- (2) if the Reuters Page T7052 is specified in the applicable Final Terms as the Designated CMT Reuters Page:
- (a) the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities,” as the yield is displayed on Reuters (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) on page FEDCMT (or any other page as may replace the specified page on that service) (“**T7052 Page**”), for the week preceding the week in which such Interest Determination Date falls, or
  - (b) if the rate referred to in clause (a) does not so appear on the T7052 Page, the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index and for the week preceding such Interest Determination Date as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities,” or
  - (c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week average yield for United States Treasury securities at “constant maturity” having the particular Designated CMT Maturity Index as otherwise announced by the Federal Reserve Bank of New York for the week preceding the week in which such Interest Determination Date falls, or
  - (d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
  - (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
  - (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with us) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at the time, or

- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest or the lowest of the quotations will be eliminated, or
- (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

If two United States Treasury securities with an original maturity greater than the Designated CMT Maturity Index specified in the applicable Final Terms have remaining terms to maturity equally close to the particular Designated CMT Maturity Index, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

**“Designated CMT Maturity Index”** means the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in the applicable Final Terms with respect to which the CMT Rate will be calculated.

#### *Commercial Paper Rate*

**“Commercial Paper Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Commercial Paper Rate, the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “Commercial Paper— Nonfinancial” or, if not so published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the Money Market Yield on such Interest Determination Date for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper—Nonfinancial.” If such rate is not yet published in H.15(519), the H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Commercial Paper Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 a.m., New York City time on such Interest Determination Date of three leading dealers of U.S. dollar commercial paper in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) for U.S. dollar commercial paper having the Index Maturity specified in the applicable Final Terms placed for industrial issuers whose bond rating is “Aa,” or the equivalent, from a nationally recognized statistical rating organization; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Commercial Paper Rate determined as of such Interest Determination Date will be the Commercial Paper Rate in effect on such Interest Determination Date, or, if no Commercial Paper Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

**“Money Market Yield”** means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{MoneyMarketYield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “**D**” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “**M**” refers to the actual number of days in the applicable Interest Reset Period.

### *Eleventh District Cost of Funds Rate*

**“Eleventh District Cost of Funds Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Eleventh District Cost of Funds Rate, the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which such Interest Determination Date falls as set forth opposite the caption “11th Dist COFI” on the display on Reuters (or any successor service) on page COFI/ARMS (or any other page as may replace such page on such service) (**“COFI/ARMS Page”**) as of 11:00 a.m., San Francisco time, on such Interest Determination Date. If such rate does not appear on the COFI/ARMS Page on such Interest Determination Date then the Eleventh District Cost of Funds Rate on such Interest Determination Date shall be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the **“Index”**) by the FHLB of San Francisco as such cost of funds for the calendar month immediately preceding such Interest Determination Date. If the FHLB of San Francisco fails to announce the Index on or prior to such Interest Determination Date for the calendar month immediately preceding such Interest Determination Date, the Eleventh District Cost of Funds Rate for such Interest Determination Date will be the Eleventh District Cost of Funds Rate in effect on such Interest Determination Date; provided, that if no Eleventh District Cost of Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

### *EURIBOR*

**“EURIBOR”** means the rate determined in accordance with the following provisions:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to EURIBOR, EURIBOR will be the rate for deposits in euro for a period of the Index Maturity as specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated EURIBOR Page as of 11:00 A.M., Brussels time, on such Interest Determination Date; or if no such rate so appears, EURIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (2) below.
- (2) With respect to an Interest Determination Date on which no rate appears on the Designated EURIBOR Page as specified in clause (1) above, the Calculation Agent will request the principal eurozone office of each of four major reference banks (which may include affiliates of the Placement Agents) in the eurozone interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in euro for the period of the Index Maturity specified in the applicable Final Terms commencing on the applicable Interest Reset Date, to prime banks in the eurozone interbank market at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in euro in such market at such time. If at least two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such Interest Determination Date by three major banks (which may include affiliates of the Placement Agents) in the eurozone selected by the Calculation Agent (after consultation with us) for loans in euro to leading European banks, having the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in euro in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, EURIBOR determined as of such Interest Determination Date will be EURIBOR in effect on such Interest Determination Date, or, if no EURIBOR was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.



**“Designated EURIBOR Page”** means the display on the page specified in the applicable Final Terms for the purpose of displaying the eurozone interbank rates of major banks for the euro; provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any successor service) on the EURIBOR 01 page (or any other page as may replace such page on such service) shall be used.

**“eurozone”** means the region comprised of member states of the European Union that have adopted the single currency in accordance with the Treaty on European Union signed at Maastricht on February 7, 1992.

#### *Federal Funds Rate*

**“Federal Funds Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Federal Funds Rate, the rate on such date for U.S. dollar federal funds as published in H.15(519) opposite the heading “Federal Funds (Effective),” as such rate is displayed on Reuters (or any successor service) on page FEDFUNDS 1 (or any other page as may replace such page) (**“Reuters Page FEDFUNDS 1”**), or, if such rate does not appear on Reuters Page FEDFUNDS 1 or is not so published by 5:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date for U.S. dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective).” If such rate does not appear on Reuters Page FEDFUNDS 1 or is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the related Calculation Date, then the Federal Funds Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us) prior to 9:00 a.m., New York City time, on such Interest Determination Date; provided, however, that if the brokers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Interest Determination Date will be the Federal Funds Rate in effect on such Interest Determination Date, or, if no Federal Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

#### *LIBOR*

**“LIBOR”** means the rate determined in accordance with the following:

- (1) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to LIBOR, LIBOR will be the rate for deposits in the Designated LIBOR Currency for a period of the Index Maturity specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 A.M., London time, on such Interest Determination Date, or if no such rate so appears, LIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (2) below.
- (2) With respect to an Interest Determination Date on which no rate appears on the Designated LIBOR Page as specified in clause (1) above, the Calculation Agent will request the principal London offices of each of four major reference banks (which may include affiliates of the Placement Agents) in the London interbank market, as selected by the Calculation Agent (after consultation with us), to provide the Calculation Agent with its offered quotation for deposits in the Designated LIBOR Currency for the period of the Index Maturity specified in the applicable Final Terms, commencing on the applicable Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on such Interest Determination Date

by three major banks (which may include affiliates of the Placement Agents) in such Principal Financial Center selected by the Calculation Agent (after consultation with us) for loans in the Designated LIBOR Currency to leading European banks, having the Index Maturity specified in the applicable Final Terms, commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined as of such Interest Determination Date will be LIBOR in effect on such Interest Determination Date or, if no LIBOR rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

**“Designated LIBOR Currency”** means the currency specified in the applicable Final Terms as to which LIBOR shall be calculated or, if no such currency is specified in the applicable Final Terms, U.S. dollars.

**“Designated LIBOR Page”** means the display on the page specified in the applicable Final Terms for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency, provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any such service) on the LIBOR 01 page (or any other page as may replace such page on such service) shall be used for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency.

#### *Prime Rate*

**“Prime Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Prime Rate, the rate on such date as such rate is published in H.15(519) opposite the caption “Bank Prime Loan” or, if not published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the rate on such Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, opposite the caption “Bank Prime Loan.” If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Prime Rate shall be the arithmetic mean, as determined by the Calculation Agent, of the rates of interest publicly announced by three major banks (which may include affiliates of the Placement Agents) in New York City selected by the Calculation Agent (after consultation with us) as the U.S. dollar prime rate or base lending rate in effect for such Interest Determination Date. (Each change in the prime rate or base lending rate of any bank so announced by such bank will be effective as of the effective date of the announcement or, if no effective date is specified, as of the date of the announcement.) If fewer than three major banks (which may include affiliates of the Placement Agents) so selected in New York City have publicly announced a U.S. dollar prime rate or base lending rate for such Interest Determination Date, the Prime Rate with respect to such Interest Determination Date shall be the rate in effect on such Interest Determination Date, or, if no Prime Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

#### *Treasury Rate*

**“Treasury Rate”** means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined by reference to the Treasury Rate, the rate from the auction held on such Interest Determination Date (the **“Auction”**) of direct obligations of the United States (**“Treasury Bills”**) having the Index Maturity specified in the applicable Final Terms under the caption **“INVEST RATE”** on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace such page) (**“USAUCTION 10”**) or page USAUCTION 11 (or any other page as may replace such page) (**“USAUCTION 11”**) or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption **“U.S. Government Securities/Treasury Bills/ Auction High”** or, if not so published by 3:00 p.m., New

York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of such Treasury Bills as announced by the U.S. Department of the Treasury. In the event that the auction rate of Treasury Bills having the Index Maturity specified in the applicable Final Terms is not so announced by the U.S. Department of the Treasury, or if no such Auction is held, then the Treasury Rate will be the Bond Equivalent Yield of the rate on such Interest Determination Date of Treasury Bills having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “U.S. Government Securities/Treasury Bills/Secondary Market” or, if not yet published by 3:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date of such Treasury Bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/Secondary Market.” If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be calculated by the Calculation Agent and will be the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on such Interest Determination Date, of three primary U.S. government securities dealers (which may include the Placement Agents or their affiliates) selected by the Calculation Agent (after consultation with us), for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Interest Determination Date will be the Treasury Rate in effect on such Interest Determination Date, or, if no Treasury Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate specified in the applicable Final Terms.

“**Bond Equivalent Yield**” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{BondEquivalentYield} = \frac{D \times N \times 100}{360 - (D \times M)}$$

where “**D**” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis, “**N**” refers to 365 or 366, as the case may be, and “**M**” refers to the actual number of days in the applicable Interest Reset Period.

*Minimum and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

The interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified, or other applicable law.

*Determination of Rate of Interest and calculation of Interest Amount; Percentages*

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Calculation Agent will calculate the amount of interest (each an “**Interest Amount**”) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the aggregate outstanding nominal amount of the notes and multiplying such sum by the Day Count Fraction specified in the applicable Final Terms. The resultant figure will be rounded as follows (or otherwise in accordance with applicable market convention):

- (i) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up);
- (ii) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen; and

- (iii) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

All percentages resulting from any calculation on Floating Rate Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five or more one millionths of a percentage point rounded upwards (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)).

#### *Notification of Rate of Interest and Interest Amounts*

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Issuer, to the Trustee and to any listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to be published as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will promptly be notified to each listing authority, stock exchange and/or quotation system to which the Floating Rate Notes have then been admitted to listing, trading and/or quotation and to the holders in accordance with the indenture.

#### *Determination or calculation by Trustee*

If for any reason at any time after the Original Issue Date, the Calculation Agent defaults in its obligation to determine the Rate of Interest in accordance with this subsection or the Calculation Agent defaults in its obligation to calculate any Interest Amount in accordance with this subsection, the Trustee (or an agent acting on its behalf) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this subsection, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee (or an agent acting on its behalf) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

#### *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this subsection, whether by the Paying Agent or the Calculation Agent or the Trustee, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Paying Agent, the Calculation Agent, the Trustee, any other paying agents and all holders and (in the absence as aforesaid) no liability to the Issuer or the holders shall attach to the Paying Agent, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

#### **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.

#### **Payment of Additional Amounts**

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 Zero Coupon Notes, the Amortized Face Amount (as defined below) or other amount payable in respect thereof) and interest, if any, on such note, after deduction or other withholding for or on account of any present or future tax, assessment, duty or other governmental charge of any nature whatsoever imposed, levied or collected by or on behalf of the United Kingdom, or any political

subdivision thereof or authority therein having power to tax, will not be less than the amount provided for in such note as then due and payable. 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 Zero Coupon 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 Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of such note;
- (4) by reason of any estate, excise, inheritance, gift, sales, transfer, wealth, personal property tax or any similar assessment or governmental charge;
- (5) as a result of the failure of a holder to satisfy any statutory requirements or make a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (6) by reason of any note presented for payment in the United Kingdom if such payment could have been made by or through any other paying agent without such tax, assessment, duty or other governmental charge; or
- (7) owing to a combination of clauses (1) through (6) 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 Zero Coupon 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 Zero Coupon 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**

### ***Final Redemption***

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at 100% of its nominal amount in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

### ***Redemption for Tax Reasons***

If the Issuer at any time satisfies the trustee immediately prior to the giving of the notice referred to below that:

- (1) (in the case of senior notes) on the occasion of the next payment due in respect of the notes, the Issuer will or would be required to pay additional amounts as described under **“—Payment**

of *Additional Amounts*” or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable in respect of the notes) calculated by reference to any amount payable in respect of the notes; or

- (2) (in the case of subordinated notes) a Tax Event has occurred;

and, in any such case, the Issuer cannot avoid the same by taking reasonable measures available to it, then the Issuer may in its sole discretion (and in the case of subordinated notes, in accordance with “—*Preconditions to redemption and purchase of subordinated notes*”), having given notice of not more than 60 days nor less than 30 days prior to the date of redemption to the trustee and, in accordance with “—*Notices*”, the noteholders (which notice shall be irrevocable), redeem at any time (if this note is not a Floating Rate Note) or on any Interest Payment Date (if this note is a Floating Rate Note) all (but not some only) of the notes at their early redemption amount as provided under “—*Early Redemption Amounts*” together, if applicable, with interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice the Issuer shall be bound to redeem the notes accordingly.

Prior to the publication of any notice of early redemption pursuant to the provisions set forth above, the Issuer shall deliver to the trustee a certificate signed by any two authorised signatories of the Issuer confirming that the relevant circumstances in (1) above (in the case of senior notes) or (2) above (in the case of subordinated notes) have occurred and are continuing. The trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the trustee and the noteholders. Upon the expiry of such notice the Issuer shall be bound to redeem the notes accordingly.

A “**Tax Event**” will be deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making any payments on the subordinated notes, the Issuer has paid or will or would on the next payment date be required to pay additional amounts as described under “—*Payment of Additional Amounts*”;
- (ii) the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of any payments in respect of the subordinated notes in computing its taxation liabilities or the amount of such deduction is or will be materially reduced;
- (iii) the subordinated notes are, or will be, prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iv) the Issuer is not, or will not be, able to have losses or deductions set against any profits or gains, or profits or gains offset by any losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the subordinated notes or any similar system or systems having like effect as may from time to time exist).

As used herein, “**Tax Law Change**” means any change in, or amendment to, the laws or regulations of the United Kingdom (including any treaty to which it is a party) or any political subdivision or any authority thereof or therein having power to tax, or any change in the official interpretation thereof by the relevant tax authority or in the application of such laws or regulations by a decision of any court or tribunal that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or any pronouncement of a tax authority in the United Kingdom, which change or amendment becomes effective or, in the case of a change in law, if such change is enacted by a UK Act of Parliament or by Statutory Instrument, on or after the Issue Date.

### ***Redemption at Our Option***

Subject (in the case of subordinated notes only) to compliance with the “—*Preconditions to redemption and purchase of subordinated notes*”, if so specified in the applicable Final Terms, the notes of a series will be redeemable at our option prior to the Stated Maturity. If so specified, and subject to the terms set forth in the applicable Final Terms, the notes will be subject to redemption at our option on any date on and after the applicable Initial Redemption Date specified in the applicable Final Terms in whole or from time to

time in part in minimum increments of \$200,000 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 \$200,000 for senior notes and \$250,000 for subordinated notes, or such minimum denomination), at the Redemption Price specified in the applicable Final Terms 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.

The notes will not be subject to any sinking fund.

#### ***Regulatory Event Redemption of Subordinated Notes***

Subject to compliance with “—*Preconditions to redemption and purchase of subordinated notes*”, the Issuer may, in its sole discretion, if a Regulatory Event has occurred, having given notice of not more than 60 days nor less than 30 days prior to the date of redemption to the trustee and, in accordance with “—*Notices*”, the noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the subordinated notes at their early redemption amount as provided under “—*Early Redemption Amounts*” together, if applicable, with interest accrued to (but excluding) the date fixed for redemption.

Prior to the publication of any notice of early redemption pursuant to the paragraph above, the Issuer shall deliver to the trustee a certificate signed by any two authorised signatories of the Issuer confirming that a Regulatory Event has occurred. The trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the trustee and the noteholders. Upon the expiry of such notice the Issuer shall be bound to redeem the subordinated notes accordingly.

#### ***Repayment at the Option of the Holders (other than holders of subordinated notes)***

If so specified in the applicable Final Terms (unless the relevant Note is a Subordinated Note), 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, upon not more than 30 days’, nor less than 15 days’, notice prior to such Optional Repayment Dates. If no Optional Repayment Date is specified with respect to a note, such note will not be repayable at the option of the holder thereof prior to the Stated Maturity. Any repayment in part will be in increments of \$200,000 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 \$200,000 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. Exercise of the repayment option is irrevocable.

#### ***Late Payment on Zero Coupon Notes***

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to this subsection or upon its becoming due and repayable as provided upon the occurrence of any Event of Default under the indenture is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided under “—*Early Redemption Amounts*” below as though the references therein to the date fixed for redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of the Zero Coupon Note have been paid; and
- (b) the date on which the full amount of the moneys payable has been received by the Paying Agent or the Trustee and notice to that effect has been given to the holders.

#### ***Early Redemption Amounts***

For the purposes of redemption for tax reasons or a regulatory event and redemption upon the occurrence of any Event of Default under the indenture, each Note will be redeemed at an amount calculated as follows, together with interest, if any, to the date fixed for redemption:

- (a) (in the case of Notes other than Zero Coupon Notes) at 100% of the principal amount (and premium, if any, thereon) (the **early redemption amount**); or
- (b) in the case of Zero Coupon Notes, at an amount (the **Amortized Face Amount**) equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Original Issue Date of the notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360 day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365).

#### ***Selection of Notes for Partial Redemption***

In the case of any partial redemption of notes, and subject to the terms specified in the applicable Final Terms, the notes to be redeemed shall be selected by the trustee individually by lot not more than 60 days prior to the Redemption Date from the outstanding notes not previously called for redemption, provided that partial redemption of Global Notes shall be effected in accordance with DTC's procedures.

#### ***Repurchase***

Subject (in the case of subordinated notes only) to compliance with "*—Preconditions to redemption and purchase of subordinated notes*" and prevailing Regulatory Capital Requirements, 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 or, at our discretion, notes may be surrendered to the trustee for cancellation.

#### ***Preconditions to redemption and purchase of subordinated notes***

Any redemption or purchase of subordinated notes in accordance with any applicable subsection of this section "*—Redemption and Repurchase*" is subject to:

- (a) the Issuer having obtained Relevant Supervisory Consent therefor;
- (b) either: (A) the Issuer having replaced the subordinated notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; and
- (c) in the case of any redemption prior to the fifth anniversary of the Issue Date, (A) in the case of redemption upon a Tax Event, the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the change in tax treatment is material and was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Notwithstanding the foregoing, if, at the time of any redemption or purchase, the prevailing Regulatory Capital Requirements permit a repayment or purchase only after compliance with one or more additional or alternative preconditions to those set out above in this subsection, the Issuer shall comply (in addition or in the alternative, as the case may be) with such additional and/or alternative precondition(s).



As used herein, “**Relevant Supervisory Consent**” means, in relation to any action, such permission or waiver of the Supervisory Authority as is then required for such action under prevailing Regulatory Capital Requirements.

#### **Agreement with Respect to the Exercise of UK Bail-in Power**

By its acquisition of the notes, each noteholder (including each beneficial owner) acknowledges, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority (as defined below) that may result in (i) the cancellation, write-down or reduction of all, or a portion, of the principal amount of, or interest on, the notes (including by variation of the notes) and/or (ii) any other modification of the notes and/or (iii) the conversion of all, or a portion, of the principal amount of, or interest on, the notes into our or another person's shares or other securities or other obligations (including by variation of the notes) to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power, and the rights of the holders of the notes will be subject to the provisions of any UK bail-in power which are expressed to implement such a reduction, write-down, cancellation, modification or conversion. Each noteholder further acknowledges and agrees that the rights of the noteholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise by the relevant UK resolution authority of such UK bail-in power.

For purposes of the notes, a “UK bail-in power” is any statutory power to effect a cancellation, write-down, reduction, modification and/or conversion of a liability existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and certain banking group companies (including relevant parent undertakings, subsidiaries and/or affiliates) incorporated in the United Kingdom in effect and applicable to the issuer or any member of the Group (as defined herein), including but not limited to the Banking Act, as the same may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 or otherwise), and any laws, regulations, rules or requirements in the United Kingdom which are adopted or enacted in order to implement Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the “**BRRD**”), pursuant to which liabilities of a credit institution, investment firm, certain of its parent undertakings and/or certain of its affiliates can be cancelled, written down, reduced, modified and/or converted into shares or other securities or obligations of the issuer or any other person (and a reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power). “Group” means the Issuer together with its subsidiaries consolidated in accordance with International Financial Reporting Standards.

No repayment of the principal amount of the notes or payment of interest on the notes shall become due and payable after the exercise of any UK bail-in power by the relevant UK resolution authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us after the exercise of such UK bail-in power.

By its acquisition of the notes, each holder of the notes waives any and all claims against the trustee for, agrees not to initiate a suit against the trustee in respect of, and agrees that the trustee will not be liable for, any action that the trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes.

Upon the exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes, we will provide a written notice to DTC as soon as practicable regarding such exercise of the UK bail-in power for purposes of notifying holders of the notes of such occurrence. We will also deliver a copy of such notice to the trustee for information purposes.

The exercise of the UK bail-in power by the relevant UK resolution authority with respect to the notes will not be an Event of Default (as defined in the indenture) with respect to such notes.

Our obligations to indemnify the trustee shall survive the exercise of the UK bail-in power by the relevant UK resolution authority with respect to any notes.

By its acquisition of the notes, each noteholder acknowledges and agrees that, upon the exercise of any UK bail-in power by the relevant UK resolution authority with respect to such notes, (a) the trustee shall not be required to take any further directions from noteholders of the affected notes and (b) the indenture shall impose no duties upon the trustee whatsoever with respect to the exercise of any UK bail-in power by the relevant UK resolution authority. Notwithstanding the foregoing, if, following the completion of the exercise of the UK bail-in power by the relevant UK resolution authority, any notes remain outstanding (for example, if the exercise of the UK bail-in power results in only a partial write-down of the principal of the notes), then the trustee's duties under the indenture shall remain applicable with respect to any notes following such completion to the extent that the issuer and the trustee shall agree pursuant to another supplemental indenture or an amendment to the indenture; provided, however, that notwithstanding the exercise of the UK bail-in power by the relevant UK authority, there shall at all times be a trustee for the notes in accordance with the indenture, and the resignation and/or removal of the trustee and the appointment of a successor trustee will continue to be governed by the indenture, including to the extent no additional supplemental indenture or amendment is agreed upon in the event the notes remain outstanding following the completion of the exercise of the UK bail-in power.

By its acquisition of the notes, each noteholder (a) acknowledges and agrees to be bound by and consents to the exercise of any UK bail-in power as it may be imposed without any prior notice by the relevant UK resolution authority of its decision to exercise such power with respect to such notes and (b) shall be deemed to have authorized, directed and requested DTC and any direct participant in DTC or other intermediary through which it holds such notes to take any and all necessary action, if required, to implement the exercise of any UK bail-in power with respect to such notes as it may be imposed, without any further action or direction on the part of such holder or the trustee.

For a discussion of certain risk factors relating to the UK bail-in power, see “*Risk Factors—Risks Related to the Notes.*”

### **Negative Pledge**

The negative pledge applies to the senior 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 ourselves or itself or the whole or any substantial part of our or its undertaking, property, assets or revenues; or we take, or any Material Subsidiary takes, any proceeding under any law for a readjustment or deferment of our or its obligations or any part thereof; or we make or enter, or any Material Subsidiary makes or enters, into a general assignment or an arrangement or composition with or for the benefit of our or its creditors; 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).

“**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 apply with respect to the subordinated notes:

- (a) *Non-payment when due:* If default is made for a period of seven days or more in the payment of any principal due on the Notes or any of them or for a period of 14 days or more in the payment of any interest due on the Notes or any of them, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of Notes then outstanding shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), institute proceedings for the winding up of the Issuer in England (but not elsewhere) to enforce the obligations of the Issuer in respect of the Notes and the Indenture in so far as it relates to the Notes, but may take no other action in respect of such default (except as provided in paragraph (b) below).
- (b) *Winding up or dissolution:* In the event of a winding up or dissolution of the Issuer (other than an Excluded Dissolution), whether or not instituted by the Trustee pursuant to paragraph (a) above, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of Notes then outstanding shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer (or the relevant official presiding over such winding up or dissolution) that the Notes are, and they shall accordingly immediately become, due and repayable at their principal amount together with accrued interest as provided in the Indenture, and shall claim and/or prove in such winding up or dissolution in respect of the Notes (such claim being subordinated as provided in “—*Status and Subordinated of Subordinated Notes*”).
- (c) *Enforcement:* Without prejudice to paragraphs (a) and (b) above, the Trustee may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Indenture or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Indenture, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Indenture, nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Issuer.
- (d) *Rights of holders:* No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so, in which case any such holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No such holder shall be entitled to institute proceedings for the winding up of the Issuer, or to prove in any winding up or dissolution of the Issuer, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so, or, being able to prove in any winding up of the Issuer, fails to do so, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) itself institute proceedings for the winding up in England (but not elsewhere) of the Issuer and/or prove in any winding up or dissolution of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of such Notes held by him.
- (e) *Extent of remedy:* No remedy against the Issuer, other than the institution of proceedings for the winding up in England of the Issuer and/or the proving or claiming in any winding up or dissolution of the Issuer, shall be available to the Trustee or the noteholders for the recovery of amounts owing in respect of such Notes or under the Indenture in so far as it relates to the Notes.
- (f) *Rights of Trustee:* The Trustee may at its discretion institute such proceedings as are contemplated by this subsection against the Issuer to enforce the obligations of the Issuer under the Indenture in so far as it relates to the Notes, but it shall not be bound to institute any

such proceedings unless (a) it shall have been so requested in writing by noteholders holding at least one-quarter in nominal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

### **Collection of Indebtedness and Suits for Enforcement by 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**

The satisfaction and discharge provisions described below do not apply to subordinated notes.

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 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 “—*Negative Pledge*.”

The holders of a majority in aggregate principal amount of the Outstanding Notes of a series of notes may waive on behalf of the holders of all notes of such series, any past default and its consequences under the indenture, except a default in the payment of the principal of (or premium, if any, on) or interest, if any, on any such note of that series or a default in respect of a covenant or a provision which under the indenture cannot be modified or amended without the consent of the holder of each Outstanding Note of such series.

In addition to our and the trustee's rights to modify and amend the indenture as described above, modifications of and amendments to the terms of the indenture or the notes may be made by us and the trustee, without the further consent of the noteholders, to the extent necessary to give effect to the exercise by the relevant UK resolution authority of the UK bail-in power.

**Notices**

Notices to holders of notes will be given by mail to addresses of such holders as they appear in the notes' register.

**Governing Law**

The indenture and the notes shall be governed by and construed in accordance with the laws of the State of New York; except that 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 subsection entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*” The laws of some states require that certain purchasers of notes take physical delivery of such notes in certificated form. Such laws may impair the ability to transfer beneficial interests in a Global Note.

Interests held through Clearstream and Euroclear will be recorded on DTC’s books as being held by the U.S. depository for each of Clearstream and Euroclear, which U.S. depositories will in turn hold interests on behalf of their participants’ customers’ securities accounts.

To facilitate subsequent transfers, all Global Notes deposited with DTC are registered in the name of DTC’s partnership nominee, Cede. DTC has no knowledge of the actual owners of beneficial interests in the Global Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such beneficial interests in Global Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be

governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede and any subsequent nominee of DTC. If less than all of the notes within a series are being redeemed, DTC's current practice is to determine *pro rata* or by lot the amount of the beneficial interest of each Direct Participant in such issue to be redeemed.

Principal and interest payments on the Global Notes will be made to DTC as the registered holder of the Global Notes. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is our responsibility, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct Participants and Indirect Participants.

A beneficial owner shall give notice to elect to have its beneficial interests in the Global Notes purchased or tendered, through its Participant, to the trustee for a series of notes, and shall effect delivery of such beneficial interests in the Global Notes by causing the Direct Participant to transfer the Participant's beneficial interest in the Global Notes, on DTC's records, to the trustee.

DTC may discontinue providing its services as securities depository with respect to the Global Notes at any time by giving reasonable notice to us and the Placement Agents. Under such circumstances, in the event that a successor securities depository is not obtained, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the subsection entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*"

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the Global Notes as described under the subsection entitled "*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*"

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

In no event will definitive notes in bearer form representing any series of notes be issued.

None of us, any trustee, any paying agent, any registrar for the notes or any Placement Agent will have any responsibility or liability for any aspect of DTC's records or any DTC Participant's records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any of DTC's records or any DTC Participant's records relating to such beneficial ownership interests.

The indenture and the notes require that payments in respect of the notes be made in immediately available funds. Interests in the notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in the notes will be required to be settled in immediately available funds. We do not know the effect, if any, of such settlement arrangements on trading activity in the notes or interests in the notes.

### **Issuance of Certificated Notes**

If (i) DTC notifies us and the trustee that it is unwilling or unable to continue as holder of the Global Notes or if at any time it ceases to be a clearing agency registered under the Exchange Act and, in either case, a successor holder is not appointed by us within 90 days of such notification or of our becoming aware of such ineligibility, (ii) an Event of Default occurs with respect to one or more series of notes, or (iii) we determine in our sole discretion (subject to DTC's procedures) that certificated notes of such series will be issued in registered form, then in any such case, upon the written request of the holder of the Global Note, the trustee will

issue certificated registered notes in the names and in the amounts as specified by the holder of the Global Note. The request for certificated notes may be made by the holder in the circumstances and subject to the conditions described under the subsection entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*”

The exchange of interests in the Global Note for certificated notes of a particular series shall be made free of any fees of the trustee to the holder, provided, however, that such person receiving notes in certificated form will be obligated to pay or otherwise bear the cost of any tax or other governmental charge as required by the indenture and any cost of insurance, postage, transportation and the like.

### **Repayment**

If a note becomes repayable at the option of the holder on a date or dates specified prior to its maturity date, if any, and the trustee is so notified, the trustee will promptly notify the holder of the Global Note that such note has become repayable. In order for the repayment option on any note to be exercised, the owners of beneficial interests in the Global Note must instruct the broker or other DTC Participant through which it holds an interest in the Global Note to notify the trustee of its desire to exercise that right to repayment. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other DTC Participant through which it holds its beneficial interest in a Global Note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to the depository.

### **Record Date**

Unless we otherwise instruct the trustee in writing, the record date for the determination of the holder of Global Notes entitled to receive payment in respect of a Global Note will be the date which is 15 calendar days prior to the applicable payment date on such Global Note in respect of such Global Note, provided that interest payable at Maturity will be payable to the person to whom principal shall be payable. If such 15th day is not a Business Day, the record date for determination will be the next succeeding Business Day. Whenever we or the trustee deem it appropriate to fix a record date for the determination of the holder of Global Notes who should be entitled to receive payment or take any action in respect of Global Notes, the trustee, with our consent, will set such record date at least 15 days prior to the date on which such payment is to be made or such action is to be taken.

### **Reports**

The trustee will send promptly to the applicable holders of the Global Notes any notices, reports and other communications from us that are received by the custodian as holder of the Global Notes and that we make generally available to holders of the notes.

## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each tranche of Notes issued under the Program.*

[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 Terms and Conditions set forth in the Base Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [original date] and incorporated by reference into the Base Prospectus dated [date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus, dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**), including the Terms and Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).]

### TYPE OF NOTE

- |    |                      |  |
|----|----------------------|--|
| 1. | Senior/Subordinated: | [ ]  |
| 2. | Interest Basis:      | [Fixed Rate/Reset/Floating Rate/Zero Coupon/Combination] |

### DESCRIPTION OF THE NOTES

- |    |   |   |
|----|---|---|
| 3. | (a) Series Number:  | [ ]   |
|    | (b) Tranche Number:   | [ ]   |
| 4. | (a) Nominal Amount of Notes to be issued:                                       | [ ]   |
|    | (b) Aggregate nominal amount of Series (if more than one issue for the Series): | [ ]   |
|    | (c) Specified Currency:   | [ ]   |
|    | (d) Currency Determination Agent:   | [ ] [Not Applicable]                                  |
|    | (e) Specified Denomination(s):  | [ ] [and integral multiples of [ ] in excess thereof] |
| 5. | Issue Price:  | [ ]   |

6. Issue Date: [ ]
7. Original Issue Date: [ ]
8. Interest Commencement Date: [ ] [Issue Date] [Not Applicable]
9. Automatic/optional conversion from one Interest Basis to another: [ ] [Not Applicable]
10. Additional Business Center(s): [ ] [Not Applicable]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

**Fixed Rate Note Provisions** [Applicable/Not Applicable]

11. (a) Fixed Rate(s) of Interest: [ ] % per annum payable in arrear on each Fixed Interest Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date
- (c) Day Count Fraction: Actual/Actual (ICMA)] [30/360]
- (d) Determination Date(s): [ ] [Not Applicable]

**Zero Coupon Note Provisions** [Applicable/Not Applicable]

12. (a) Accrual Yield: [ ]
- (b) Reference Price: [ ]
- (c) Calculation Agent (if any): [ ]

**Floating Rate Note Provisions** [Applicable/Not Applicable]

13. (a) Calculation Agent responsible for calculating the Interest Rate and Interest Amount (if not the Agent): [ ]
- (b) Interest Period(s) or specified Interest Payment Date(s): [ ]
- (c) Business Day Convention: [Floating Rate/Following Business Day/Modified Following Business Day/Preceding Business Day]
- (d) First Interest Payment Date: [ ]
- (e) Calculation Date: [ ]
- (f) Interest Rate Basis/Bases: [CD Rate/CMT Rate/Commercial Paper Rate/Eleventh District Cost of Funds Rate/EURIBOR/Federal Funds Rate/LIBOR/Prime Rate/Treasury Rate]
- (g) Designated CMT Reuters Page: [Not Applicable] [Reuters 7051 Page/Reuters Page T7052]
- (h) Designated EURIBOR Page: [Not Applicable] [EURIBOR 01/[ ]]
- (i) Designated LIBOR Currency: [Not Applicable] [USD/[ ]]
- (j) Designated LIBOR Page: [Not Applicable] [LIBOR 01/[ ]]
- (k) Initial Interest Rate: [ ]
- (l) Initial Interest Reset Date: [ ]
- (m) Interest Reset Period: [ ]
- (n) Interest Reset Dates: [ ]

- (o) Index Maturity: [Not Applicable] [ ]
- (p) Designated CMT Maturity Index: [Not Applicable] [ ]
- (q) Margin(s): [plus/minus] [ ]% per annum
- (r) Minimum Interest Rate (if any): [ ]% per annum
- (s) Maximum Interest Rate (if any): [ ]% per annum
- (t) Day Count Fraction: [[Actual/Actual (ISDA)] [Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360] [360/360] [Bond Basis]  
[30E/360] [Eurobond Basis]  
[30E/360 (ISDA)]]

#### Reset Note Provisions

- [Applicable/Not Applicable]
- (a) Initial Rate of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date]
- (b) First Margin: [+/-][ ] per cent. per annum
- (c) Subsequent Margin: [[+/-][ ] per cent. per annum] [Not Applicable]
- (d) Interest Payment Date(s): [[ ] [and [ ]]] in each year up to and including the Maturity Date
- (e) Fixed Coupon Amount to (but excluding) the First Reset Date: [ ] per Calculation Amount
- (f) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
- (g) Reset Reference Rate: [Mid-Swaps/Reference Bond]
- (h) First Reset Date: [ ]
- (i) Second Reset Date: [ ]/[Not Applicable]
- (j) Subsequent Reset Date(s): [ ] [and [ ]]] [Not Applicable]
- (k) Relevant Screen Page: [ ]
- (l) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate]
- (m) Mid-Swap Maturity: [ ]
- (n) Reference Bond Reset Rate Time: [ ]
- (o) Fixed Leg Swap Duration: [ ]
- (p) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (q) Reset Determination Date(s): [[ ] in each year][Not Applicable]
- (r) Business Centre(s): [ ]

(s) Calculation Agent: [ ]

**PROVISIONS REGARDING  
REDEMPTION/MATURITY**

14. Maturity Date: [ ]
15. Redemption at Issuer's option: [Applicable/Not Applicable]
- (a) Initial Redemption Date(s): [ ]
- (b) Redemption Price of each Note: [[ ] per Note of [ ] Specified Denomination]
16. Repayment at holder's option: [Applicable/Not Applicable]
- (a) Optional Repayment Date(s): [ ]
- (b) Repayment price of each note: [ ] per Note of [ ] Specified Denomination]
17. Minimum Denomination for early redemption/repayment: [ ]
18. Regulatory Event (subordinated notes only): [Full Exclusion / Full or Partial Exclusion / Not Applicable]

**THIRD-PARTY INFORMATION**

[[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of **NATIONWIDE BUILDING SOCIETY**

By: ..... By: .....  
*Duly Authorized* *Duly Authorized*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (a) Listing and Admission to trading: London Stock Exchange plc
- (b) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

- Ratings: The [Program/Notes to be issued] [has/have] been rated:
- [Moody's Investors Service Limited: [ ]]
- [Standard & Poor's Credit Market Services Europe Limited: [ ]]
- [Fitch Ratings Ltd.: [ ]]
- [DBRS: [ ]]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Placement Agent(s), so far as the Issuer is aware, no person involved in the issue of the notes has an interest material to the offer. The [Manager(s)/Dealer(s)] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

### 4. YIELD (*Fixed Rate Notes only*)

- Indication of yield: [ ]

### 5. OPERATIONAL INFORMATION

- (a) CUSIP: [ ]
- (b) ISIN Code: [ ]
- (c) Common Code: [ ]
- (d) Any clearing system(s) other than The Depository Trust Company and the relevant identification number(s): [ ][Not Applicable]
- (e) Names and addresses of additional Paying Agent(s) (if any): [ ]



## TAXATION

### U.S. Federal Income Taxation

The following summary describes certain U.S. federal income tax consequences of the purchase, ownership and disposition of notes. Except where noted, this discussion deals only with holders that acquire the notes at their original issuance and that will hold the notes as capital assets and does not deal with investors subject to special tax rules, such as dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, individual retirement accounts and other tax-deferred accounts, insurance companies, persons holding notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, entities or arrangements treated as partnerships for U.S. federal income tax purposes, traders in securities that elect to use mark-to-market method of accounting for their securities holdings, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, or U.S. Holders (as defined below) of notes whose “functional currency” is not the U.S. dollar. The discussion below is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, final, temporary and proposed Treasury regulations promulgated thereunder, published rulings and judicial decisions as of the date hereof, all of which are subject to change possibly with retroactive effect or possible differing interpretations so as to result in U.S. federal income tax consequences different from those discussed below. This summary assumes that there will be no substitution of another entity in the place of the Issuer as principal debtor in respect of the notes.

The discussion set forth below only covers notes issued pursuant to the medium-term note program that will constitute debt for U.S. federal income tax purposes. If any note did not constitute debt for U.S. federal income tax purposes, the tax consequences of the ownership of such note could differ materially from the tax consequences described herein. This summary does not address the U.S. federal income tax consequences of every type of note which may be issued under the program, such as notes with an original maturity of more than 30 years or with certain contingent payment features, and additional or modified disclosure concerning certain U.S. federal income tax consequences relevant to such types of notes will be provided as appropriate. Moreover, this summary does not address U.S. federal estate, gift, or alternative minimum tax considerations, the Medicare tax on net investment income or non-U.S., state or local tax considerations.

As used herein, a “**U.S. Holder**” of a note means a beneficial owner that is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (X) that is subject to the supervision of a court within the United States and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust or (Y) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person. A “**Non-U.S. Holder**” is a beneficial owner of notes that is not a U.S. Holder.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner in such entity or arrangement will generally depend upon the status of the partner and the activities of the partnership. An entity or arrangement treated as a partnership for U.S. federal income tax purposes considering holding notes should consult its tax advisors concerning the U.S. federal income tax consequences to it and its partners of the acquisition, ownership and disposition of the notes by the partnership.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY AND DOES NOT ADDRESS EVERY TYPE OF NOTE THAT CAN BE ISSUED UNDER THE PROGRAM. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

### *Payments of Interest*

Except as set forth below, interest (including the payment of any additional amounts) on a note, other than interest on an “Original Issue Discount Note” that is not “qualified stated interest” (each as defined below),

generally will be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder's method of tax accounting, reduced by the allocable amount of amortisable bond premium, if any. Interest income (including original issue discount ("**OID**"), if any, as discussed below) on the notes will generally be treated as foreign source income. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit to the notes.

### **Original Issue Discount**

U.S. Holders of notes issued with OID will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of such notes should be aware that they generally must include OID in gross income as ordinary income in advance of the receipt of cash attributable to that income. However, U.S. Holders of such notes generally will not be required to include separately in income cash payments received on the notes, even if denominated as interest, to the extent such payments do not constitute "qualified stated interest" (as defined below). 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.

For U.S. federal income tax purposes, a note, other than a note with a term of one year or less (a "**Short-Term Note**") with an "issue price" (as defined below) that is less than its stated redemption price at maturity (the sum of all payments to be made on the note other than payments of qualified stated interest) will be issued with OID unless such difference is *de minimis* (i.e., less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of a note that provides for the payment of amounts other than qualified stated interest before maturity, the weighted average maturity). A note's weighted average maturity is the sum of the following amounts determined for each payment on a note (other than a payment of "qualified stated interest"): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the note's stated redemption price at maturity. The "**issue price**" of each note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The term "**qualified stated interest**" means stated interest that is unconditionally payable over the entire term of the note in cash or in property (other than debt instruments of the Issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments.

In the case of a note issued with *de minimis* OID, the U.S. Holder generally must include such *de minimis* OID in income at the time principal payments on the note are made in proportion to the amount paid for the note. Any amount of *de minimis* OID 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 Original Issue Discount Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Original Issue Discount Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Note may be of any length and may vary in length over the term of the Original Issue Discount Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an

amount equal to the excess, if any, of (a) the product of the Original Issue Discount Note's "adjusted issue price" at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "**adjusted issue price**" of an Original Issue Discount Note at the beginning of any accrual period is equal to its issue price increased by the amount of accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is treated as a "variable rate debt instrument" under U.S. Treasury regulations (a "**Floating Rate Note**"), both the "yield to maturity" and "qualified stated interest" generally will be determined solely for purposes of calculating the accrual of OID as though the Floating Rate Note will bear interest in all periods at a fixed rate generally equal to the value of the rate that would be applicable to interest payments on the note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Floating Rate Note is indexed in any manner. Different rules may apply if a Floating Rate Note is treated as a "contingent payment debt instrument" under U.S. Treasury regulations.

Certain notes may be treated as contingent payment debt instruments for U.S. federal income tax purposes. Under applicable U.S. Treasury regulations, interest on contingent payment debt instruments is treated as OID and must be accrued on a constant-yield basis based on a yield to maturity that reflects the rate at which the Issuer would issue a comparable fixed-rate instrument with no contingent payments but with terms and conditions otherwise similar to the contingent payment debt instruments (the "**comparable yield**"), based on a projected payment schedule determined by the Issuer (the "**projected payment schedule**"). This projected payment schedule must include each non-contingent payment on the note and an estimated amount for each contingent payment, and must produce the comparable yield.

The Issuer will be required to provide to holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments on such notes that are treated as contingent payment debt instruments for U.S. federal income tax purposes. The applicable Final Terms will either contain the comparable yield and projected payment schedule, or will provide an address to which a U.S. Holder of a contingent payment debt instrument can submit a written request for this information. A U.S. Holder generally will be bound by the comparable yield and the projected payment schedule determined by the Issuer unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly and timely justifies and discloses such schedule to the U.S. Internal Revenue Service ("**IRS**"). The Issuer's determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

THE COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE WILL NOT BE DETERMINED FOR ANY PURPOSE OTHER THAN FOR THE DETERMINATION OF INTEREST ACCRUALS AND ADJUSTMENTS THEREOF IN RESPECT OF CONTINGENT NOTES FOR UNITED STATES FEDERAL INCOME TAX PURPOSES AND WILL NOT CONSTITUTE A PROJECTION OR REPRESENTATION REGARDING THE ACTUAL AMOUNTS PAYABLE TO THE HOLDERS OF THE NOTES.

Gain from the sale or other disposition of a contingent payment debt instrument will be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the U.S. Holder's total interest inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be capital loss. Gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a note that is treated as a contingent payment debt instrument generally will be treated as foreign source gain or loss. Prospective

purchasers should consult their tax advisers as to the U.S. federal income tax consequences of purchasing contingent payment debt instruments.

U.S. Holders may elect to treat all interest on any note as OID and calculate the amount includible in gross income under the constant yield method described above with certain modifications. For the purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. The election is to be made for the taxable year in which the U.S. Holder acquired the note, and may not be revoked without the consent of the IRS.

### ***Notes Subject to Redemption***

Certain of the notes: (i) may be redeemable at the option of the Issuer prior to their maturity, (ii) may be repayable at the option of the holder prior to their stated maturity, or (iii) may be otherwise subject to mandatory redemption. Notes containing such features may be subject to rules that are different from the general rules discussed above, which will depend, in part, on the particular terms and features of such notes.

### ***Short-Term Notes***

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or other disposition. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### ***Market Discount***

If a U.S. Holder purchases a note (other than a Short-Term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its revised issue price, the amount of the difference will be treated as "market discount" for U.S. federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a U.S. Holder will be required to treat any principal payment on, or any gain on the sale, exchange, or retirement of, a note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such note at the time of such payment or disposition. In addition, the U.S. Holder generally will be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such note. Such interest is deductible when paid or incurred to the extent of income from the Note for the year. If the interest expense exceeds such income, such excess is currently deductible only to the extent that such excess exceeds the portion of the market discount allocable to the days during the taxable year on which such Note was held by the U.S. Holder.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note on a straight-line basis, unless the U.S. Holder elects to accrue on a constant yield method. This election to accrue market discount on a constant yield method is to be made for the taxable

year in which the U.S. Holder acquired the note, applies only to that note, and may not be revoked without the consent of the IRS. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or constant-yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

#### ***Acquisition Premium; Amortizable Bond Premium***

A U.S. Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest will be considered to have purchased such note at an “acquisition premium.” Under the acquisition premium rules, if the U.S. Holder does not make the election to treat all interest as OID (as described above) then the amount of OID which such U.S. Holder must include in its gross income with respect to such note for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

A U.S. Holder that purchases a note (including an Original Issue Discount Note), for an amount in excess of the sum of all amounts payable on the note after the purchase date other than qualified stated interest will be considered to have purchased the note at a “bond premium.” A U.S. Holder generally may elect to amortize bond premium over the remaining term of the note on a constant yield method as an offset to interest when includible in income under the U.S. Holder’s regular accounting method. In the case of instruments that provide for alternative payment schedules, bond premium is calculated by assuming that (i) the holder will exercise or not exercise options in a manner that maximizes the holder’s yield and (ii) the Issuer will exercise or not exercise options in a manner that minimizes the holder’s yield. Bond premium on a note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the note. The election to amortize premium on a constant yield method once made applies to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

#### ***Sale, Exchange and Retirement or Other Disposition of Notes***

Upon the sale, exchange, retirement or other disposition of a note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid qualified stated interest, which will be treated as a payment of interest for U.S. federal income tax purposes) and the adjusted tax basis of the note. A U.S. Holder’s adjusted tax basis in a note will, in general, be the U.S. Holder’s cost therefor, increased by the amount of any OID, market discount or any income attributable to *de minimis* OID or *de minimis* market discount previously included in income by the U.S. Holder and reduced by any amortizable bond premium applied to reduce interest on the note and any payments on the note other than qualified stated interest. Except as with respect to certain Short-Term Notes or market discount as described above, with respect to gain or loss attributable to changes in exchange rates, with respect to certain Foreign Currency Notes as described below, and with respect to contingent payment debt instruments as described above, such gain or loss will be capital gain or loss. Except with respect to notes that are treated as contingent payment debt-instruments as described above, gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a note generally will be treated as U.S. source gain or loss. Capital gains of individuals derived from capital assets held for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

#### ***Foreign Currency Notes***

The following is a summary of the principal U.S. federal income tax consequences to a U.S. Holder of the ownership of a note denominated in a currency other than the U.S. dollar (a “**Foreign Currency Note**”).

##### ***Qualified Stated Interest Payments***

Cash basis U.S. Holders are required to include in income the U.S. dollar value of the amount of interest received, based on the “spot rate” for such foreign currency in effect on the date of receipt, regardless of

whether the payment is in fact converted into U.S. dollars. No exchange gain or loss is recognized with respect to the receipt of such payment.

Accrual basis U.S. Holders may determine the amount of income recognized with respect to such interest payment in accordance with either of two methods. Under the first method, the U.S. Holder will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part within each taxable year). Under the second method, an accrual basis holder may elect to translate interest income at the spot rate on the last day of the accrual period (or last day of the taxable year in the case of a portion of an accrual period that straddles the holder's taxable year) or on the date the interest payment is received if such date is within five days of the end of the accrual period. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by such holder and will be irrevocable without the consent of the IRS. Upon receipt of an interest payment on such Foreign Currency Note (including, upon the sale of or other disposition such Foreign Currency Note, the receipt of proceeds that include amounts attributable to accrued interest previously included in income), the accrual basis U.S. Holder will recognize U.S. source ordinary income or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date received) and the U.S. dollar value of the interest income that such U.S. Holder has previously included in income with respect to such payment.

#### *Original Issue Discount*

OID on a Foreign Currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars in the same manner as interest income accrued by a holder on the accrual basis, as described above. Additionally, a U.S. Holder will recognize exchange gain or loss (which will be treated as ordinary income or loss) when the OID is paid (including, upon the sale, exchange, retirement or other disposition of such Foreign Currency Note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating any foreign currency received at the spot rate for such foreign currency on the date of payment) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Foreign Currency Note will be viewed: first, as the receipt of any stated interest payments called for under the terms of the Foreign Currency Note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

#### *Market Discount*

The amount of market discount on Foreign Currency Notes includible in income will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the Foreign Currency Note is retired or otherwise disposed of. If the U.S. Holder has elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period (or portion thereof within the U.S. Holder's taxable year), and the U.S. Holder will recognize exchange gain or loss with respect to market discount determined using the approach applicable to the accrual of interest income described above.

#### *Amortizable Bond Premium*

Bond premium on a Foreign Currency Note will be computed in the applicable foreign currency. With respect to a U.S. Holder that elects to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss (which is generally taxable as ordinary income or loss) will be realized based on the difference between spot rates at such time and at the time of acquisition of the Foreign Currency Note. A U.S. Holder that does not elect to amortize bond premium will translate the bond premium, computed in the applicable foreign currency, into U.S.

dollars at the spot rate on the maturity date and such bond premium will constitute a market loss which may be offset or eliminated by exchange gain.

#### *Sale, Exchange and Retirement or Other Disposition of Foreign Currency Notes*

Upon the sale, exchange, retirement or other disposition of a Foreign Currency Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid interest, which will be treated as a payment of interest for U.S. federal income tax purposes) and the U.S. Holder's adjusted tax basis in the Foreign Currency Note.

If a U.S. Holder receives foreign currency on the sale, exchange 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. 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 from year to year. This election cannot be changed without the consent of the IRS.

A U.S. Holder's adjusted tax basis in a Foreign Currency Note generally will be the U.S. Holder's cost therefore, which, in the case of a U.S. Holder that purchases a Foreign Currency Note with foreign currency, will be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note determined at the time of such purchase. If the Foreign Currency Notes are traded on an established securities market, as defined in applicable Treasury regulations, cash method taxpayers (and electing accrual method taxpayers) will determine the U.S. dollar cost of the Foreign Currency Note on the settlement date. A U.S. Holder that purchases a Foreign Currency Note with previously owned foreign currency will recognize U.S. source exchange gain or loss at the time of purchase attributable to the difference at the time of purchase, if any, between the U.S. Holder's tax basis in such foreign currency and the fair market value of the Foreign Currency Note in U.S. dollars on the date of purchase. Such gain or loss will be treated as ordinary income or loss.

Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other disposition of a Foreign Currency Note will generally be treated as U.S. source gain or loss. Subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other disposition, the Foreign Currency Note has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

A U.S. Holder will recognize exchange gain or loss attributable to the movement in exchange rates between the time of purchase and the time of disposition (including the sale, exchange, retirement or other disposition) of a Foreign Currency Note. Such gain or loss will be treated as ordinary income or loss (and will not be taxable as interest income or expense, except to the extent provided in U.S. Treasury regulations or administrative pronouncements of the IRS) and generally will be U.S. source gain or loss. The realization of such gain or loss will be limited to the amount of overall gain or loss realized on the disposition of a Foreign Currency Note.

#### *Exchange Gain or Loss With Respect to Foreign Currency*

A U.S. Holder's tax basis in foreign currency received as interest on (or OID with respect to), or received on the sale, exchange, retirement or other disposition of, a Foreign Currency Note will be the U.S. dollar value thereof at the spot rate at the time the holder received such foreign currency. As discussed above, if the Foreign Currency Notes are traded on an established securities market, a cash basis U.S. Holder (or, upon election, an accrual basis U.S. Holder) will determine the U.S. dollar value of the foreign currency by translating the foreign currency received at the spot rate of exchange on the settlement date of the sale. Accordingly, no foreign currency gain or loss will result from currency fluctuations between the trade date and settlement date of a sale. Any gain or loss recognized by a U.S. Holder on a sale, exchange, retirement or other disposition of foreign currency will be ordinary gain or loss and generally will be U.S. source gain or loss.

### ***Non-U.S. Holders***

Non-U.S. Holders generally should not be subject to U.S. federal income or withholding tax on any payments on the notes and gain from the sale, exchange, retirement or other disposition of the notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the U.S.; (ii) in the case of any gain realized on the sale, exchange, retirement or other disposition of a note by an individual Non-U.S. Holder, that holder is present in the U.S. for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met; or (iii) the Non-U.S. Holder is subject to tax pursuant to provisions of the Code applicable to certain persons that have ceased to be U.S. citizens or lawful permanent residents of the United States.

Non-U.S. Holders should consult their own tax advisors regarding the U.S. federal income and other tax consequences of owning notes.

### ***Information Reporting and Backup Withholding***

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, exchange, retirement or other disposition of, the notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the applicable backup withholding requirements. Certain U.S. Holders are not subject to backup withholding. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding tax.

### ***Tax Return Disclosure Requirements***

Treasury regulations requiring the reporting of certain tax shelter transactions (“**Reportable Transactions**”) could be interpreted to cover and require reporting of transactions that are generally not regarded as tax shelters, including certain foreign currency transactions. Under these regulations, certain transactions may be characterized as Reportable Transactions based upon any of several indicia, including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Note or foreign currency received in respect of a Foreign Currency Note to the extent that such sale, exchange, retirement or other disposition results in a tax loss in excess of a threshold amount. Persons considering the purchase of Foreign Currency Notes should consult with their tax advisors to determine the tax return obligations, if any, with respect to an investment in such notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

### ***Foreign Financial Asset Reporting***

Certain U.S. Holders that own “specified foreign financial assets” that meet certain U.S. dollar value thresholds generally are required to file an information report with respect to such assets with their tax returns. The notes generally will constitute specified foreign financial assets subject to these reporting requirements unless the notes are held in an account at certain financial institutions (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders are urged to consult their tax advisors regarding the application of these disclosure requirements to their ownership of the notes.

### ***Foreign Account Tax Compliance Act***

Pursuant to certain provisions of the Code, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA



or an IGA with respect to payments on instruments such as the notes, such withholding would not apply prior to 1 January 2019 and notes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under “*Terms and Conditions—Additional Notes*”) that are not distinguishable from previously issued notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all notes, including the notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the notes.

## **UK Taxation**

The following is a summary of Nationwide’s understanding of current United Kingdom (“UK”) law and HM Revenue and Customs (“HMRC”) published practice relating to the UK withholding taxation treatment as at the date of this Base Prospectus in relation to payments of principal and interest in respect of the notes issued by Nationwide and does not deal with other UK tax aspects of acquiring, holding or disposing of the notes. This summary relates only to the position of persons who are absolute beneficial owners of the notes. Prospective holders should be aware that the particular terms of issue of any series of the notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of notes. This summary is a general guide and does not purport to be a complete analysis of all tax considerations relating to the notes, and you should treat it with appropriate caution.

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.

The references to “interest” in this UK Taxation summary mean “interest” as understood in UK tax law. The statements in this summary do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation. This description of the UK withholding tax position assumes that there will be no substitution of the Issuer of the notes pursuant to the terms and conditions of the notes and does not consider the tax consequences of any such substitution.

### ***UK Withholding Tax on Interest***

#### ***Subordinated Notes which are Regulatory Capital Securities***

Payments of interest on Subordinated Notes may be made without withholding or deduction on account of United Kingdom income tax provided that pursuant to the Taxation of Regulatory Capital Securities Regulations 2013 (the “**RCS Regulations**”) such notes qualify, or have qualified, as Tier 2 instruments under Article 63 of the CRR and such notes form, or formed, a component of Tier 2 capital for the purposes of the CRR and provided further that there are not arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the RCS Regulations in respect of such notes (“**Regulatory Capital Securities**”).

#### ***Notes which are listed on a Recognized Stock Exchange***

Notes which are not Regulatory Capital Securities and are 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 Regulatory Capital Securities, as described in “—*Subordinated Notes which are Regulatory Capital Securities*” or quoted Eurobonds, as described in “—*Notes which are listed on a Recognized Stock Exchange*”, interest on the notes that has a UK source 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.

#### *Other Rules Relating to UK Withholding Tax*

Where notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount for tax purposes, then any such element of premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined above.

In addition to the above, in relation to UK withholding tax, where interest has been paid under deduction of UK income tax, holders of notes who are not resident in the 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 proposed financial transactions tax (“FTT”)**

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

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

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

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

## TRANSFER RESTRICTIONS

We have not registered the notes under the Securities Act or any other applicable securities laws, and they may not be offered or sold except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States, to qualified institutional buyers, commonly referred to as “QIBs,” in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or
- outside of the United States, to certain persons, other than U.S. persons within the meaning of Regulation S, in offshore transactions meeting the requirements of Rule 903 of Regulation S.

### *Purchasers’ Representations and Restrictions on Resale*

Each purchaser of notes (other than a Placement Agent in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein, will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States within the meaning of Regulation S;
- (2) It is not an “affiliate” (as defined in Rule 144 under the Securities Act (“**Rule 144**”)) of the Issuer and is not acting on the Issuer’s behalf;
- (3) It acknowledges that the notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (4) It understands and agrees that notes initially offered in the United States to QIBs will be represented by U.S. Global Notes and that notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by International Global Notes;
- (5) If the purchaser is in the United States or is a U.S. person, it shall not resell or otherwise transfer any of such notes except (a) to Nationwide or a Placement Agent or by, through, or in a transaction approved by a Placement Agent, (b) within the United States to a QIB in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States, in compliance with Rule 903 or 904 of Regulation S under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- (6) If the purchaser is outside the United States and is not a U.S. person, if it should resell or otherwise transfer the notes prior to the expiration of the Distribution Compliance Period (as defined in Regulation S) applicable to such notes, it will do so only (a) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act or (b) to a QIB in compliance with Rule 144A;
- (7) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- (8) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;

- (9) It acknowledges that the trustee for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to Nationwide and such trustee that the restrictions set forth herein have been complied with; and
- (10) It acknowledges that Nationwide, the Placement Agents and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify Nationwide and the Placement Agents. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

A legend to the following effect will appear on the face of notes, other than International Global Notes, and which will be used to notify transferees of the foregoing restrictions on transfer. Additional copies of this notice may be obtained from the trustee.

“THE SECURITIES EVIDENCED HEREBY (THE “**NOTES**”) HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR ANY OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THE NOTES, (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT (“**RULE 144A**”)), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES THAT IT WILL NOT 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 (“**RULE 144**”) 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 (IF AVAILABLE), (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT OR (VI) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION. THE HOLDER OF THE NOTES, BY PURCHASING THE NOTES, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THE NOTES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (VI) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.”

“THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN.”

A legend to the following effect will appear on the face of the International Global Notes.

“THE SECURITIES EVIDENCED HEREBY (THE “**NOTES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see the subsection entitled “*Terms and Conditions of the Notes—Form, Transfer, Exchange and Denomination.*”

## PLAN OF DISTRIBUTION

The notes are being offered on a continuous basis for sale by us to or through Barclays Capital Inc., 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 the applicable Final Terms, we will pay a commission to a Placement Agent depending upon its stated maturity for notes sold through such Placement Agent as agent. Commissions with respect to notes with stated maturities in excess of 30 years that are sold through a Placement Agent as an agent of ours will be negotiated between us and that Placement Agent at the time of such sale.

Unless otherwise specified in the applicable Final Terms, any note sold to one or more Placement Agents as principal will be purchased by such Placement Agents at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. A Placement Agent may sell notes it has purchased from us as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with such purchase. The Placement Agent may allow, and such dealers may 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 makes any representation that the Placement Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

We have agreed to indemnify the Placement Agents against some liabilities (including liabilities under the Securities Act) or to contribute to payments the Placement Agents may be required to make in respect thereof. We have also agreed to reimburse the Placement Agents for some other expenses.

The Placement Agents may from time to time purchase and sell notes in the secondary market, but they are not obligated to do so and may discontinue any such activities at any time and there can be no assurance that there will be a secondary market for the notes or liquidity in the secondary market if one develops. From time to time, the Placement Agents may make a market in the notes.

The Placement Agents and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financial and brokerage activities. Certain of the Placement Agents and/or their affiliates have, directly or indirectly, performed investment and commercial banking or financial advisory services for us, for which they have received customary fees and commissions, and they expect to provide these services to us and our affiliates in the future, for which they also expect to receive customary fees and commissions.

In the ordinary course of their various business activities, the Placement Agents and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer or its affiliates. If the Placement Agents or their affiliates have a lending relationship with us, certain of the Placement Agents or their affiliates may hedge their credit exposure to us consistent with their customary risk management policies. Typically, the placement agents and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short position in our securities or the securities of our affiliates, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The Placement Agents and certain of their affiliates may also communicate independent investment recommendations, market colour or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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.

Each Placement Agent subscribing for or purchasing notes agrees and each further placement agent appointed under the medium-term note program described in this Base Prospectus that subscribes for or purchases notes will be required to represent and agree that:

- (1) it has complied and will comply with all applicable provisions of the UK Financial Services and Markets Act 2000 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 agreed between the relevant Dealers and Nationwide, 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, 2016, 2015 and 2014, and for the years then ended, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports incorporated by reference herein.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for us by Allen & Overy LLP, our United States and English counsel, with respect to matters of New York law, U.S. federal law and English law and for the Placement Agents by Linklaters LLP, London, England with respect to matters of New York law, U.S. federal law and English law.



## GENERAL INFORMATION

1. 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 June 28, 2016. The price of the notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any series of notes will be admitted to trading on the regulated market of the London Stock Exchange upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in New York after the day of the transaction, unless otherwise agreed between the relevant Dealers and Nationwide.
3. The Global Notes have been accepted for clearance through DTC or its nominees. If the Global Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.
4. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
5. There are no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened) of which Nationwide or its subsidiaries is aware in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of Nationwide or its subsidiaries.
6. Since April 4, 2016, 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 April 4, 2016, being the date to which our most recent audited consolidated financial statements have been prepared, there has been no significant change in the financial or trading position of Nationwide and its subsidiaries.
7. For so long as the medium-term note program described in this Base Prospectus remains in effect or any notes shall be outstanding, copies and, where appropriate, the following documents may be inspected during normal business hours at the specified office of the paying agent and from our Treasury Division, at Nationwide Building Society, One Threadneedle Street, London EC2R 8AW, England, including:
  - (a) our constitutive documents;
  - (b) this Base Prospectus in relation to the senior and subordinated medium-term note program, together with any amendments;
  - (c) the Private Placement Agency Agreement;
  - (d) the Indenture;
  - (e) our most recent publicly available audited consolidated financial statements beginning with such financial statements as of and for the years ended April 4, 2016, 2015 and 2014;
  - (f) the audit report of PricewaterhouseCoopers LLP in respect of our audited consolidated financial statements as of and for the financial year ended April 4, 2016; and
  - (g) any Final Terms relating to notes issued under the medium-term note program described in this Base Prospectus.

8. There are no material contracts having been entered into outside the ordinary course of our business, and which could result in any group member being under an obligation or entitlement that is material to our ability to meet our obligation to noteholders in respect of the notes being issued.
9. Issue of notes under the 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 (“OREO”)
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, 29th Floor  
New York, New York 10036  
U.S.A.

**UBS Securities LLC**  
1285 Avenue of the Americas  
New York, New York 10019  
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  
Grand Duchy of 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**  
1 Embankment Place  
London WC2N 6RH  
England